INVESTIGATING THE EFFECTS OF PRICE REFUND POLICY ON PRODUCT PERCEPTION AND REPURCHASE INTENTION OF INTERNATIONAL HOTEL INDUSTRY WITH POSITIVE THEORY

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Investigating the Effects of Price Refund Policy on Product Perception and Repurchase Intention of International Hotel Industry with Positive Theory

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Abstract

The boom of tourism industry in Taiwan over the past years constantly enhances the demands for the relative products. Tourism has been the key development industry in Taiwan that the competition in hotel industries is fierce, where hotels not only have to appeal new customers, but most importantly, need to retain customers. Promoting customers' Repurchase Intention therefore becomes a critical issue for hotels. Sampling the customers of Sheraton Grande Hotel in Taiwan, total 400 copies of questionnaires are distributed, and 271 effective copies are responded, with the response rate 68%. The research results conclude that: (1) Price Refund Policy would partially affect Product Perception, (2) Price Refund Policy would partially influence Repurchase Intention, (3) Product Perception reveals significantly positive effects on Repeat Purchase in Repurchase Intention, (4) Product Perception presents remarkably positive effects on Recommending to Others in Repurchase Intention, and (5) Product Perception appears notably positive effects on Loyal Customers in Repurchase Intention.

Keywords: hotel industry, Price Refund Policy, Product Perception, Repurchase Intention

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Introduction

Hotel industry started to weaken in 2004 and was frustrated by the great recession in 2009. Despite the unfavorable economic situations in global hotel industry, competitors were still increasing and fighting in the existing red ocean. Fortunately, the economy is perking up in recent years. The practice of two-day weekends, the promotion of Citizens' Travel Card, the growth of domestic economy, and the increase of national income have enhanced the living standard of the citizens, who present increasing demands for leisure tourism. Moreover, the comprehensive planning of recreational destinations and the promotion of quality increase the travel population and enhance the demands for tourism products (such as accommodation, food & drink, transportation, and recreation). As a result, tourism Industry has been rapidly developed in Taiwan over the past years. When purchasing products and services, price is often regarded as an important indicator to measure the value that it is a key factor in consumer purchase. Product and service prices offered by businesses and consumer perceived prices would affect the purchase intention. Furthermore, price level shows positive effects on the service quality that the enhancement of sales level would increase consumer perceived service quality. In this case, product and service prices would affect the final choice of a consumer.

Under the effect of economic distress in recent years, consumers are reduced the income that Price becomes a key decision factor in consumer purchase. On the other hand, stores would promote various price promotion strategies to appeal consumers. Nevertheless, research on traditional promotion indicated that price promotion would decrease brand evaluation and further reduce consumers' repeat purchase rate of the products. However, Price Refund Policy could change consumers' negative evaluation of price promotion (Anuwichanont, 2011) and even enhance the purchase intention (Bouhlel, 2011).

Literature review

Price Refund Policy

Money-back Guarantee (MBG) has been utilized for price promotion to eliminate negative effects of price promotion from consumers (Anuwichanont, 2011) and even promote consumers' perceived quality of products. Price Refund Policy is one of such promotion strategies (Cater& Cater, 2010). Cater& Cater (2010) defined Money-back Guarantee (MBG) as the policy publicly announced to consumers from retailers, with which consumers could get the full amount refund without any reasons when dissatisfying with the purchased product. Price Refund Policy is a kind of MBG, with which businesses often offer conditional Money-

back Guarantee to unconditionally refund the product when consumers found one with lower prices. Cheung & Thadani (2012) defined Price Refund Policy as customers being able to request for the refund of a product with lower prices in other businesses. The major factors in consumers accepting Price Refund Policy contained Price Sensitivity of consumers, Degree of Standardization of products, and Price Level (Harper & Porter, 2011): Price Sensitivity. As previously mentioned, consumers' Price Sensitivity is the most important factor in accepting Price Refund Policy. Consumers with low Price Sensitivity appear no intention to look for products with lower prices that they would not accept Price Refund Policy from retailers (Ling et al., 2010); (2) Degree of Standardization. Ranjbarian & Jafari (2011) exampled that identical suits and whisky could be sold in different stores with distinct prices, meaning that consumers could better accept the product guarantee from Price Refund Policy towards more similar products to play the role of quality signal; (3) Price Level. Price Refund Policy is a strategy made good on the promise when consumers really search for prices and confirm products with lower prices. Wang & Yang (2010) indicated that price difference was the key in consumers being willing to spend time on searching for products with lower prices. In other words, products with high prices or large price differences would induce consumers to search for prices, i.e. not believing in what retailers said about Lowest Price.

Product Perception

Researchers generally consider price, quality, and value as the key factors in consumers purchase behaviors or product choices (Berger & Milkman, 2012); however, such concepts and the correlated research were not presented any structural results (Chauvel, 2011). For this reason, Chauvel (2011) proposed the multi-level attribute modeling of value, after summarizing several studies, and regarded Perceived Value as the origin of consumers' purchase intention. Nonetheless, Perceived Value was composed of several attributes, including the intrinsic and extrinsic attributes of products, such as price and perceived quality. Chung (2011) proposed the product evaluation model composed of price, perceived quality, and perceived value. What is more, Transaction Utility Theory proposed by Jalilvand *et al.* (2011), the correlations among price, perceived quality, acquired value, transactional value, perceived value, and purchase intention proposed by Mudambi & Schuff (2010), and the conceptual relations with price proposed by Simon & Yaya (2012) showed similar points of view. The common feature of such research was the evaluation of consumers' Product Perception being the formation of consumer Purchase Intention and Perceived Value. Yang *et al.* (2012) proposed the conceptual framework of price, quality, perceived value, and purchase intention and regarded Perceived Value as the substitute of Perceived Quality and Perceived Sacrifice. Yu *et al.* (2011) expanded the idea of Zainuddin (2011), added the external cues of perceived quality of product, product brand and

information, in price to discuss the effects on Perceived Quality, Perceived Value, and Purchase Intention.

Summing up the above points of view, Perceived Value was the weight of a product between consumer "give" and "get" (Zeng & Wei, 2013); and, the comprehensive utility was Perceived Value by evaluating the choice between Perceived Quality and Perceived Sacrifice. In other words, the marketing staff could enhance consumer Perceived Value to achieve the sales promotion by increasing consumer Perceived Quality or reducing Perceived Sacrifice. The so-called Product Perception in this study is referred to Zainuddin (2011), tending to investigate the effects of Perceived Quality, Perceived Sacrifice, and Perceived Value in Product Perception on Repurchase Intention.

Repurchase Intention

Under modern enterprise environments, loyalty is regarded as a customer permanently and continuously visiting an enterprise, repeating or specifically purchasing the products and services, and being willing to introduce to the friends or colleagues (Biedenbach & Marell, 2010). Chen *et al.* (2011) pointed out customer loyalty as customer dependency and preference to the personnel, products, or services of a certain company, as well as the repurchase intention to certain products or services. Two types of loyalty were proposed. 1. Long-term loyalty was true customer loyalty, with which customers would not easily change the choices. 2. False loyalty referred to customers, seeming to be loyal, would immediately leave for a better choice. False loyalty often appeared in monopolistic markets (such as Taiwan Power) and competitors with high barriers (like technical barriers). Dabija (2011) defined customer loyalty as a preference attitude, which would affect customers' repeat purchase behaviors in certain period of time. Sustainable management is a goal for all enterprises to stabilize the permanent growth of revenue and continuously create profits; in addition to actively develop new customer sources, most importantly, it is to retain existing customers. Kim et al. (2012) indicated that the cost for attracting a new customer was five times more than retaining an old customer. Furthermore, from the aspect of cost reduction, reducing customer loss rate could better help an enterprise make profits than reduce costs. Apparently, customer loyalty is the primary decision factor in the long-term finance of an enterprise (Mukoyama, 2011), which could create customers' Repurchase Intention and is a key factor in creating business profits. Referring to Smutkupt et al. (2011), the dimensions of Repeat Purchase, Recommending to Others, and Loyal Customers are applied to measuring Repurchase Intention.

Research hypothesis

Birkinshaw, Bouquet & Barsoux (2011) considered the effects of Price Refund Policy on price discrimination as consumer behaviors in searching for prices. Economists used to regard Price Refund Policy as a tactic of businesses purposefully increasing sales prices to enhance the profits (Chen *et al.*, 2012). From the aspect of consumers, Chen *et al.* (2012) indicated that consumers would regard Price Refund Policy as the symbol of low prices. In other words, when retailers offered Price Refund Policy, consumers were likely to consider the product prices being lower than the prices in other stores.

H1: Price Refund Policy would affect Product Perception.

Golicicl *et al.* (2012) argued that Price Refund Policy mostly stressed on having consumers immediately and instantaneously perceive the product because of price refund. Lee (2012) also mentioned that price refund aimed to encourage the large purchase of consumers, facilitate the trial of non-users, or appeal the users of other competitive brands perceiving the product. Oestreicher-Singer & Sundararajan (2012) also indicated that consumers' Product Perception, when the retailer practiced Price Refund Policy, would be obviously higher than the others not offering the policy.

H2: Price Refund Policy would influence Repurchase Intention.

The most interesting issue is the factor in consumers' purchase behaviors, with which to find out the factors for more efficient sales promotion and to stimulate consumers' Repeat Purchase, when the marketing staff selling products. Sun & Ghiselli (2010) pointed out perceived product value as the factor in consumers recommending products to others or the repurchase intention. Product Perception was the weight of consumer perceived product between "give" and "get" (Yaseen *et al.*, 2011). The choice between Perceived Sacrifice and Perceived Quality was the comprehensive utility evaluation of a consumer, i.e. Product Perception. Kim *et al.* (2012) mentioned that Loyal Customers often chose and further purchased a product with the maximal Product Perception.

H3: Product Perception presents significantly positive effects on Repeat Purchase in Repurchase Intention.

H4: Product Perception shows remarkably positive effects on Recommending to Others in Repurchase Intention.

H5: Product Perception reveals notably positive effects on Loyal Customers in Repurchase Intention.

Research methodology

Research framework

By summarizing the above literature review, the conceptual framework is drawn up for this study *(Figure 1)* to investigate the correlations among Price Refund Policy, Product Perception, and Repurchase Intention.
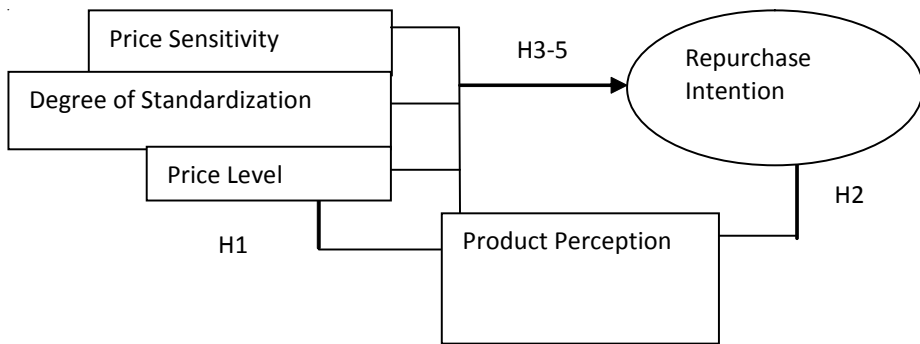
Price Refund Policy

Figure 1. Research framework

Measurement of research variable

Price Refund Policy: Referring to Ling *et al.* (2010), Price Refund Policy is divided into three dimensions of (1) Price Sensitivity, (2)Degree of Standardization, and (3)Price Level.

Product Perception: Referring to Zainuddin (2011), Product Perception is divided into three dimensions of (1)Perceived Quality, (2)Perceived Sacrifice, and (3)Perceived Value.

Repurchase Intention: Referring to Smutkupt *et al.* (2011), (1)Repeat Purchase, (2)Recommending to Others, and (3)Loyal Customers are described.

Research subject and analysis

The Sheraton brand appeared in 1937, when two entrepreneurs, Ernest Henderson and Robert Moore, established the first Sheraton Hotel in Massachusetts. Sheraton started to step in the international market in 1949 and was the first foreign-owned enterprise in Taipei City. The customers of Sheratorn Grande Hotel are sampled in this study; total 400 copies of questionnaires are distributed and collected on-site, and 271 effective copies are responded, with the response rate

68%. Analysis of Variance is utilized for investigating the variation of Price Refund Policy towards Product Perception and Repurchase Intention, and Regression Analysis is further applied to understanding the relations between Product Perception and Repurchase Intention.

Results

Analysis of reliability and validity

With Factor Analysis, Product Perception was extracted three factors of Perceived Quality (eigenvalue=2.667, á=0.82), Perceived Sacrifice (eigenvalue=2.173, α=0.80), and Perceived Value (eigenvalue=1.838, α=0.85). The accumulative covariance explained achieved 76.551%.

With Factor Analysis, Repurchase Intention was extracted three factors of Repeat Purchase (eigenvalue=3.162, α=0.84), Recommending to Others (eigenvalue=2.591, α=0.87), and Loyal Customers (eigenvalue=2.362, α=0.89). The accumulative covariance explained reached 84.294%.

Effects of Price Refund Policy on Product Perception and Repurchase Intention

(1) *Variance analysis of Price Refund Policy and Product Perception*. Analysis of Variance was utilized for investigating the variation of Price Refund Policy towards Product Perception, i.e. to analyze the explain Price Sensitivity, Degree of Standardization, and Price Level in Price Refund Policy. From *Table 1*, Degree of Standardization and Price Level in Price Refund Policy presented remarkable variation on Product Perception.

Table 1. Variance analysis of Price Refund Policy and Product Perception

Variable	F	P	Scheffe post hoc test
Price Sensitivity	8.736	0.554	
Degree of Standardization	11.367	0.011*	1>2
Price Level	13.847	0.000*	1>2

* stands for p<0.05

(2) *Variance analysis of Price Refund Policy and Repurchase Intention.* Applying Analysis of Variance to investigating the variation of Price Refund Policy towards Repurchase Intention, i.e. to analyze and explain Price Sensitivity, Degree of Standardization, and Price Level in Price Refund Policy. From Table 2, Price Level in Price Refund Policy appeared significant variation on Repurchase Intention.

Table 2. Variance analysis of Price Refund Policy and Repurchase Intention

Variable	F	P	Scheffe post hoc test
Price Sensitivity	6.483	0.277	
Degree of Standardization	16.583	0.481	
Price Level	24.755	0.000*	1>2

* stands for p<0.05

Correlation Analysis of Product Perception and Repurchase Intention

(1) Correlation Analysis of Product Perception and Repeat Purchase

The test result of H1, Table 3, showed the notable effects of Perceived Quality (t=1.975*), Perceived Sacrifice (t=2.089**), and Perceived Value (t=2.173**) on Repeat Purchase that H1 was supported.

(2) Correlation Analysis of Product Perception and Recommending to Others

The test result of H2, Table 3, presented the significant effects of Perceived Quality (t=2.588**), Perceived Sacrifice (t=2.247**), and Perceived Value (t=2.317**) on Recommending to Others that H2 was supported.

(3) Correlation Analysis of Product Perception and Loyal Customers

The test result of H3, Table 3, revealed the remarkable effects of Perceived Quality (t=2.435**), Perceived Sacrifice (t=2.207**), and Perceived Value (t=2.613**) on Loyal Customers that H3 was supported.

Table 3: Analysis of Product Perception and Repurchase Intention

Dependent variable →	Repurchase Intention					
Independent variable↓	Repeat Purchase		Recommending to Others		Loyal Customers	
Product Perception	Beta	t	Beta	t	Beta	t
Perceived Quality	0.182	1.975*	0.238	2.588**	0.227	2.435**
Perceived Sacrifice	0.196	2.089**	0.209	2.247**	0.205	2.207**
Perceived Value	0.202	2.173**	0.213	2.317**	0.241	2.613**
F	21.864		29.741		37.516	
Significance	0.000***		0.000***		0.000***	
R2	0.185		0.243		0.277	
Adjusted R2	0.015		0.021		0.025	

Note: * stands for $p<0.05$, ** for $p<0.01$, *** for $p<0.001$.
Data source: Self-organized in this study.

Conclusion

The research findings of consumers receiving the price stimulation of Price Refund Policy from hotels, Table 3, show the notably positive correlations between Perceived Quality, Perceived Sacrifice, Perceived Value and Repurchase Intention that the better Perceived Quality, Perceived Sacrifice, and Perceived Value would enhance customers' Repurchase Intention to hotel industry. The experimental results present that the effects of Price Refund Policy on Perceived Quality would change with Degree of Standardization. Accordingly, the marketing staff should analyze the product characteristics to make proper marketing strategies. *Table 2* also shows the idea of "You get what you pay for" among consumers, who consider products with higher prices presenting higher quality that the repurchase intention is enhanced. Nevertheless, in such a price-competitive environment in hotel industry, attracting consumers with "non-price competition" would be a critical competition advantage.

Recommendations

Aiming at above research results, the following suggestions are proposed in this study. Price Refund Policy could establish price image of a hotel and affect consumers' repurchase intention that hotel industry could propagate Price Refund Policy as an important reference of consumers' repurchase intention. However, hotels are limited the promotion of Price Refund Policy that a hotel could actively collect relative event information and proceed price-difference compensation for consumers to enhance the product perception.

Accurate and reasonable establishment of Price Refund Policy. When the conditions of price refund offered by a hotel could not have the consumers really perceive the benefits being effectively protected, the consumers would regard the low price integrity of the hotel. For instance, it was found that consumers also expected a simplified compensation process as complicated compensation processes would reduce consumers' compensation intention, did not well protect consumer benefits, and presented low price integrity. For this reason, Price Refund Policy should be established from the aspect of consumers' perceived integrity.

The research presents the effects of Price Refund Policy on consumer Repurchase Intention and Product Perception. However, different consumer groups reveal distinct price sensitivity that the perception of Price Refund Policy would be different. Retailers should stress on the point and provide an important reference for hotels managing and controlling Price Refund Policy by establishing a complete price event database.

Acknowledgements

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