

Service Variability and its Consequence for Pricing

Shaun McQuitty
Pookie Sautter
Michael R. Hyman
Eric Pratt
Richard Oliver

New Mexico State University

All correspondence should be addressed to Shaun McQuitty, Department of Marketing MSC 5280, College of Business Administration and Economics, New Mexico State University, P.O. Box 30001, Las Cruces, New Mexico, 88003-8001. Phone (505) 646-1463. Fax (505) 646-1498. email: mcquitty@nmsu.edu

Abstract

Variability has been explored in many settings. For products such as restaurant food or medical care, customization is a positive facet of variability. However, variability is typically viewed as a negative characteristic in business research because it may represent risk and uncertainty. Finance is an example, for the relative variability of a firm's performance is captured directly in the Beta measure of systematic risk, and stocks with greater variability require increased expected returns to justify a given price. This implies that share prices are directly related to a firm's performance variability.

Service variability or heterogeneity is presumed to be one of the factors that differentiate services from goods. There are many reasons why greater product variability exists with services than for goods, such as inadequate control of certain elements in the servuction system. Service variability can be a problem because of the fact that, unlike manufactured goods, the customer is typically present as the service is produced, and mistakes therefore are difficult to conceal. An associated issue is that perceptions of service variability are generated by the customer, and may be perceived even when there is no objective variation in the produced service.

Measures of both service quality and customer satisfaction are typically multidimensional, and can address several aspects of the focal product. However, it is the mean value of the characteristic that is assessed, and not the variance; this also holds true for summary measures of service quality and consumer satisfaction. Yet, if variability is a defining characteristic of services, its effect on perceptions of service quality and customer satisfaction should be evaluated.

This research proposes to evaluate the effect of product variability on perceptions of service quality and consumer satisfaction. It is also posited that—*ceteris paribus*—the price that service producers are able to charge reflects the variability exhibited by their product. Propositions related to these hypotheses are developed and subsequently tested. Results of a student sample indicate that their impressions of lecture variability are negatively related to their perceptions of teaching quality, course satisfaction, and course value.