

# Effect of quality and price on customer satisfaction and commitment in Iran auto industry

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## Abstract

Iran's auto industry is the second largest industry in Iran after oil and gas. Currently, Iran's auto industry is the 12th largest industry in the world and the largest in the Middle-East. This indicates the important potential of Iran auto industry. Industry success is dependent on customers' satisfaction and commitment. Marketing academicians and industry executives considered customers' satisfaction and commitment as an organizational valuable asset. Commonly, researchers are agreed that satisfaction and commitment are the main issues for creating and maintaining relationships with customers. This paper aims to examine which factors influence customers' satisfaction and customers' commitment in Iran's auto industry. A conceptual model of satisfaction and commitment in Iran's auto industry is proposed in which quality and price of product affect satisfaction and commitment through the mediating role of relationship quality. This conceptual model may provide great perspective for Iranian researchers in the field of marketing.

## Keywords

Iran Auto Industry, Customer Satisfaction, Customer Commitment, Quality, Price

## 1. Introduction

Iran's auto industry is the 12th largest automaker in the world and the largest in the Middle-East. In 2009 Iran ranked fifth in auto production growth standing next to China, Taiwan, Romania and India. In the past 10 years Iran has been developing as a major auto producer in the world. Currently, Iran is the 12th largest automaker in the world and the largest in the Middle-East which indicates that there is a significant potential for Iran in auto industry [1]. Researchers considered customer commitment as an organizational valuable asset (e.g. [2], [3]). Customer satisfaction became an important part of marketing and it has been defined according to different perspectives [4]. One of these perspectives defines satisfaction as the feeling that arises in customers when customers compare their prior expectations to their perception of service performance [5]. This paper proposed a comprehensive model of satisfaction and commitment development process

incorporating several factors including price, quality (e.g. products and after-sell service) and relationship quality in Iran's auto industry.

## 2. Literature review

### 2.1. Satisfaction

The first study measuring satisfaction was conducted by Cardozo in 1965 and it showed that product quality, overall purchase expectations and experiences all influence customer satisfaction. Satisfaction can be defined as a "psychological state resulting when the emotional surrounding disconfirmed expectations is couple with the customer's prior feeling about the consumption experience" [6]. Satisfaction is "the customer's feeling about the gap between customer's expectations towards a company, product or service and the perceived performance of the company, product or service" [7]. Traditionally, satisfaction has been conceptualized as a product-related knowledge judgment that follows a purchase

act or a series of consumption experiences [8]. In other words, satisfaction is defined as an evaluation of a product and service experience [4]. Satisfaction can be classified in two ways: overall satisfaction and transaction satisfaction. Overall satisfaction means that a customer's evaluation of a brand is based on their previous experience. Transaction satisfaction refers to the assessment of a customer resulting from a specific purchase experience. Customer satisfaction is considered a fundamental determinant of long-term customer manners [8], and overall evaluation of service that shapes future interactions [5]. In the context of relationship marketing, satisfaction is conceptualized as an element of the relationship quality concept [9]. Therefore, there is a need to develop a model to explore factors influencing customer satisfaction of auto industry in Iran that may differ from that found in other studies. Quality (products and after-sell service) and price are supported as drivers of customer satisfaction.

## 2.2. Commitment

Commitment is central factors that contribute to successful relationship marketing because of its ability to lead indirectly to cooperative behavior and produces outcomes that promote efficiency, productivity and effectiveness [10]. A commitment is an agreement that is demonstrated by observable and measurable manners that reflects a consistency and alignment in thought and belief [11]. Commitment is one of the key concepts in relationship marketing research. In the services marketing area, relationships are built on the basis of mutual commitment. Traditionally, commitment was gained by behavior of sales personnel or through the physical setting [12]. Effective services marketing depend on the management of commitment because the customer typically must buy a service before experiencing it [13]. Commitment is an exchange party's long-term desire to maintain a valuable ongoing relationship with another [10]. Commitment is defined as a consumer's sense of belonging and involvement with a service provider similar to emotional bonding [14]. Commitment has been defined as "an implicit or explicit pledge of relational continuity between exchange partners" [11, p.19] or as the "psychological attachment" to an organization [14, p.37]. In fact, commitment is the most common dependent variable used in buyer-seller relationship studies and seems vital to relationship maintenance [12]. In the marketing literature, commitment is considered a significant factor necessary for the creation, building and maintenance of relationships (e.g. [11], [15]). Generally, in determining the improvement of commitment, satisfaction of customers has been recognized as the main input for customer commitment [13]. The results for customers in long-term relationships with a company are committed relationships that improve the quality, and increase access to valued resources and technologies [16]. This paper considers relationship quality as a predictor of commitment, which is envisioned as one of two relationship outcomes. For the reason that commitment involves vulnerability and sacrifice,

consumers are not likely to show a high level of commitment unless relationship quality has already been established [14].

## 2.3. Relationship Quality as a Mediating Construct

The study of relationship quality begins with (11) in, 1987 and is established by [9]. Up to 1995, the studies on relationship quality issue are few but more researchers start analyzing relationship quality construct from 1995 onwards developing a whole stream of research within the relationship marketing area. Currently in the competitive markets, firms and companies are faced with increasing competition resulted from technological changes, market globalization and more demanding customers. Such changes are important because of their impact on the buyers' behavior. Therefore customers need a more complete answer to their needs [17]. Relationship quality refers to a customer's perceptions of how well the relationship fulfills the expectations, predictions, goals, and desires of the customer [18]. Hence, quality of relationship conveys the customer's impression of the whole relationship [19]. High quality of relationship indicates that the customer depends on the service provider's future performance because the level of past performance has been consistently satisfactory [19]. Understanding how companies can profit from customer relationship is important for academics and marketing managers [20]. The close relationship between customers and service providers, also the manner of performed service often is more important than what is actually delivered. (e.g. [11]) conceptualize the relationship quality construct as indicative of satisfaction. Satisfaction refers to the degree to which interactions between the customer and the service provider meet the customer's expectations; it can be based on evaluations of attributes such as service delivery and product quality. Attitudes and performance of service provider is a vital factor for the failure or success of the relationship. Also, behaviors of service provider with customers can influence a quality perception of customers [21]. Based on literature review there is interdependence between customers and service providers. Commitment in emotional of customers to a service and products can be attitude to their dealing and experience with sales services [22]. Commitment in emotions of customers is important for company, because company can influence interactions of customer for future purchase.

## 2.4. Quality of Product

Quality of product is "the customer's perception of the overall quality or superiority of the product or service with respect to its intended purpose, relative to alternatives" [23]. A significant determinant of profitability and product's market success of companies is quality of products the superiority of the product in dimensions such as performance and "fit and finish" [23]. The performance is the primary operating characteristics of the product. For an automobile, these could include traits like acceleration, handling, cruising speed, and comfort. The "fit and finish" refers to the

appearance or feel of quality. For automobiles, it might be reflected by the paint job and fit of the doors. “Fit and finish” is important because it is a dimension which customers can judge. The assumption is usually that if the business cannot produce good “fit and finish” products, the products will not probably have the other, more important, quality attributes [23]. Quality of products has a major influence on companies’ profitability and market success. In the marketplace, quality of product has a vital role on firm’s competitiveness through affecting customers’ satisfaction. Quality of product may lead to customer satisfaction, which is determined by performance and expectation [24]. Hence, the quality of a product defines as product’s ability to fulfill the customer’s needs and expectations. In marketing, quality of product have considered as the determinants of buying behavior and customer satisfaction. Therefore, it can be concluded that quality of product can be different from the actual quality of products (manufacturing quality) and customers’ perception. While the actual quality of products is good, it’s possible that the products may be perceived negatively. There is still the need for developing researches in the area of quality of product in Iran automobile industry to create competitive advantages in product quality distinctively.

### 2.5. Quality of After-Sale Service

Service is the rapid delivery of the product. Service can be defined in many ways depending on which area the term is being used. The rising number of private automobiles has deeply affected after-sales service market. With the increase number of cars, the after-sales service market attracted interest of both researchers and industry executives. After-sale service is an element of customer relationship management and is activities planned by organizations especially business organizations after the purchasing stage [25]. In other words, after-sales services indicate product support activities and customer support activities [25]. After-sales services include repair, maintenance, and upgrading. If the quality of these services offered at a guaranteed or fixed rate, they can be an important competitive advantage. According to [26], after-sales service act as a key role in supporting marketing activities to improve customer commitment, and thus to increase competitive advantages and profitability in the long term. [27] beliefs that in the automobile industry developing satisfaction of customers

requires increasing amount of contact with customers and after sales service can provides a continuous link between the providers and the customers. Therefore, quality of after-sell service is important for company to achieve competitive advantages.

### 2.6. Price

From the customer’s view point, price is what is given up or sacrificed to obtain a product or service [28]. Perceived price is one psychological element that plays an important role in customers’ reactions to prices [29]. Price can be used as a resource to increase both profits and customer satisfaction [30]. [31] indicated that price is a vital factor for customers when selecting a products or services. When customers believe that a product’s price is fair, the purchase behavior tends to be repeated. In contrast, if customers feel that a certain product or services doesn’t deserve its price, they will not repeat purchase behavior. The perceived “reasonableness of price” has a positive correlation to customer retention [32]. [33] found that price has a positive effect on purchase intention. In addition, firms and customers compare the price of products with the price of same products that paid by other customers and evaluate the justice of price by making comparisons with other references [34]. In the former research studies of customer commitment have not paid enough attention to price.

## 3. Conceptual Model and Research Hypotheses

To develop the conceptual model, this paper conducted literature review in marketing. This paper developed a conceptual model and identified how quality of product and after-sell service, price, and relationship quality affect satisfaction and commitment. The proposed conceptual model with 6 research hypotheses is shown in Figure 1. Based on prior discussion and in order to understand the relationship between quality, price, relationship quality, satisfaction, and commitment a research model is presented (Figure 1). This study investigates the structural relationships among quality, price, relationship quality, satisfaction, and commitment. The summary of the hypotheses is presented below.

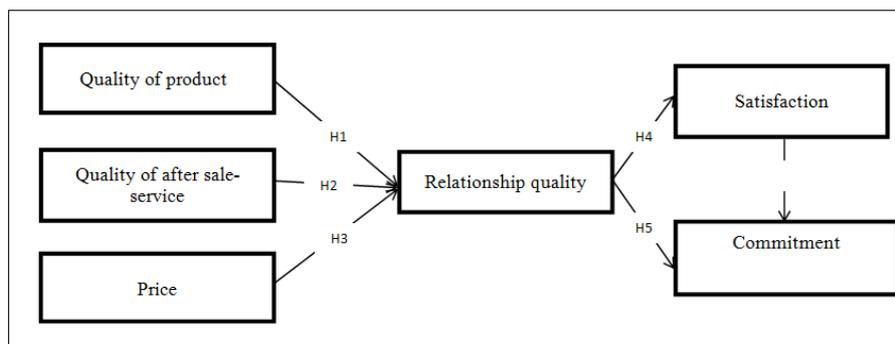


Figure 1. A Conceptual Model

Based on the literature and proposed model the following hypotheses are presented:

*Hypothesis 1:* Quality of products is positively related to relationship quality.

*Hypothesis 2:* Quality of after sale-service is positively related to relationship quality.

*Hypothesis 3:* Price is positively related to relationship quality.

*Hypothesis 4:* Relationship quality is positively related to satisfaction.

*Hypothesis 5:* Relationship quality is positively related to commitment.

*Hypothesis 6:* Satisfaction is positively related to commitment.

#### 4. Conclusion

The purpose of this article was to investigate what factors affect satisfaction and commitment in Iran auto industry. Therefore, based on literature review, a conceptual model of satisfaction and commitment in Iran auto industry is proposed in which quality of product, quality of after-sell service, and price as three main antecedents influence satisfaction and commitment through the mediating role of relationship quality. As a conceptual model, it needs empirical testing, it is in progress.

This conceptual model may provide great perspective for Iranian researchers in the field of marketing. Future study could aim to develop conceptual model with identify additional factors that may influence satisfaction and commitment in Iran auto industry.

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