

THE EFFECT OF RETAILER'S PRICE IMAGE ON PRICE FAIRNESS, CONSUMER SATISFACTION AND LOYALTY

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ABSTRACT

Existing studies, which explain that price-related factors are one of several sub-dimensions of store image, are limited to describing how price image strategies of retailers have an impact on the consumer behavior. To describe that kind of impact, in this study, using the framework of perception - emotion – behavior perspective based on expectancy value theory, we explain the effect of retailer's price image on price fairness, consumer satisfaction and loyalty, focusing on the relationship between the retailer's price image and price fairness consumer perceived. The results identified that consumers perceive a retailer with low price image more fair than the other retailers, and indicated that the more fair consumers perceive, the more they are satisfied and the higher the repurchase intention and word of mouth. Moreover, the result also showed that price image fit, consumer perception of between actual product list price and retailer's price image, strongly moderate the relationship between the price image and the price fairness.

KEYWORDS: Retailer's Price Image, Price Fairness, Fit of Price Image, Moderating Effect

Received: May 25, 2017; **Accepted:** Jun 22, 2017; **Published:** Jul 12, 2017; **Paper Id.:** IJRMRAUG20171

INTRODUCTION

Although it is possible to easily access and compare prices of individual products through development in mobile internet, due to limitation of the accessible information and overwhelmed comparisons, consumers tends to make a purchase decision depending on the overall impression of the retailer's price rather than on prices of individual products (Hamilton and Chernev 2013). Since existing studies explain that price-related factors are one of several sub-dimensions of store image, there is limitation of describing how price image strategies of retailers have an impact on the consumer behavior. In addition, the conventional wisdom related to price research suggests that since consumers cannot recall most of the prices correctly (Vanhuele and Drèze 2002), they choose and visit any retailer store based on the knowledge of prices, the recall for price information including reference prices (Estelami and De Maeyer 2004). To overcome this kind of limitation for the information processing, some researchers have distinguished between objective product price and perceived price encoded and interpreted by the consumer. Since such a price have an impact on the formation of price related image (Zeithaml 1988; Zielke 2006), the formed price-related image may have an effect on both the consumer belief and behavior. However, these studies have focused on product price rather than on retailer's price image.

To explain how price image strategies of retailers have an impact on the consumer behavior, in this study, using the framework of perception - emotion – behavior perspective based on expectancy value theory, we explain the effect of retailer's price image on price fairness, consumer satisfaction and loyalty, focusing on the relationship between the retailer's price image and price fairness consumer perceived.

CONCEPTUAL UNDERPINNINGS AND HYPOTHESES DEVELOPMENT

The Impact of Retailer's Price Image on Price Fairness

Because price images do not change well, when formed affect the fairness of consumers, the perceived fairness affects to keep holding consumers (Chebat and Slusarczyk, 2005), and price fairness can be an important consequence of price image. The price fairness reflects the degree to which consumers assess that, the retailer's prices are reasonable, acceptable, or justifiable relative to the prices its competitors charge (Campbell 1999), and the price image could be one of important factors for price fairness. From prior research (Bolton, Warlop, and Alba 2003), we can imply that in a store with a low price image consumers would be less likely to be perceived unfair than in a store with a high price image which led them to expect a higher price in advance. Moreover, some studies like Hamilton and Chernev (2013) and Zieike (2006) indicated that, because retailers with a higher price image are more likely to charge higher prices relative to the competition, consumers are likely to perceive their prices as unfair because they are not on par with those of the competition. Thus,

H1: Retailer's price image (PI) will have a negative impact on perceived price fairness of consumer (PF).

In the retailing, research related to fit is mainly focused on the fit of relationships between the self-congruity and retailer image, or core brands and brand extensions. For example, categorization process, which can transit from the assessment of core brand to the extended brands, will occur when the perceived similarity between the core brand and brand extension is higher (Boush and Loken 1991; Keller and Aaker 1992). Similarly, the categorization process, as means of evaluating the retailer's price image, will occur when the perceived fit between the price image presented by a retailer and the price image consumer perceived is higher. That is, the higher perceived fit is, the more associations linked with retailer's price image become to be related to associations linked with fairness. Therefore, we propose that retailer's price image affects consumers to perceive retailer's price fairness and the fit between a retailer's price image and actual list prices in the retailer moderate the influence of between retailer's price image and price fairness. Thus,

H_{mod}: The fit of price image have moderate effect on relationship between retailer's price image (PI) and price fairness (PF).

The Impact of Price Fairness on Consumer Satisfaction and Loyalty

Xia, Monroe and Cox (2004) has argued that the perception of price fairness affect the evaluation of the consumer satisfaction and the product evaluation. Other researchers (Campbell 1999; Herrmann, Xia, Monroe, and Huber 2007; Oliver and Swan 1989) has identified that unfair price perception has effect on consumer satisfaction, purchase intention, or complaining behavior. Thus,

H2: Consumer perceptions of price fairness for a retailer (PF) will have a positive impact on consumer satisfaction (S).

Prior research has identified that trust is a necessary antecedent of loyalty. That is, fairness is an antecedent of trust (Buttle and Burton 2002) and trust is an antecedent of loyalty (Morgan and Hunt 1994), therefore, fairness can be an antecedent of loyalty. The reason why fairness is important is because; the breaking of trust could lead to the dissolution of the relationship between consumers and a firm (Sirdeshmukh, Singh and Sabol 2002). Therefore, consumers might recognize and believe that the retailer has broken the implicit trust of the relationship alone when they are aware that the

retailer is engaging in unfair to them. Thus,

H3: Consumer perceptions of price fairness for a retailer (PF) will have a positive impact on retailer's loyalty.

H3-1: Consumer perceptions of price fairness for a retailer (PF) will have a positive impact on repurchase intentions (R).

H3-2: Consumer perceptions of price fairness for a retailer (PF) will have a positive impact on word of mouth (W).

The Impact of Consumer Satisfaction on and Loyalty

So many researchers (Campbell 1999; Herrmann et al. 2007; Oliver and Swan 1989; Seiders, Voss, Grewal and Godfrey 2005) related to consumer behavior have identified that, when a consumer feel the satisfaction of the purchase, such a satisfaction on post-purchase have influence on loyalty such as repurchase intention, word-of-mouth behavior and complaints, and switching behavior. One of representative consequences for consumer satisfaction can be repurchase intention. Many empirical studies tested the relationship between consumer satisfaction and repurchase behavior have shown that repurchase behavior such as visiting for repurchase and repurchase spending has no significant relationship with consumer satisfaction, but repurchase intention has a positive impact on consumer satisfaction (Mittal and Kamakura 2001). In addition, word of mouth having great attention as an alternative measure of loyalty so far can be divided into positive and negative effect. That is, higher consumer satisfaction can lead to a positive word-of-mouth, or high consumer dissatisfaction a negative complaining behavior (Anderson, Fornell, and Mazvancheryl 2004; Kumar et al. 2013). Thus,

H4: Consumer satisfaction (S) will have a positive impact on retailer's loyalty

H4-1: Consumer satisfaction (S) will have a positive impact on repurchase intentions (R).

H4-2: Consumer satisfaction (S) will have a positive impact on word of mouth (W).

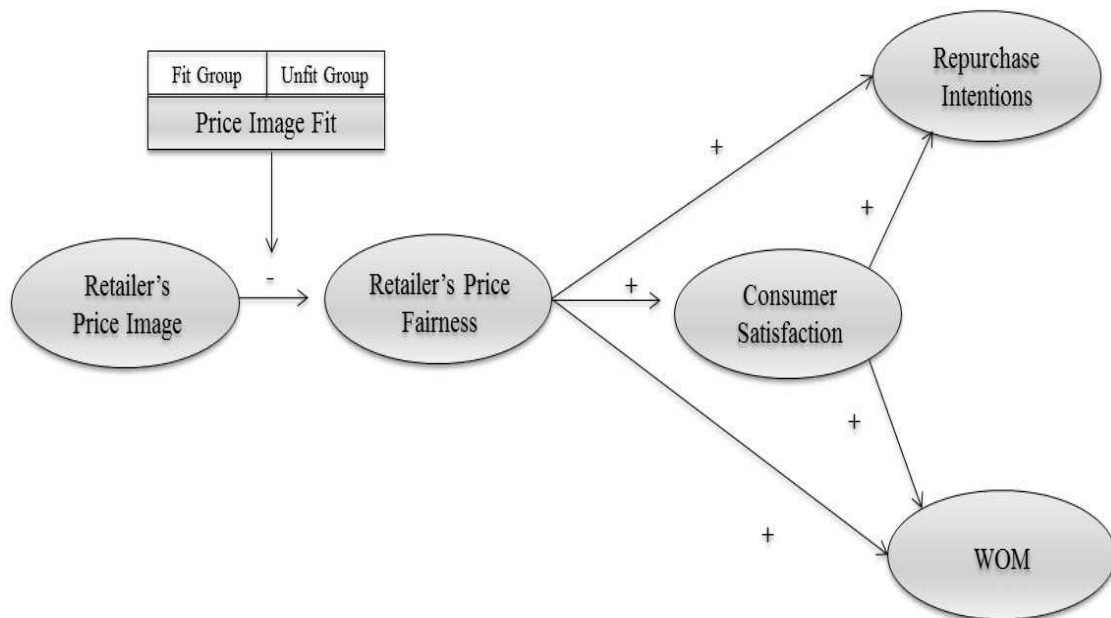


Figure 1: Research Model

EMPIRICAL ANALYSIS AND RESULTS

Data and Variables

To test the hypotheses proposed above, we collected by person to person survey and web survey after pretest. Our research subjects were consumers in Korea who had at least one time vegetable purchase experience in groceries. The respondents were asked to fill out the questionnaire on paper or website. The main survey had 681 responses (Response rate = 34.1%). A total of 14 were invalid, incomplete or gave the same rating for all items; these were eliminated, and thus 667 questionnaires were retained for analysis. Demographically, 51% of the respondents were men; 41.1% were aged between 20 and 29; and 28.8% were aged between 30 and 39; and 22.3% were aged between 40 and 49. Ninety-six percent of the respondents' education was at the institute/college level or above. 37.3% of the respondents were students, 37.3% of the respondents were housekeepers and 38.2% were employed. Approximately 72% of the respondents' monthly house income was over \$4,000. The recent place for buying vegetable were convenience store (22.3%), department store (18.1%), Korean traditional farmer's market (11.1%), mart (42.0%), online-store (3.0%), and others (3.4%). All items among the constructs were tested against demographic controls (age, gender, level of education and occupation) using Student's t-test or ANOVA. The mean scores of the items were all insignificant ($p > 0.05$), but, the mean scores of the items for price image fit-unfit group was significant ($p < 0.05$); indicating the validity of analyzing the data as two groups.

Table 1: Summary of Measurement Scale

Item	Measure	Std. Estimate	T-Value	CR	AVE
PI1	The prices are generally very low here	0.80	-	0.89	0.89
PI2	The price level is very high here	0.85	24.85		
PI3	You can buy cheap groceries here	0.87	25.32		
PI4	The prices are cheaper here than in other stores	0.80	22.89		
PF1	The prices are understandable here	0.83	-	0.88	0.88
PF2	The prices are acceptable here	0.86	26.71		
PF3	The prices are justifiable here	0.84	25.76		
PF4	The prices are reasonable here	0.82	24.65		
S1	I am completely satisfied with shopping here	0.73	-	0.78	0.78
S2	Shopping here is a delightful experience.	0.80	19.04		
S3	I am satisfied with my decision to visit this retailer	0.78	18.61		
S4	My choice to visit this retailer was a wise one.	0.70	16.81		
R1	I have intentions to buy here again.	0.79	-	0.80	0.80
R2	Do business with this store in the future?	0.73	18.74		
R3	Would you repurchase here, if you had to buy again?	0.75	19.20		
W1	I will say positive things about this store to other people	0.74	-	0.80	0.80
W2	I will recommend it to someone who seeks my advice	0.82	20.43		
W3	I will encourage friends and relatives to visit this store	0.80	20.09		
W4	How likely are you to recommend this store to others?	0.78	19.57		

Note: t -value is significant at $p < 0.05$ when the t -value exceeds 1.96.

Analysis of the Measurement Model

We first developed the measurement model by conducting confirmatory factor analysis. The structural equation model was then estimated for hypotheses testing. The final measurement model with purified items yielded a chi-square value of 667 with 142 degrees of freedom ($p = 0.00$) and the ratio of chi-square to degrees of freedom ($\chi^2/df = 3.33$). However, the other indices satisfied the recommended values (GFI = 0.929, AGFI = 0.904, CFI = 0.958, NFI = 0.941, and RMSEA = 0.05). With the final measurement model, each construct also was evaluated by examining the indicator loading, construct reliability, convergent validity, and discriminant validity. Table 1 is demonstrating adequate convergent validity. Lastly, discriminant validity was tested. AVEs of each paired construct are greater than paired construct correlation except the relationship between repurchase intentions and word of mouth.

Hypotheses Testing Results

Table 2 summarizes the empirical results of the structural equation model to test hypotheses. As you see, all hypotheses are supported.

Table 2: The Results of the Structural Equation Model

	Hypothesized Relationship	Parameter	Std. Estimate	T-Value	Conclusion
H1	Price image \rightarrow Price fairness	γ_{11}	- 0.66	- 15.90	Supported
H2	Price fairness \rightarrow Consumer Satisfaction	β_{21}	0.58	12.50	Supported
H3-1	Price fairness \rightarrow Repurchase Intentions	β_{22}	0.27	5.86	Supported
H3-2	Price fairness \rightarrow WOM	β_{23}	0.31	6.62	Supported
H4-1	Consumer Satisfaction \rightarrow Repurchase Intentions	β_{31}	0.60	10.91	Supported
H4-2	Consumer Satisfaction \rightarrow WOM	β_{32}	0.47	8.88	Supported
Model fit index: $\chi^2_{(146)}=760.56$, $\chi^2/df=5.21$, GFI=0.90, AGFI=0.86, CFI=0.92, NFI=0.91, RESEA=0.08					

Note: t -value is significant at $p < 0.05$ when the t -value exceeds 1.96.

We used a multi-group analysis to test the moderating effect of price image fit. Respondents were split into fit and unfit groups based on their perceptions of price image fit (performing a median-split). A structural model linking price image with price fairness was constrained to force equal loading between the fit and unfit price image groups. A chi-square difference test was then conducted between the groups to identify whether their paths were significantly different. As shown in <Table 3>, the chi-square difference was 15.51 ($p < 0.001$) for the price image – price fairness link, exceeding the critical value of 3.8 for one degree of freedom. H1 proposed a positive moderating effect of price image fit on the relationship between price image and price fairness.

Table 3: Chi-Square Difference Test between Fit and Unfit Price Image Group

H1	Fit Group		Unfit Group	
	Std. Estimate	T-Value	Std. Estimate	T-Value
Price image \rightarrow Price fairness	- 0.83	- 14.40	- 0.46	- 7.97
$\chi^2_{(292)}=923.82$, $\chi^2/df=3.16$, GFI=0.87, AGFI=0.84, CFI=0.92, NFI=0.89, RESEA=0.05				
Model Fit Index		Constrained Model	Unconstrained Model	$\Delta\chi^2$
χ^2 (d.f.)		939.33(293)	923.82(292)	15.51
GFI		0.87	0.87	

Table 3: Contd.,			
AGFI	0.83	0.84	
CFI	0.92	0.92	
RMSEA	0.05	0.05	

Note: t -value is significant at $p < 0.05$ when the t -value exceeds 1.96.

DISCUSSIONS

Practical Implications

Practically, one of the strategic practices that a retailer's managers can take to develop and maintain the loyalty of their consumers is that among consumers the retailer will be perceived to be fair, and one of the ways to be perceived to be fair is taking a low price image strategy. In addition, research on the moderating effect between price image and price fairness found that lower price image only doesn't lead to higher price fairness. That is, the another way to be perceived more fair for retailers is taking the pricing strategy that fit between lower price image and the actual prices of products in the image. The results of this study also showed that not only important to maintain a low price image does retailers maintain, but presenting the actual list price consumers expect in retailers with low price image could have a stronger impact on price fairness, and further increase the customer satisfaction. Contrary, it is empirically shown that if retailers with higher price image will take strategic pricing choice inconsistent with their higher image, price unfairness can be reduced by a large margin, and then result in lower consumer dissatisfaction.

Theoretical Implications

Theoretically, we showed that price image which a retailer is communicating to consumers have an impact on consumer behavior through price fairness and customer satisfaction. That is, using the framework of perception - emotion - behavior perspective based on expectancy value theory, we empirically identified the effect of retailer's price image on price fairness, consumer satisfaction and loyalty, focusing on the relationship between the retailer's price image and price fairness consumer perceived. This kind of explanation could be theoretical basis for strategic pricing selection of retailers, which existing studies related to store image couldn't explain. The result is the same as the finding of Mittal and Kamakura (2001) indicating that consumer satisfaction have a positive effect on repurchase intention, and the arguments of Anderson, Fornell and Mazvancheryl (2004) and Kumar et al. (2013) studies demonstrating that while high customer satisfaction can leads to positive word-of-mouth, high consumer dissatisfaction can produce a negative complaining behavior. Moreover, the result of this study also is in line with the conceptual research like Hamilton and Chernev (2013) and Xia et al. (2004)

CONCLUSIONS

The retailer's price image on price fairness is related to consumer behavior leading to satisfaction and loyalty. The representative consequence of consumer satisfaction can be repurchasing intention, which has positive impact on consumer satisfaction. The consumers perceive a retailer with low price image as fairer than other retailers. Nevertheless, more fair the consumers perceive, the more they are satisfied and higher will be the repurchase intention and publicity through word of mouth. Hence, there is need for at least moderate relationship between the dealer's price image and the price fairness.

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