

## Service innovation, perceived values, and post-purchase behavior

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**Abstract.** In this conceptual paper, we argue that service innovation can generate positive impacts on post-purchase behavior only when customer's perceived values of the product/service increases. That is, perceived value is a mediating, necessary condition for service innovation's consequences in consumer behavior. Theoretical and practical implications are offered.

**Keywords.** Service innovation, Value perception, Repurchase.  
**JEL.** M30, M31, M32, L84.

### 1. Introduction

The master economist J. Schumpeter has proposed the word of "innovation" in *The Theory of Economic Development* in 1911, he thought that the innovation shall be "the motive power for the development of Capitalism". Service innovation refers to fit on market demand and change but taking the technology as the basis, then to further develop the new innovative product, the enterprise can enable the innovation coping with market demand through R&D, production & sales, marketing & promotion and bringing commercial opportunities for the enterprise accordingly.

Service innovation is one of the most important form of innovation undergone by a company. According to the definition of American Marketing Association, the service shall be the activities, benefits or satisfaction provided by the sales or attributed to the sales of general goods, the service product includes the different product characteristics for example, a certain product may depend on its unique liability, cognitive risk, and the other product may depend on its own brand and brand value, those factors are all closely linked with each other and indispensable.

Kotler (2000) noted that, while facing the competition in the same industry and volatile social circumstances, the enterprise must continuously make the product innovation, to lower its original advantage that may be replaced by other competitors, to reinforce the overall value of consumers and get the competitive advantage within the industry, besides the improvement on product and service or R&D or fulfilling customer's demand, it can also improve the positive feeling after the sales.

Many of the study on service innovation mainly started from the perspective of technology to analyze the relative properties and rules, it inevitably applied those theoretical opinions and methodological system developed from the technological innovation in manufacturing industry into the research on service innovation. But the research findings proved that, only some theories and methods were applicable, thus it was not enough to explain the service innovation activities and its mechanism accordingly.

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Drucker (1998; 1986) thought that, the innovation can enable the resources displaying its own value and endow the resources with the new capability to create the fortune, the innovation shall be the new value created for itself or the new satisfaction. Kim & Mauborgne (1999) also propose that the concept of value innovation was quite different from the technological innovation, they did think that the enterprise should emphasize the concept of creating new value for the customer and redefining the customer's demand to provide the new service and product, meanwhile to regard the value innovation as the strategic mean and positively find the differentiation accordingly.

Peters & Waterman (1982) thought that, the enterprise can enhance the new product and introduce the new service through process improvement or technological improvement and take them as the exclusive characteristics of the enterprise, to answer the demand of different market changes, and aiming to those service-oriented enterprises, it must conduct the continuous innovation to maintain its competitive advantages in the market.

Based on the abovementioned, either normal or competitive contexts of service innovation demands that customers have increased value perception to justifies their responses to current purchase (i.e., post-purchase behavior). However, less has been studied regarding to the linkages among service innovation, value perception, and post-purchase behavior, which constitutes the major focus of the present conceptual paper here.

## 2. Literature review

### 2.1. Service innovation

Tax & Stuart (2001) have proposed that there were two types of service innovations, they are both depending on the factors of service concept, essentially the service shall be such a process to connect the participant, process architecture and the physical items all together, any physical item may have the even larger difference due to the different process, even there's only the minimal difference, the consumer can also deeply feel the changes based on the operating process and participant. Hipp *et al.*, (2000) propose the three forms of service innovation existed among the enterprise, they are: service innovation: to greatly improve existed service; Process innovation: to improve and develop new service by using new methods; Organization innovation: to make reform on the organization through the development of new service.

According to the complexity of service innovation explained by Den Hertog (2000) aiming to the architecture of service innovation, there are four dimensions included in the proposed service innovation: (1) the Service concept: for the innovation in manufacturing industry, the improvement on product or process shall be the typical, tangible innovation that can be seen visually. For the innovation in service industry, it shall be highly intangible. (2) the new Client interface: by aiming to customer's demand, to improve existed service and provide them to the customer, to connect existed customer and potential customer with such service; (3) the new

Service delivery system: through appropriate adjustment and transformation, the organizational form inside the service provider may generate the new product or service accordingly. And the new service may also need the new organizational form, (internal) individual capability and skill; (4) the Technological options: although for the service innovation, the information technology shall not be the only related technology but also not the necessary condition, but the information technology was still the general especially, depending on the upward development and application of information technology, it may bring the innovations in different forms for the service, to improve the service quality and create more commercial opportunities accordingly (Johnson, Menor, & Chas, 2000).

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### 2.2. Customer perceived value

Zeithaml (1988) defined the perceived value as the comprehensive utility evaluation made by the customer according to the product payment and the acquisition. When a customer purchases a commodity, if the money paid thereby is the maximum price expected by the customer, which is lower than the actual price of the product, the purchase behavior is regarded as valuable purchase behavior. If the buyer can manufacture the products according to customer values and objectives and meanwhile give the commodity design and selection decision right to the customer, customer satisfaction will be significantly improved.

At present, the concept of the customer perceived value is not uniformly concluded. But the customer values can be usually considered from the perspectives of money, quality, benefit, psychology and social psychology. According to the opinions of multiple scholars, the customer perceived value can be described from the following five aspects:

- (I) From the aspect of relative value: Bolton & Drew (1991) believed that customers would take perceived sacrifice, individual preference and personality as the criterion for value evaluation. Therefore, the customers would not have the same perceived value for the same service. Zeithaml (1988) indicated that the value was not related to the consumption evaluation, and the perceived value was the comprehensive evaluation of the product performance made by the customer according to the benefits or losses, so the perceived value was the balance between benefit compromise and sacrifice.
- (II) From the aspect of quality: the perceived value is the difference between the money paid for certain product and the product quality. In other words, if a small amount of money is paid for high-quality product, the positive perceived value can be correspondingly established.
- (III) From the aspect of money value: if the money actually paid for the commodity production is lower than the existing value thereof due to the adoption of discount coupon or promotion commodity, etc., namely the concept of the consumer surplus in economics, the customer perceived value is the difference between the maximum value paid by the customer for the product or service and the actual payment.
- (IV) From the aspect of benefit: the customer perceived value refers to the perceived benefit and the perceived sacrifice for the comprehensive utility evaluation made by the customer, namely the perception integrated by the customer for the acquisition and the sacrifice (Zeithaml,1988).
- (V) From the aspect of psychology: Woodruff (1997) defined the customer perceived value as the perception, preference and evaluation for the product performance favorable (or unfavorable) for the purchase intention in certain environment, and the value discussed thereby was sourced from customer perception, preference and evaluation. Zeithaml (1988) also believed that a customer did not always know or remember the actual price paid thereby, and the important issue was the really meaningful price firmly affirmed thereby.

According to above discussion, the customers usually have different values, demands, preferences and wealth sources, and these factors can influence the customer perceived value. Meanwhile, the customer perceived value is subjective, so even if an enterprise provides the same value, the perceived value can be also changed along with the customers and even the same customer may have different perceptions in different periods (Ravald & Grönroos,1996). The most direct method for knowing customer perceived value was customer inquiry. Value was the fundamental element for customer satisfaction, and we could master customer behavior only through understanding how to evaluate service value. The objective money price was not equal to the real objective price of the customer, and the customer defined the price according to his/her price perception, namely the so called perceived price.

### 3. Post-purchase behavior

The post-purchase behavior is also named by some scholars as the behavioral intentions, but they are both sourced from the extension of attitude theory. Rosenberg & Hovland (1960) proposed that attitude was composed of cognitive, affective and behavioral elements. Engeletal (1995) indicated that the attitude was composed of cognitive, affective and conative elements.

Cronin & Taylor (1992) believed that the attitude of a customer upon a product or service was sourced from past experience, and the attitude upon the product or service would influence the purchase intentions. Parasuraman *et al.* (1996) believed that after consumption, the customers would have different behavioral intentions according to the satisfaction levels thereof. Relevant research result shows that service quality is positively correlated with customer loyalty and the high payment willingness, but is negatively correlated to switch behavior and external response. Meanwhile, they further found that the influence of the service quality on the post-purchase behaviors may be different from each other due to different enterprise services.

Connotation of post-purchase behavior to the difference between the product expectation of the consumer and the actual product performance, namely: the consumer has satisfactory or dissatisfactory post-purchase response according to the interaction result of the expectation and the actual performance, and such behavioral intentions will cyclically influence future consumption evaluation decision. The satisfied consumers usually have good post-purchase attitude and high purchase intentions and brand loyalty, while the dissatisfied consumers will have poor post-purchase attitude and low or no purchase intentions, or involve in such behaviors as brand switch, complaint or negative public evaluation.

#### (II) Post-purchase behavior of satisfied consumers

1. In the research of Parasuraman, Zeithmal & Berry (1996) for discussing the relationship between service quality and behavioral intentions, the post-purchase tendency of the satisfied consumers is measured from the two perspectives of "loyalty" and "pay more". The two perspectives include:

(1) Loyalty: besides the self-repurchase willingness, it also refers to the behaviors for recommending to others and providing positive public praise. For example, the satisfied customer may praise the company to others, recommend the company to the consulting persons, encourage relatives and friends to purchase the products or services of the company, preferably select the company for consumption and frequently come to the company for consumption.

(2) Pay more: it refers to the willingness for paying high value to purchase the product or service of the company. For example, even though the price is slightly increased, the satisfied consumer may be still willing to continuously trade with the company or pay higher price to purchase the product of the company.

2. For the post-purchase perspective proposed by Parasuraman, Zeithmal & Berry (1996), the behavioral intentions of the satisfied customers in the service industry are divided into three types: loyalty & public praise, external positive satisfaction response and no action. The measurement items include:

(1) Loyalty and public evaluation: this index includes repurchase willingness, positive public evaluation, enterprise acceptance, etc. For example, the satisfied consumer is willing to pay higher price to purchase the service and product of the company, come to the company again, preferentially consider the company, visit the company (if any chance), actively search the information regarding the new products promoted by the company, encourage or recommend relatives and friends to come to the company, or frequently participate in the activities held by the company.

(2) External positive satisfaction response: it refers to the behavior that the satisfied consumer is willing to personally come to the company for satisfaction expression and thanks. For example, the satisfied consumer is willing to write a letter to thank the customer service department of the company or personally thank

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the main channel of the company; or the satisfied consumer may not take any action.

3. According to the post-purchase satisfaction behavior perspective proposed by Parasuraman, Zeithmal & Berry (1996), the behavioral intentions of the satisfied tourists of the theme park are screened through factor analysis for positive recommendation.

In conclusion, the scholars usually adopted the perspectives proposed by Parasuraman, Zeithmal & Berry (1996) in the past to measure the post-purchase behavior of the satisfied consumers. Therefore, the characteristics of the tourists of the theme park are combined in the research, and the perspectives proposed by Parasuraman, Zeithmal & Berry (1996) are adopted for relevant measurement in the research.

### (III) Post-purchase behavior of dissatisfied consumers

The result of the research on the post-purchase complaints of the dissatisfied consumers is stated as follows:

1. Day & Landon (1977) proposed the two-level classification mode to classify the post-purchase behaviors of the dissatisfied consumers, wherein the first level is the behavior response (take some actions) and non-behavior response (take no actions); at the second level, the behavior response is further divided into public action and private action.

2. In the research on the discussion of the service quality perception and the post-purchase behavior of the consumers, Parasuraman, Zeithmal & Berry (1996) proposed the complaint behaviors probably taken by the dissatisfied consumers and classified such behaviors as follows:

(1) Switch behavior: it refers to the customer behavior for switching to other competitors to purchase relevant product or service. (2) External response: it refers to the behavior for complaining to the persons or groups not belonging to the enterprise. (3) Internal response: it refers to the direct complaint to the enterprise.

(IV) According to the research carried out by Day & Landon (1977), Bearden & Tee (1983), Parasuraman, Zeithmal & Berry (1996), the behavioral intentions of the dissatisfied tourists of the theme park are divided into negative public complaint and negative private complaint through factor analysis, and the measurement items are as follows:

1. Negative public complaint: (1) in case of poor feeling or problem, the consumer concerned may report the poor service or product to the service personnel; (2) in case of problem, the consumer concerned may complain to the service personnel and request for solution or compensation; (3) in case of dissatisfaction experience, the consumer concerned may complain to the consumers association about the poor service or product of the theme park; (4) in case of dissatisfaction experience, the consumer concerned may propagandize such experience through newspaper office and broadcasting station, and other mass media.

2. Negative private complaint: (1) in case of poor feeling or experience, the consumer concerned may select other amusement parks next time; (2) in case of dissatisfactory service of the amusement park, the consumer concerned may propagandize the poor service and advise the relatives and friends not to come.

According to above literatures, the post-purchase behaviors of the dissatisfied consumers are roughly divided into public response, private response and switch behavior, etc. for relevant measurement in past research.

## 4. Proposition Development

In this section, we develop proposition regarding to service innovation's indirect impacts, through experience marketing and value perception, on customer re-purchasing. Service innovation in those service enterprise is the core product could supplement and added-value service accordingly. Thus, the core purpose is to make customer think the value is added. The visible changes may influence the consciousness, emotion and attitude of the customer, the changes on style may not

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change the basis of service, but the appearance of the service. This provides the foundation for customers to re-evaluate the value points (score) in his/her mind toward the innovated services just received.

*Proposition 1:* Service innovation can generate positive impacts on post-purchase behavior only when customer's perceived values of the product/service increases

### 5. Concluding Remarks

According to the contents discussed above, there are several implications.

1. Customer post-purchase behavior may be affected by service innovation, not directly, but through increase perceived value by customers.
2. Practically, the transformation of service innovation into strengthened value perception of customer is a way to ensure the success of service innovation.
3. Or, the cost for service innovation may be get return and profit, if companies innovative only for "oh right, we innovative too".

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