

# The Impact of Service Quality on Customer Satisfaction: The Role of Price

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## Abstract

This research seeks to find out how to provide satisfaction to consumers. The aim is to analyze and test empirically the effect of price and sales promotion on customer satisfaction that is mediated by service quality. This study uses primary data; questionnaires are distributed to 100 consumers at the Jingga Project boutique. The sampling technique uses simple random sampling. The data were collected using a questionnaire measured by a Likert scale with analysis tools using Warp PLS 7.0. The results showed that the variables price and sales promotion have a positive effect on customer satisfaction. Furthermore, the mediating variable, namely, service quality, is proven to be able to indirectly mediate the effect of price and sales promotion on customer satisfaction. In line with the marketing theory, which states that customer satisfaction is the feeling of pleasure or disappointment of someone who appears after comparing the performance (results) of the product against the expected performance. From the results of this study, it is clear that the variables price and sales promotion significantly affect customer satisfaction, as well as service quality, which is the mediating variable in this study. Service quality indirectly or partially mediate the effect of price on customer satisfaction.

**Keywords:** Service Quality, Marketing Mix, Price, Customer Satisfaction

**JEL Classification Code:** G21, G24, G29

## 1. Introduction

Actors in each type of business are required to be sensitive to any ongoing changes and are orientated toward customer satisfaction as the goal. In providing satisfaction to customers, companies must first study the wants and needs of current and future consumers. Anderson (1996) explains that customer satisfaction is a feeling of pleasure or disappointment for someone, which comes after comparing their perceptions or impressions of the results of a product from the company. Promotion carried out by the company will create a separate

assessment on the minds of consumers so that consumers' assessments of product promotion directly or indirectly will create an image for a product (Ryu & Han, 2010). Malik, Ghafoor, and Iqbal (2012) stated that price is the only element in the various elements of the retail marketing mix that will bring profit to retailers. In terms of price strategy, price is one of the elements that influence the activities of the company, which operated to create a competitive advantage. However, it often clashes with pricing policies. Pricing by companies must be adjusted to the environmental situation and changes that occur, especially when competition is getting tighter and demand is getting limited. In the current climate of intense competition, companies must pay attention to the price factor, because the level of the price set will greatly affect the company's ability to compete and also be able to influence consumers to buy its products. To be more competitive in the market, companies can consider competitors' pricing as a guide in determining the selling price of their products.

According to Singh and Sirdeshmukh (2000), service quality is a form of consumer assessment of the level of service received (perceived service) with the level of service expected (service). The positive impact of good service will increase customer satisfaction and loyalty as well as the desire to repurchase, which of course will increase the income received from products that have been sold (Fornell, Johnson, Anderson, Cha, & Bryant, 1996).

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**Table 1:** Price Effect Research Gap Towards Consumer Satisfaction

Research Gap	Researchers	Findings
There are differences in research results, the effect of price on customer satisfaction	Ehsani & Ehsani, (2015), Wu et al., (2011)	The effect of price on customer satisfaction has a positive effect
	Anderson, (1996), Homburg et al., (2005)	The effect of price on customer satisfaction has a negative effect

In order to compete, survive, and develop, companies are required to be able to meet the needs and desires of customers by providing the best quality service, so that customers will feel satisfied and feel appreciated so that they are happy and willing to become regular customers. There are gaps in the results of previous research on the effect of price on satisfaction. The gap on the effect or impact of price on satisfaction is summarized in Table 1.

## 2. Literature Review and Hypotheses

This study uses the marketing theory of consumer satisfaction as a grand theory from Kotler (1994) that states that customer satisfaction is the feeling of pleasure or disappointment of a person that emerges after comparing the actual performance of the product against the expected performance. Consumer satisfaction is the extent to which the benefits of a product are perceived in accordance with what customers expect (Hassan, Hassan, Nawaz, & Aksel, 2013). Consumer satisfaction or dissatisfaction is a response to evaluating the discrepancy or disconfirmation that is felt between previous expectations and the actual performance of the product experienced after use (Homburg, Hoyer, & Koschate, 2005). The general objective of this research is to build a basic theoretical model and an empirical research model where the quality of service mediates the effect of price on customer satisfaction.

Based on the general objectives, the specific objectives to be achieved in this study are as follows:

1. Analyze and test empirically the effect of price on customer satisfaction
2. Analyze and test empirically the effect of sales promotions on customer satisfaction
3. Analyze and test empirically the effect of price on service quality
4. Analyze and test empirically the effect of sales promotions on service quality. 5. Analyze and test empirically the effect of service quality on customer satisfaction.

### 2.1. The Effect of Price to Customer Satisfaction

Price is the unit value assigned to a commodity as information on the counter-performance of the producer/owner of the commodity. In economic theory, it is stated that, in a competitive market, the price of a good or service is determined through supply and demand (Kotler, 2011). If the seller and the buyer interact, there will be buying and selling activities. When there is a buying and selling activity in the market, the seller and the buyer will bargain to reach an agreed price. Buyers always want low prices, so that with the money they have, they can purchase a lot of goods. Conversely, the seller wants a high price, in the hope that he can make a large profit. The difference is what can lead to price bargaining. The price that has been agreed by both parties is called the market price (Wu, Liao, Chen, & Hsu, 2011). At that price, the number of goods offered is the same as the quantity of goods requested. Thus, the market price is also called the equilibrium price. The most important factor in price formation is the power of supply and demand. The demand and supply will be in equilibrium at the market price if the quantity demanded is the same as the quantity supplied.

*H<sub>1</sub>: Price has a positive effect on customer satisfaction.*

### 2.2. Effect of Sales Promotion to Customer Satisfaction

The main purpose of promotion is to inform, influence and persuade, and remind target customers about the company and its marketing mix (Rahman & Sitio, 2020); companies carry out promotional activities with the main objective to seek profit. Suryana and Haryadi (2019) explain that consumer satisfaction is an important element in improving marketing performance of a company. The satisfaction felt by customers can increase their intensity to buy. By creating an optimal level of customer satisfaction, it encourages the creation of loyalty in the minds of the satisfied customer. Satisfaction is measured by how well customer expectations are met. Meanwhile, customer loyalty is a measure of how much the customer wants to buy again.

*H<sub>2</sub>: Sales promotion has a positive effect on customer satisfaction.*

### 2.3. Effect of Price to Service Quality

The definition of service quality is centered on fulfilling the needs and desires of customers and the delivery provisions to balance customer expectations. Kaura, Prasad, and Sharma (2015) define service quality in simple terms, namely, a measure of how well the level of service provided is in accordance with customer expectations.

This means that the quality of service is determined by the ability of a particular company or institution to meet needs in accordance with what is expected or desired based on the needs of customers/visitors. According to Tran and Le, (2020) service quality easily attracts more customers. Meanwhile, according to Nguyen, Pham, Tran, and Pham (2020), if the quality of service is good, consumers will recommend the product to others. However, for Tabash, Albugami, Salim, and Akhtar (2019), service quality has a positive impact on consumer satisfaction.

*H<sub>3</sub>: Price has a positive effect on service quality.*

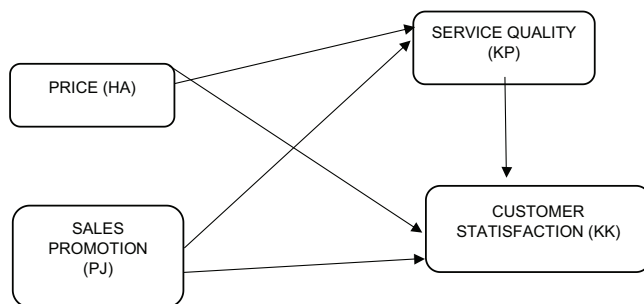
Based on hypotheses 1, 2, 3, hypotheses 4 and 5 can then be submitted as follows:

*H<sub>4</sub>: Sales promotion has a positive service quality*

*H<sub>5</sub>: Service quality has a positive effect on customer satisfaction*

### 3. Research Method

The population in this study is the Jingga Project Boutique. The sample uses nonprobability sampling, namely, sampling that does not provide equal opportunities for each element or member of the population to be selected as samples, whereas purposive sampling sets certain criteria. The sampling criterion in this study was: each respondent is a customer who has bought a product at the Jingga Project Boutique. The data analysis technique used Partial Least Squares (PLS) - Structural Equation Modeling (SEM) with the WarpPLS 7.0 application. Based on these, the research is predictive and exploratory. The use of PLS-SEM offers several advantages: SEM PLS can work efficiently with small sample sizes and complex models, and the assumption of data distribution in SEM-PLS is relatively looser than with other methods such as CB (Covariance-based) SEM. To test hypotheses 1 to hypothesis 5, the following model equation is designed:



**Figure 1:** Research model

$$KK = \alpha_1 + \beta_1 HA + \beta_2 PJ + \beta_3 KP + \epsilon_1 \quad (1)$$

$$KP = \alpha_2 + \beta_4 HA + \beta_5 PJ + \epsilon_2 \quad (2)$$

Where,

KK = Customer Satisfaction, HA = Price, PJ = Sales Promotion, and KP = Service Quality

### 4. Results

The analysis of the research model includes two stages, namely, evaluation of the measurement model and evaluation of the structural model. Model evaluation analysis using the PLS SEM method with the WarpPLS version 7.0 application. The algorithm method in this study for the outer model uses PLS mode A because all constructs in this study use reflective indicators; for the inner model, it uses linear because it is assumed that all the relationships between the constructs in the model are linear. The resampling method uses Stable, based on the resampling method results in the stability of the estimated path coefficient or produces a smaller P value compared to other methods.

#### 4.1. Structural Model Evaluation

The evaluation of the structural model (inner model) aims to predict the relationship between variables by seeing how much the variance can be explained and knowing the significant P-value (Latan & Ghazali, 2016). Thus, the evaluation of the structural model can test hypotheses 1, 2 and 3. As for hypothesis 4 (the effect of mediation) will be tested through mediation testing in the next analysis.

Based on Table 2, it can be seen that this research model has a good fit, where the P value for APC <0.04, ARS and AAR <0.1, with an APC value = 0.175, ARS value = 0.105 and AARS value = 0.81. Likewise, the resulting AVIF and AFVIF values are <3.3, which means that there is no multicollinearity problem between indicators and between exogenous variables. The resulting GoF is 0.222 > 0.1 means that the fit model is very good. For SPR and RSCR, it produces a value equal to 1, while SSR is with a value of 0.9 > 0.7, which means there is no causality problem in the model. The mediation test used the Variance Accounted For (VAF) method (Hair et al., 2013). The mediation testing procedure with the VAF method is as follows:

1. Testing the direct effect of exogenous variables on endogenous without including the mediating variable.
2. If the direct effect above is significant, then test the indirect effect of exogenous variables on endogenous by including the mediating variable.
3. If the indirect effect above is significant, then calculate the value of the VAF and determine the mediation effect with the following criteria:

**Table 2:** Goodness of Fit Model Structural

Criteria	Parameter
Average path coefficient (APC)	0.175/ P<0.04
Average R-squared (ARS)	0.105/ P<0.1
Average adjusted R-squared (AARS)	0.081/ P<0.1
Average block VIF (AVIF)	1.037,
Average full collinearity VIF (AFVIF)	1.042
Tenenhaus GoF (GoF)	0.222
Sympson's paradox ratio (SPR)	1.000
R-squared contribution ratio (RSCR)	1
Statistical suppression ratio (SSR)	0,9

- VAF > 80% means that there is full mediation.
- 20% < VAF < 80% means that there is partial mediation.
- VAF < 20% means no mediating effect in the model.

VAF is calculated by dividing the indirect effect by the total effect (direct effect plus indirect effect).

Lonardo and Soelasih (2014) show that there is a positive effect of price on customer satisfaction of the legit layer in building positive word-of-mouth. So, it is possible that there is a relationship between price and customer satisfaction. The results of the study support the hypothesis that price has a significant effect on customer satisfaction. The results of the direct effect of price and sales promotion on customer satisfaction are:

Based on Table 3, it can be seen that HA has a significant direct effect with a p-value < 0.05 on KK, while PJ also has a significant direct effect on KK with a p-value < 0.05, so that it can be concluded that only the HA variable has the potential to be mediated by KP in indirectly affecting the KP. From these results it can be stated that KP can mediate the indirect effect of HA on KK so that this hypothesis is accepted. Furthermore, the indirect effect of HA on households through KP and calculating the value of VAF are tested. Based on Table 3, the indirect effect of HA on KK through KP produces a significant effect with a path coefficient value of 0.016. The next step is to calculate the VAF value, presented in Table 4.

Based on Table 4, the results of the VAF value are 0.509 or 50,9%. This value can be seen as close 20% < VAF < 80%, meaning that there is partial mediation; thus, it shows KP is a partial mediator of the indirect effect of HA on KP. These results support hypothesis 3, which states that service quality can mediate the effect of price on customer satisfaction. These findings indicate that customer satisfaction is not only influenced by price, but also service quality, so that sales will increase.

**Table 3:** Direct influence of variable HA, PJ on KK.

Description Path	Path Coefficient	P value
HA → KK	0.201	0.012
PJ → KK	0.122	0.024

**Table 4:** results of VAF values

Description	Path Coefficient
Indirect effect	0.205
Direct effect	0.059
Total effect	0.245
VAF (indirect effect/total effect)	0.509

## 5. Conclusion

Price is a financial mechanism in which revenue is generated to offset costs incurred to provide services and create a surplus for profit. According to Wu et al. (2011), price is the value expressed in a currency or medium of exchange for a particular product. Service quality can be identified by comparing consumers' perceptions of the services they actually receive with the services they actually expect/want on the service attributes of a company. Malik et al. (2012) stated that service quality is all forms of activities carried out by companies to meet consumer expectations. Service in this case is defined as a service or service delivered by the service owner in the form of ease, speed, relationship, ability, and hospitality addressed through attitudes and characteristics in providing services for customer satisfaction.

Kotler (1994) defines consumer satisfaction as "a person's feeling of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations." "Overall satisfaction is defined as an effective statement about emotional reactions to the experience of products and services, which is influenced by customer satisfaction with these products and by the information used to select products (Caruana, Money, & Berthon, 2001). Customer satisfaction is the lifeblood of every company, so customer satisfaction is an important element in improving marketing performance in a company or organization. By creating an optimal level of customer satisfaction, it encourages the creation of loyalty in the minds of satisfied consumers.

From the results of this study, it is clear that the variables price and sales promotion significantly affect customer satisfaction, as well as service quality, which is the mediating variable in this study. Service quality indirectly or partially can mediate the effect of price on customer satisfaction.

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