3. Conceptual Framework

3.1 Chapter overview

Within this section, the *author* will discuss on the conceptual framework of this study, the independent and dependent variables and the development of hypothesis. Relationship between the four independent variables and dependent variables are established and examined through the respective hypothesis. This will act as the backbone for the study. The construction of the conceptual framework is thoroughly discussed and the variables are defined in this chapter.

3.2 Conceptual framework

The *author* has adapted a theoretical framework from previous studies by Chu and Lu (2007) and Lee, Kim, Pelton, Knight, and Forney (2006) to investigate the relationship between **Perceived value, Perceived usefulness, Perceived risk, Perceived quality** and **Purchase Intention of services bundle** under the context of price bundling**.** The previous research from Chu et al (2007) and Lee et al (2006) propose conceptual model that incorporates the different groups of variable that influence the intention to purchase services bundle.

The conceptual framework in this study establishes purchase intention as criterion together with four predictors that identified through existing literature. The predicting variables identified are **Perceived value, Perceived usefulness of the bundle, Perceived risk, Perceived quality.**

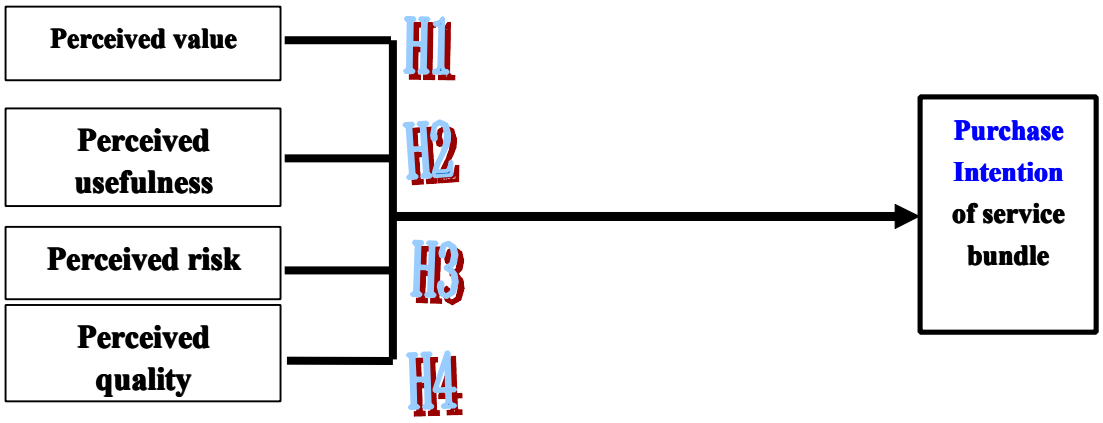

Diagram 3.1 Conceptual framework

3.3 Research hypothesis development

This section mainly discusses the relationships between the perceived value, perceived usefulness, perceived risk, perceived quality and purchase intention on services bundle. The research model was based on the earlier work of Chu et al (2007) and Lee et al (2006). In addition, this research study extends their model by introducing additional predictor - "perceived risk" to study the possible association between perceived risk and the purchase intention of service bundle.

3.4 Perceived value

Based on Jansen (1996) interpretation, perceived value is one of the most critical concepts in understanding customer in the service industry with regards to the intention to purchase. Sheth, Newman, and Gross (1991) proposed a multidimensional construct in defining perceived value consisting the following: conditional value, social value, functional value, emotional value and epistemic value. Similarly, perceived value can be further subdivided into cognitive and emotional dimensions according to Gronroos (1997). Sweeney and Soutar (2001) further added to this stream of studies and proposed functional dimension, social dimension and emotional dimension as the critical elements in understanding perceived value.

In a conceptual paper, Adams et al (1976) has demonstrated the transfer of perceived value among the item within the bundle and he explain the concept using an example as follow. Assuming that Siti willing to buy a pack of nasi lemak for RM 2.50,

allocate another RM 2.50 for a milo ais, and RM 1 for roti canai. Another assumption will be that Siti is going to pay RM 6.00 and buy all three items separately.

In the event that these 3 items are selling separately at RM 2 each, it is highly likely that Siti will order nasi lemak and milo ais while foregoing the roti canai since there is no economical saving on roti canai.. Similarly, when the hawker stall selling all three items at a RM6 package, and it is not possible to buy them separately, Siti will have no choice but to take all three items together. From the seller perspective, price bundling strategy silently relocates the extra value of Nasi Lemak and Milo Ais onto the perceived deficit for the Roti canai.

Despite that "transfer of surplus" justifies the relationship between price bundling and consumer behavior, this concept works only when customer has no option in buying a bundle component individually. Beside, the "transfer of surplus" concept also fails to explain why customer tends to choose bundle over individual product in a situation where both option are available.

Apart from Adams et al (1976), Harris and Blair (2006) discovered that deploying different approaches in framing the price bundling saving will lead to differential value perception from customer perspective and using the similar case of Siti, if the Nasi Lemak priced at RM2.00 and has a saving of 50 cents, the Roti canai selling for RM2.00 have a negative value of 50 cents basing on Siti's internal reference values of

RM2.50 and RM 1.50 on these bundle components. As such, Siti should be more favorable on the RM6.00 bundle when the saving is associated to bundle component with a negative internal reference price (in example, "A saving of RM 0.50 for Roti canai if the customer buying Nasi Lemak & Milo Ais") in contrast to an association with a positively valued bundle component item ("Save 50 cents on a Nasi Lemak when buying Roti canai and milo ais) because consumer weight the 50 cents remediation on loss higher than the additional 50 cents gain.

Similarly, Gilbride, Guiltinan and Urbany (2008) found that in the event when each component item within a bundle is allocated individual price, there are high chances that the customer may compare these prices with their reference price item by item before making final decision. This in turn likely to decrease the likelihood of buying the bundle since the consumer might be well aware that they are buying bundle items that are of no value to them and overall did not save any from the purchase.

But based on Gilbride et al (2008) observation, most of the consumer normally does not evaluate the bundle components individually against their reference price, under most circumstances consumer will employ simple economic choice model that allow them to make decision without going through too much effort. In other literature, this convenient seeking or shortcut decision making process is also known as heuristic psychology process of human being.

Gilbride et al (2008) further explained that price bundling can be framed in the following arrangement:

- *Joint integrated price bundling: "A single price for two products"*
- *Joint segregated price bundling: "Pay RM Y for A and RM Z for B when you buy both"*
- *Leader segregated price bundling "One bundle item at normal price, another at discount"*

Basing on their research findings, Gilbride et al (2008) found that among the three price bundling framing arrangement, the joint integrated price bundling model elicit the highest possibility in purchase intention.

Similarly, Sheng, Parker, and Nakamoto (2007) find that price bundling **enhances the perceived value of the ancillary product** by changing the direction in which information about this ancillary product is processed. They suggest that, even though bundle price discounts can increase a consumer's perceived transaction value and purchase intention for the bundle, it may lead to negative effects on consumer evaluations of individual bundle components when sold separately. For instance, consumers regularly rely on extrinsic cues to evaluate a product and the price discount in the bundling setting may serve as a cue to influence consumer perceptions of both price and quality of the discounted product. If the positive effects of bundle price discounts on evaluations of a bundle cannot outperform the potential negative effects

on individual bundle components, a bundling practice will hurt the seller in the long term (Sheng et al 2007).

3.4.1 Perceived value and purchase intention

Perceived value is one of the pivotal independent variable in this research model. Zeithaml (1988) is of view that perceived value represent the intrinsic and extrinsic gain that consumers acquired through their buying behavior. It derived from comparing the cost that consumers have to pay against the benefits that they received in return. There are solid evidence that support the idea where purchase intention is positively related to the perceived value basing on previous study from Zeithaml (1988) and Sweeney, Soutar and Johnson (1997). Hence, to further investigate how purchase intention of bundle service is related to perceived value, the *author* proposed the following hypothesis:

H1. Perceived value is positively related to purchase intentions for service bundle.

3.5 Perceived usefulness

The earlier research on perceived usefulness is pioneered by Davis (1989) who defined perceived usefulness as the extent that job performance can be improved through adoption of innovative technology. From Davis' corner stone research, Ong and Lai (2006) have applied this concept into social science studies and they found that perceived usefulness is a significant predictor in the intention to acquire system that can enhance user performance.

Similarly, within the price bundling literature, Guiltinan (1987) exerted that when intra-bundle complementarities is due to search economies, the real cost to the consumer is reduced. For instance, most motorists will appreciate the convenience of having an oil change performed by the same service station or dealer they select to perform an engine tune-up. Consequently, the motorist may be willing to pay slightly more for the oil change or for the tune-up once the decision to purchase *one* of these services from a specific firm has been made and thus saving them the hassle to search for another vendor.

Similarly, the research study from Chu et al (2007) has highlighted the functional and convenience benefits which are deriving from the perceived usefulness associated with a service bundle. Chu et al (2007) further added that the theory can also be interpret as the how buyer may fulfill their requirements through the acquisition of a service bundle, the higher the level of fulfillment, the greater is the perceived usefulness of the bundle.

Although a service bundle is designed to deliver a specific experience to its user, it also capable in providing functional benefits to the consumer. For instance, buying a holiday package that include air ticket, accommodation, meals, tour guide actually provide the convenient of a seamless string of service on leisure traveling and the buyer can enjoy holiday better since all the component services are fully integrated. It provides a peace of mind to the consumer since all the different aspects of traveling

are well taken care off. As a result, the perceived usefulness will increase together with purchase intention for these leisure traveling package.

Sheng et al (2007) noted that when the bundle components complement each other significantly, it will encourage the intention to purchase bundle of products or services rather than as a standalone product in light of the high functional relatedness between the bundle components. In contrast, low complementarity with poor functional relatedness will be more conducive to the use of a topical account, leading to a more exclusive association of the bundle price discount with the discounted product.

In addition, according to an empirical research by Schoenherr & Mabert (2007), it was held that the more dissimilar or heterogeneous the items in the bundle, the lower the perceived usefulness of the bundle. This has led Schoenherr et al (2007) to believe that sellers should try to incorporate related and similar items together, while taking the suppliers' capabilities and capacities into consideration when deciding the bundle component. More diverse and complex bundles are possible, but will lead to lower overall perceived usefulness according to Schoenherr's research.

3.5.1 Perceived usefulness and purchase intention

Basing on various previous researches, the *author* is of view that price bundling is capable to satisfy consumer with benefits as describe in chapter 2. On top of that, price bundling also provide functional benefits to consumer. For example, buying in

bundle will allow consumer to enjoy a certain percentage of economical saving while at the same time provide convenient in getting all necessary components in a single purchase. In fact, reduce search time and complementarity among component items have became one of the key value that service bundle consumer appreciate the most.

With reference to previous studies, price bundling also provide convenient to consumer through the reduction in search effort and assembly effort. This idea is pioneered by Guiltinan (1987) who argued that the economies of search associated with price bundling strategy is likely lead to higher purchase intention since consumer save time and resources in getting all the necessary items from a single bundle. However, it is noteworthy that Guiltinan's proposal has not been empirically examined and neither is the pre-requisite condition clearly specified.

Hence, the current research study envisions that perceived usefulness of service will have a positive impact the purchase intention. As such, the following hypothesis is proposed:

H2. Perceived usefulness is positively related to purchase intention of service bundle

3.6 Perceived risk

In classical decision making theory, Pratt (1964) described that risk is most commonly conceived as reflecting variation in the distribution of possible outcomes, their

likelihoods and their subjective values. Arrow (1965) further added that risk is measured either in the revealed utility form money or by the variance of the probability distribution of possible gains and losses associated with a particular purchase decision. Both these theories from Pratt (1964) and Arrow (1965) are based on the assumption that consumer is more inclining toward lesser risks compare to greater ones, holding other predicting variables at constant.

According to Gefen, Karahanna, and Straub (2003) interpretation, risk is mainly due to buyer's feeling unsure on the outcome of a decision he is going to make and the possible cost that this decision is associated with. Both McColl-Kennedy and Fetter (2001) and Murray (1991) share the same view that the magnitude of perceived risk is more profoundly associated with decision on services than in procuring physical products. Murray (1991) noticed that consumers tend to search more extensively when deciding over services than for products to compensate for the higher perceived risk. Base on Shivraj and Vikas (2004) observation, they find that the perceived risk largely arisen as a result of minimal physical interaction (unable to touch or feel the service before buying) during the transaction process between service provider and the client. All these attributes are common characteristics shared by all service segments.

In light of the intangibility nature of service, more research been carried out in understanding perceived risk and its relationship with intention to purchase. For

instance, in the empirical studies of Pavlou (2001) and Paraschiv and Zaharia (2002), it was revealed that perceived risk has an overall negative effect on purchase intention of service and Yang, Hung, Sung, and Farn (2006) further justify this relationship by citing risk in channel, risk in transaction and social risk as the main sources for the negative relationship.

Yang et al (2006) pointed out that **perceived risk that associate with the channel** is caused by transaction through various type of payment medium such as credit card, online payment and etc. Consumer tends to feel insecure when procuring services using these channels in light of the uncertainty.

With regards to the delivery of service, Jacoby and Kaplan (1972) stressed that customer is anxious over the actual performance of the service that they purchase since they have no prior experience on it. Further, there are also concerns from buyer that whether the price is comparative higher than the average market price and as such Jacoby et al (1972) view perceived risk from both intrinsic and extrinsic perspective in the context of **transactional risk.**

Apart from the above mention, another source of perceived risk originated from the subjective norm of the society, in particular the influence from family member and friends. Jacoby et al (1972) added that **social risk** is relevant in assessing perceived risk when the buyer make a decision that does not comply to the expectation of the

society and this could potentially backfire the buyer.

In price bundling context, Harris et al (2006) discovered that consumers may perceive a lower risk for functional incompatibility among items if the items are bought in a bundle as opposed to individually. For instance, Harris et al (2006) pointed out that experimentally priming fears of functional compatibility risk increases the likelihood that consumers will choose bundles over individual items, particularly among consumers who are less sure of their product knowledge.

Base on past literature describe above, it is important to include perceived risk as an a-priori predictor to study purchase intention of service bundle. Majority of the research paper on perceived risk concluded that perceived risk and purchase intention are negatively related. Hence, it will be interesting to examine whether price bundling strategy can mitigate the perceived risk that traditionally associate with service.

3.6.1 Perceived risk and purchase intention

Perceived risk is the opportunity cost to the buyer in light of the uncertainty undertaken by the buyer in a particular transaction (Campbell and Goodstein 2001). Based on the studies of Cunningham, Gerlach, Harper, and Young (2005), Samadi and Yaghoob-Nejadi (2009), there are strong evidents suggesting that a higher degree of perceived risk is associated with service in comparison to physical goods. Martin, Camarero, and SanJose (2011) are of view that higher level of risk is associated with

lower possibility in purchase intention. Hence, the *author* has proposed the following hypothesis:

H3. Perceived risk is negatively related to purchase intention on service bundle.

3.7 Perceived quality

Perceived quality is popularly regarded as an antecedent on purchase intention and it is related to the capability of a product or service in delivering satisfactory performance to the consumer relative to the competitor (Monroe and Krishnan 1985, Aaker 1991). Paswan, Spears and Ganesh (2007) further assert that the service attribute is the major contributor to the perceived quality of such service. Similarly, this viewpoint is also supported by McDougall and Levesque (2000) who pointed out that the overall service quality perceived by the consumer has a contingency impact on the perceived quality and perceived value on a service.

Under the popularly cited SERVQUAL framework, Zeithaml (1988) established a positive relationship between the perceived quality and purchase intention on service. In addition, Zeithaml (1988) also found that perceived quality is inter-related to perceived value in predicting the purchase intention of service. For example, consumer will not assess the value of a service when they found that cost and quality associated with such service are beyond their expectation. In contrast, consumer may still consider in buying a service in the event that the service is considered as affordable despite the perceived quality is on the low end (Zeithaml, 1988).

In another research paper from Yoo, Donthu, and Lee (2000), perceived quality is referred to the perception of customer on a service's overall excellence or superiority. Yoo et al (2000) are of view that when consumer is in favor of the features, quality and performance benefits associated with a service, they are more likely to purchase the service since it meets their internal reference with regards to quality preference. This view point in turn supporting Zeithaml's (1988) findings which held that high perceived quality will motivate the consumer to purchase a particular service over competing brands.

Last but not least, Holbrook (1996) is of opinion that perceived quality can be regarded as consumer assessment on the universal performance of a particular product or service. Teas and Agarwal (2000) further added that the perceived quality should be examined in two aspects which involve both intrinsic and extrinsic elements. Intrinsic elements could be the visible attribute of products for example the packaging, certification (i.e Halal), and price. On the other hand, extrinsic element is also product-related but external to the product, example will be brand equity, promotion campaign, and retailer reputation (Teas et al 2000). Similarly, Andaleeb (1995) found that pricing, brand equity, product origin are some of the key elements that consumer rely upon in determining the perceived quality of product or service.

3.7.1 Perceived quality and purchase intention

Perceived quality is defined as the consumers' judgement about an entity's (service) overall excellence or superiority (Zeithaml, 1988). Rowley (1998) further added that perceived quality of service is a type of attitude, related to but not the same as satisfaction, and resulting from comparison of expectations with a perception of performance.

To sum up the literature from various researchers, it appears that when consumer has high perception of quality on certain product or service, which closely related to service differentiation and performance superiority, it is likely to motivate consumer in purchasing that service over competing services. Consequently, holding other aspects of two services at constant, consumer's intention to purchase the service with better quality is higher and hence lead us to the hypothesis below:

H4. Perceived quality is positively related to purchase intention on service bundle.