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# The Effect of Service Guarantees on Online Customers' Purchase Intention

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**Abstract:** With the rapid development of the Internet and e-commerce, the Internet has become an important channel for consumers to purchase goods. Because online shopping has characteristics of virtual and remote presence, consumers take greater psychological risks while they purchase online and they will make more cautious purchasing decisions. So they build their confidence and reduce the perceived risks only through searching more service information and choosing those online stores with service guarantees. Based on domestic and international reviews of service guarantee, price and purchase intention, this paper researched the effect of service guarantee strength and process of invoking service guarantee on online consumers' purchase intention as well as the moderating effect of price on these relationships combining with the actual situation of China's online shopping market. The results show that service guarantee strength has a significant positive effect on online consumers' purchase intention. Process of invoking service guarantee has a significant negative effect on online consumers' purchase intention. Price significantly moderates the effect of process of invoking service guarantees on online consumers' purchase intention. Results of this study provide some theoretical guidance for businesses to implement effective service guarantees.

Keywords: service guarantee strength, process of invoking service guarantee, purchase intention, perceived risks, price

## 1. INTRODUCTION

Nowadays the Internet has become an important channel for consumers to purchase goods. Compared to the traditional environment, online shopping has characteristics of virtual and remote presence, which would make the consumers to bear greater psychological risks while they purchase online. Therefore, they often find more services information and choose those online stores providing service guarantees to build their confidence.

Service guarantee appears to meet the customers' needs of reducing the arising purchase risks. It was initially regarded as an effective marketing tool in the form that service organizations made commitments on their quality of service. In order to enhance the credibility and integrity of this commitment, service companies added compensation commitment on the basis of quality commitment, which means companies are willing to pay compensation to customers when they don't meet the guaranteed quality standards and levels. Quality commitment and compensation commitment constitute the service guarantee in modern sense. Service guarantee is an effective signal transmitting product quality under asymmetric information conditions. Some studies have found the interactions between the service and price and between the service and brand <sup>[1]</sup>.

Existing articles on service guarantees and consumers' purchase intention are concentrated in traditional restaurants, hotels and tourism. The consumers purchase an intangible service, of which the production and consumption occur simultaneously. For service buyers, when they experienced service failure they can't ask for services such as required exchange, repair or return like defective products, which is most likely to be re-offered services companies providing. The object of this study is solid products in the network and online stores can provide return service commitment for customers.

Online merchants lack of universal theoretical guidance in the design and implementation of service

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guarantees systems. Through the studying of how companies should design and implement services guarantee, Hart (1993) described a successful service guarantee should have a series of features, but he didn't explicitly point out which specific level that these characteristics influence customers' perceptions and attitudes and there is no empirical research, which is left space for further study [2].

Basing on domestic and foreign reviews on service guarantee and purchase intention, the paper will explore the effect of service guarantee strength and process of invoking service guarantee on online consumers' purchase intention and the moderating effect of price on these relationship regarding the domestic network platform as the study object. We hope provide data basis for the revenant provision and some instructive suggestions for network platforms to carry out service guarantee system.

## 2. LITERATURE REVIEW

### 2.1 Service Guarantees

Hart (1988) first defined the service guarantees as declarative remedies which the enterprise used to explain the manner in which businesses conducted to compensate when customer encountered the service failure [3]. Since then, some scholars attempt to make different definitions to service guarantees. Service guarantee is a formal commitment explaining what services customer can get from the enterprise [4]. Basing on comprehensive views of the many scholars, Hogreve and Gremler (2009) thought service guarantee was a clear commitment of providing a certain level of service and quality standards to meet consumer demand and as well as compensation for consumers when the service failed to fully meet the standard [5].

In the traditional environment, existing reviews of service guarantee focused on the scope, intensity of promised compensation and process of invoking service guarantee. The higher the compensation promised, the more effective the service guarantee is [6]. However, the high intensity of promise may make customers have feelings of guilt or promote opportunistic behavior, so service guarantee should give more attention to customers' psychology [7].

In the traditional environment, intangible service consumers purchased can't be returned or exchanged when they experienced service failure. However, in the network environment, consumers buy tangible products online, consumers can return when a service fails. Therefore, service guarantee strength of this paper refers to the "period of time to return or exchange products the online stores provide to consumers and whether they pay for the return freight generated by returning ". In addition, to what degree the customer used or abused service guarantees directly affects the cost of service guarantees, therefore the design of process of invoking service guarantee determine the service guarantees implementation in a large extent [8].

### 2.2 Effect of price on consumer behavior

Consumers tend to regard the price of online commodity as a signal transduction, which is an important factor affecting the quality and value of products customer perceived. The impact may be higher than traditional physical businesses [9]. Consumers also tend to regard price signals transmitted by online merchants as important evidence to evaluate product quality and service.

Price is an allocation of resources and a cost consumers pay for in order to get some goods or services. In the case of asymmetric information, consumers need to pay a higher price for the commodity, which means consumers' economic risk is accordingly higher [10]. In the online shopping process, consumers tend to consider how much economic losses will cause if there is a corresponding commodity problems. These problems are related to sense of sacrifice and perceived risks consumers produced after they paid high prices [11].

### 2.3 Purchase Intention

Purchase intention is the subjective probability or likelihood of consumers to buy a particular product. Pavlou (2003) thought compared with the traditional shopping , online shopping brings more convenience and

pleasure to consumers and make consumers get lower price goods and services, but it also bring some risks to consumers including unguaranteed product quality, which negatively affect consumers' purchase intention [12]. Arun (2008) found that the quality of service provided by the online stores would significantly affect consumers' purchase intention and he believed good services online stores offers could reduce the cost of time and effort which consumers took to get their favorite goods and eliminate worries when consumer purchase online. He believed that compared with the traditional shopping, consumers required online stores to provide more quality services [13].

## 2.4 Relationship between service guarantees and purchase intention

This paper considers the roles of service guarantees mentioned in the existing studies can be roughly summarized as the following aspects.

Firstly, service guarantee can be regarded as a hint of service quality and price and so on. Customers can use it to evaluate service quality and reduce risk assessments [14]. The service guarantee will affect the attitude and trust of customers and thus increase the customer's purchase intention. Secondly, companies can achieve effective service failure and recovery management using service guarantee [15]. Thirdly, service guarantee has a positive effect on quality control, staff management and enhancing the performance [16].

This paper mainly focus on the first role of service guarantees above, namely, how it affects potential customers' attitudes and behavior and research the effect of service guarantees on consumers' purchase intention.

## 3. RESEARCH MODEL AND HYPOTHESIS

### 3.1 Research Model

Basing on the relevant reviews, this paper intends to construct a model from the perspective of service guarantee strength and process of invoking service guarantee. Firstly, it verified influence of these two factors on online consumers' purchase intention, followed by further analysis of the moderating effect of price on the above relationship. In the research model, service guarantee strength and process of invoking service guarantee are the independent variables, the online consumers' purchase intention is the dependent variable, the price is moderator variable, as shown in figure 1.

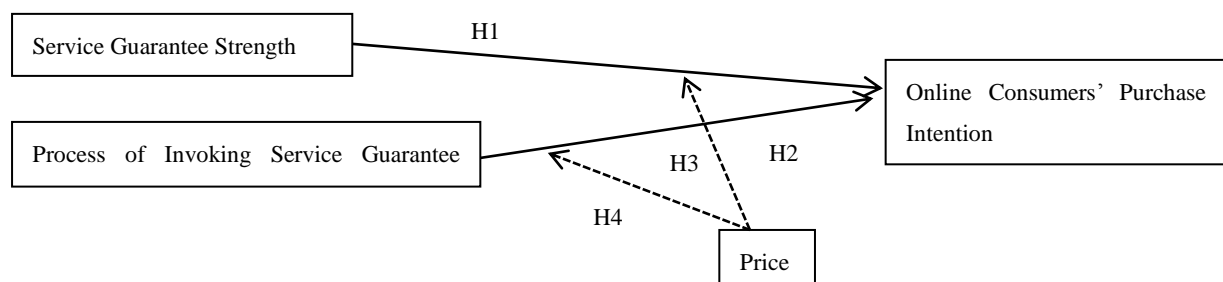


Figure 1. The research model

### 3.2 Hypothesis

Under the traditional environment, consumer purchase an intangible service, when they experienced service failure, business only provide them certain economic and spiritual compensation, "service" can't be repaired or returned. Promised compensation is an important factor to be considered when designing service guarantee, which has influence on consumers' purchase behavior. In the network environment, consumers buy tangible products online and they can return or exchange products when a service fails. Therefore, service guarantee strength of this paper refers to "period of time to return or exchange products the online stores provide to consumers and whether they pay for the freight generated by returning ". Service guarantees provided by

business can reduce the perceived risks of online consumers and increase their purchase intention. In summary, we put forward the hypothesis 1 as follows.

H1: Service guarantee strength has a significant positive effect on online consumers' purchase intention.

Using service guarantee required customer to pay cost such as time or vigor and so on. The convenience of service guarantee is closely related costs of service guarantee. If customers get the compensation service guarantee provides by paying a high cost, they will feel little value of service guarantees. If the customer need to prepare documents or evidence to prove and go through a complicated application and verification procedures and wait a long time in order to get compensation service guarantee provided, they will feel the cost to adopt service guarantee is too high. But only when the cost using service guarantee is lower than the service guarantee provided, customer can reduce the purchase risk by adopting service guarantee. Therefore, we put forward the hypothesis 2 as follows.

H2: Process of invoking service guarantee has a significant negative impact on online consumers' purchase intention.

In the online shopping market, consumers search product information more conveniently and they are more sensitive to price than traditional environment. On one hand, price is regarded as certain economic costs consumers pay for purchasing goods or service, which makes consumers feel a sacrifice. The higher price they pay, the stronger the sense of sacrifice consumers perceived, thus bring them stronger perceived financial risk in the transaction process [17]. On the other hand, the price as a signal transmission has impact on consumers' evaluation on products and services quality. In the online shopping process, consumers regard commodity prices as a standard to measure the value of goods and services quality [18]. Comparing to low-priced goods, when consumers buy high-priced goods, consumers have a stronger feeling of sacrifice and the greater perceived risk, so they will pay more attention to service guarantee provided by online stores to reduce their perceived risk. Therefore, we propose the following hypothesis.

H3: Price significantly moderates the effect of service guarantee strength on purchase intention. Compared to the high price, low price will strengthen the impact of service guarantee strength on online consumers' purchase intention.

H4: Price significantly moderates the effect of process of invoking service guarantee on purchase intention. Compared to the high price, low price will strengthen the impact of process of invoking service guarantee on online consumers' purchase intention.

## 4. EXPERIMENT DESIGN

### 4.1 Experimental context design

We adopted 2 (service guarantee strength: High VS Low) X 2 (process of invoking service guarantee: Hard VS Easy) X 2 (Price: High VS Low) factorial scenario experimental design to validate this view. There are eight different experimental contexts. China's online shopping market survey of CINIC in 2012 showed that proportion of users purchasing clothing accounted for 81.8 percent. Meanwhile, our research subjects are college students purchasing clothing frequently. Therefore, we choose down coat and shirt as products of the experimental context, which can prevent survey's results bias caused by unfamiliar with the products and reduce interference factors.

Firstly, we collected service guarantees having been implemented on the online shopping platform to make content analysis and design integrated service guarantees showing actual situation of online stores. Secondly, we invited 20 MBA students to evaluate the authenticity, feasibility and objectivity of the service guarantees. Finally, we made appropriate modifications on the content and manner of service guarantee according to their views and feedbacks.

Experimental material is composed by three parts. The first part is a piece of news about consumer protection law on the amendments so that the subjects of the study have understanding of background. In the second part, subjects were asked to imagine themselves buying down coat (shirt) online, when they found a down coat (shirt) with satisfying brand, color, quality and style, they noted service guarantee online stores offer. The third part shows subjects the service guarantee strength and process of invoking of service guarantee provided by online stores.

#### 4.2 Questionnaire design and variables measurement

All items in the questionnaire used Likert 5 point scale, “1” means strongly disagree and “5” means strongly agree. Purchase intention is a dependent variable in the study, which has been extensive researched by scholars in the field of network, whose scale is used repeatedly and has become matured; therefore, the paper directly used related items to test, showed in Table1.

**Table 1. Scale design**

Variable	Items	
Purchase intention	I will intent to buy this down coat (shirt).	Parasuraman (1996)
	I have a high possibility of buying this down coat (shirt).	
	I have strong willingness to buy this down coat (shirt).	

## 5. DATA ANALYSIS

### 5.1 Sample Statistics

We collected data through the online and offline questionnaire survey. We respectively distributed 200 questionnaires on campus and 40 questionnaires through QQ in Internet, participants included undergraduate and graduate students. We recovered 236 questionnaires and got the 231 usable questionnaires excluding five questionnaires missing questions or having obvious mistakes, so the response rate was 96.25%. In the sample, women accounted for 61.9% and the men were 38.1 %. Subjects whose monthly online consumer amount is less than 1000 RMB accounted for 97.0% and more than 1000 RMB accounted for 3.0%.

### 5.2 Data analysis methods

The paper uses SPSS20.0 to process and analysis the data. We used samples descriptive data analysis, reliability analysis and ANOVA to analyze data and test hypotheses. Reliability analysis evaluates the stability or reliability of the questionnaire. One-way ANOVA examines whether there are differences in the mean of levels of various factors.

### 5.3 Reliability test

The Cronbach's  $\alpha$  of purchase intention is 0.894, much larger than 0.7, which shows the study scale has high internal consistency reliability.

### 5.4 Variable control test

The study used the SPSS20.0 to make independent samples T-test for price, service guarantee strength and process of invoking service guarantee to test the experimental manipulation of variables.

The test results showed that, the subjects in high service guarantee strength group ( $M_{High} = 3.65$ ) have significantly higher evaluation for service guarantee strength than the low group ( $M_{Low} = 2.97$ ) ( $t_{231} = 6.347$ ,  $p < 0.001$ ). The subjects in easy process of invoking service guarantee group ( $M_{Easy} = 3.44$ ) have significantly higher evaluation for process of invoking service guarantee than the hard group ( $M_{Hard} = 2.44$ ) ( $t_{231} = -8.273$ ,  $p < 0.001$ ). The subjects in the high price group ( $M_{High} = 3.11$ ) has significantly higher evaluation for the low group ( $M_{Low} = 1.75$ ) ( $t_{231} = 12.930$ ,  $p < 0.001$ ), which indicates the manipulations for service guarantee strength, process of invoking service guarantee and price in this experiment are successful.

## 5.5 HYPOTHESIS TEST

### 5.5.1 Main effect

The paper used ANOVA to test the effect of service guarantee strength, process of invoking service guarantee on online consumers' purchase intention. The results showed service guarantee strength has a significant positive effect on purchase intention ( $F(1,229) = 9.762, P = 0.002 < 0.01$ ), so H1 is verified. Compared to the low service guarantee strength, consumers product higher purchase intention to the high group ( $M_{High} = 3.5174, M_{Low} = 3.2114$ ). Process of invoking service guarantee have a significant negative effect on purchase intention ( $F(1,229) = 7.021, P = 0.009 < 0.01$ ), so the H2 is verified. Compared to the hard process of invoking service guarantee process, consumers produce higher purchase intention to the easy group ( $M_{Hard} = 3.2362, M_{Easy} = 3.4973$ ).

### 5.5.2 Moderating effect of price

The paper used ANOVA to test moderating effect of price. The results show that, for the low price, there exists a significant difference in consumers' purchase intention between the high and low service guarantee group ( $M_{High} = 3.5440, M_{Low} = 3.2298, P = 0.030 < 0.05$ ). For the high price, there existed a significant difference in consumers' purchase intention between the high and low service guarantee ( $M_{High} 3.4917, M_{Low} = 3.1926, p = 0.029 < 0.05$ ). So the price has no moderating effect on the relationship between service guarantee strength and purchase intention, H3 is not verified.

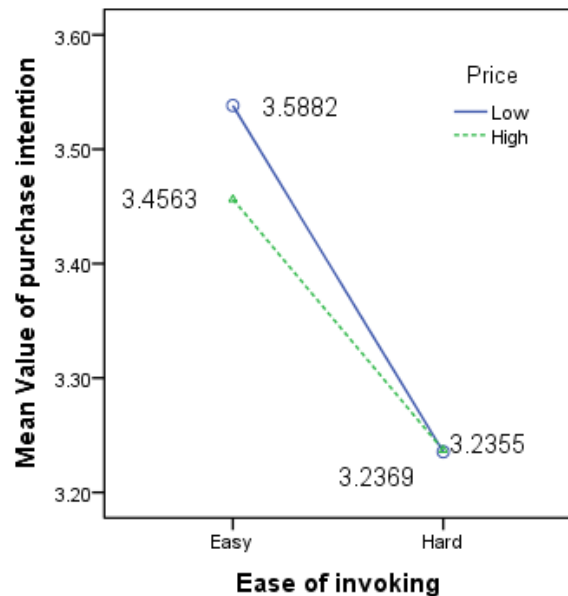


Figure 2. The moderating effect of price

For the low price, there exists a significant difference in consumers' purchase intention between the hard and easy process of invoking service guarantee group ( $M_{Easy} = 3.5882, M_{Hard} = 3.2355, P = 0.036 < 0.05$ ). For the high price, there don't exist significant difference in consumers' purchase intention between the hard and easy process of invoking service guarantee ( $M_{Easy} = 3.4563, M_{Low} = 3.2369, p = 0.111 > 0.05$ ). So the price has moderating effect on the relationship between process of invoking service guarantee and purchase intention, H4 is verified. The moderating effect is showed in figure 2.

Figure 2 shows that, regardless of the high or low price, online consumers' purchase intention will decline as the difficulty of the service guarantee process increases, but comparing to high price, consumers' purchase intention in low price decline more obviously.

## 6. DISCUSSION

Based on the previous researches, this paper established the model of the effect of service guarantee on consumers' intention. Though scenario experiment and analysis using SPSS 20.0, we studied the effects of service guarantee efforts and service guarantee process on online consumers' purchase intention and the moderating effect of price on these relationship. The results are showed in Table 2. From the Table2, H1, H2 and H4 are verified, while the H3 is not.

H1 indicated that service guarantee strength has a significant positive effect on online consumers' purchase intention. Compared to the traditional environment, online shopping has characteristics of virtual and remote presence, consumers take greater psychological risks while they purchase online. Therefore, they often find more services information and choose those online stores providing service guarantees to reduce perceived risks

and build their confidence, the high service guarantee can increase their purchase intention.

**Table 2. The final results**

Hypotheses	Whether it is verified
H1	Yes
H2	Yes
H3	No
H4	Yes

H2 showed that process of invoking service guarantee has a significant negative impact on online consumers' purchase intention. If the customer should prepare documents or evidence to prove and go through a complicated application and verification procedures and wait a long time in order to get compensation service guarantee provided, they will feel the cost to adopt service guarantee is too high. But only when the cost of using service guarantee is lower than the service guarantee provided, customer can reduce the purchase risk by adopting service guarantee.

H4 stated that price significantly moderates the effect of process of invoking service guarantee on purchase intention. Compared to the high price, low price will strengthen the impact of service guarantee on online consumers' purchase intention. In the online shopping market, consumer searching product information more conveniently and they are more sensitive to price levels than traditional environment. Price is regarded as certain economic costs consumers pay for purchasing goods or service, which makes consumers feel a sacrifice. The higher price they pay, the stronger the sense of sacrifice consumers perceived, thus bring them stronger perceived financial risk in the transaction process. Comparing to low-priced goods, when consumers buy high-priced goods, consumers have the stronger feeling of sacrifice and the greater perceived risk, so they will pay more attention to service guarantee online stores provide to reduce their perceived risk.

## 7. CONCLUSION

This study investigated the effect of service guarantees on the online consumers' intention and the moderating effect of price. According to the empirical analysis, we found that the service guarantee strength has a significant positive effect on online consumers' purchase intention and process of invoking service guarantee has a significant negative impact on online consumers' purchase intention. In addition, price significantly moderates the effect of service guarantee on purchase intention. Compared to the high price, low price will strengthen the impact of service guarantee on online consumers' purchase intention.

Our findings provide implications for the online stores implementing apposite service guarantees. The results pointed out service guarantees strength has a significant positive impact on online consumers' purchase intention, so business should provide service guarantees with greater intensity according to their own circumstances, such as providing 15 or 30 days to return and exchange goods and pay for the freight. In addition, the process of invoking service guarantee has significant negative effect on online consumers' purchase intention, so the business should provide service guarantee being used easily.

Online stores should provide different kinds of service guarantees for products with high and low price. This study showed when consumers purchased products with high price, they would produce greater uncertainty and perceived risk, in order to reduce their uncertainty and perceived risk, online stores should provide service guarantees with high strength and easy process to invoke.

## 8. Limitations and future research

This study has several limitations that should be considered. Firstly, this research only studied the down



coat and shirt, but there are many merchandise category online. Service features may have different roles for different products. Although this paper summarized the common attributes of service guarantee for different products, applicability of the research results for other products also needs further examination. Secondly, this study research the moderating effect of price, however, there are many other variables which moderate the effect of service guarantee on purchase intention, such as the credibility of online stores and so on. Future studies can take these factors into account to analyze how they impact the effect of service guarantees on purchase intention.

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