UNDERSTANDING PERCEIVED PRICE FAIRNESS: AN ANTECEDENT TO CUSTOMER SATISFACTION AND CUSTOMER LOYALTY

Abstract: Customer satisfaction is a complex and multifaceted concept that is influenced by a wide range of factors. In order to better understand and predict customer satisfaction, researchers have studied the impact of various factors on this phenomenon. With the development of internet, people became rapidly familiar with the e-commerce concepts and tend to shop online rather than personally visiting the stores. There have been significant number of researches to identify and use these factors to maximize customer satisfaction. Understanding these factors can help researchers and practitioners better predict and influence customer satisfaction in different market contexts. One such factor is perceived price fairness. The main aim of this paper is to determine the effect of perceived price fairness on customer satisfaction which apparently has an effect on customer loyalty. Data has been collected from multiple sources of evidence, including various websites, articles & journals to provide evidence on significant impact of price perception on customer satisfaction and customer loyalty.

Index Terms - Perceived Price Fairness; Customer Behavior; Customer Satisfaction; Customer Loyalty.

I. INTRODUCTION:

Marketing, defined as a market-oriented management concept, places actual and potential customers' problems and desires at the centre of all operational considerations. This principle states that the satisfaction of customer wants is what lay the groundwork for a company's long-term success. The challenge for any company is thus to achieve the highest level of customer satisfaction possible. The significance of the satisfaction rating is that, customer satisfaction measures are an indicator of future profit. (Hauser et al., 1994). Customers who are satisfied with a purchased product will buy the same product again, and more often (Reichheld, 1996), and will also recommend it to others (Oliver and Swan, 1989). The great challenge to the web merchants, therefore, goes beyond attracting customers to their websites. Web stores need to create a compelling web site that will entice potential customers to actually purchase products from them.

Satisfaction means to feel content after what the person desired or wanted. It is difficult to know whether the customers are satisfied with the availability of the product or services. So, giving satisfaction to the customers is not an easy task, for this different factor is needed to be taken into consideration. Nowadays, competition can be noticed between the business organizations and marketplaces everywhere, and has been one of the challenging
tasks for the competitors. With the advent of online shopping platforms this competition is becoming more intense. Though it seems to be tough in the growing market, competitors are developing their marketing strategies to survive in the market, by developing marketing plans which can satisfy and retain their customers.

Customer satisfaction is influenced by specific product or service features and perceptions of quality. Satisfaction is influenced by a no. of product related factors such as customer’s emotional responses, their attributions and their perception of equity (Zeithal & Bitner. 2003). One such factor is price fairness that a customer perceives while purchasing a product or service. To satisfy their needs, customers buy products. But this transaction is assessed by them in monetary terms. Therefore, businesses should base their pricing on the product's quality, in such a way that the product draws customers and keeps them on board for the long-term affiliation. The company needs to guarantee that the service is complete and worth what it costs. This will increase the number of clients and maintain long-term client relationships with the business. Additionally, the existing customers will aid in attracting in new ones by sharing the details of the companies' goods and services.

![Diagram](image)

**Figure 1**

In this study, we have tried to evaluate and review the literature regarding the importance of perceived price fairness in customer satisfaction which apparently has a strong impact on customer loyalty (Figure 1). These results provide useful insights to online marketers on the effect of their pricing strategies on customer satisfaction and the need to be alert to customers’ responses regarding their product and service price.

## II. PRICE

An important activity for marketers is to determine price of the product. To set prices, the marketer tries to predict that how customers will respond to the price of the product given its specifications. “Price is the amount of money charged for a product or service or the sum of the values that the consumers exchange for the benefits of having or using the product or service.” Service or product prices communicate the firms intended value positioning of their products to the market, it is considered as one of the elements in the marketing mix and as an important tool for marketing (Kotler, 2013). It is considered as a strategic tool for marketers, because it helps in attracting customers towards their product and services. It is one of the elements of the marketing mix which generates revenue, whereas other element of the mix generates cost. Furthermore, the marketing mix elements are adjustable programs which the firm adjusts for competitiveness. Amongst the elements in the mix, price is the easiest element in the marketing program to adjust; other elements (product feature, distribution channels and promotional efforts) are time consuming (Kotler, 2013).

Generally, in all the options available for the firm to increase its competitiveness, price as an adjustment parameter for profit is the easiest and fastest way to increase competitiveness. Ironically, a price increase may also result to a decrease in competitiveness because customers react differently to price changes. Considering this fact therefore, firms have to determine the best pricing strategy which will be suitable for its operation. Of the four “Ps” of marketing (i.e., product, place, promotion, price), pricing holds a unique attribution to a seller’s profitability. Therefore, the strategic importance of pricing cannot be overrated. Not only have companies been striving to seek effective pricing strategies, but also researchers have been investigating buyers’ reactions to sellers’ pricing strategies including their perceptions of price fairness (e.g., Herrmann et al, 2007; Kalapurakal, Dickson, & Urbany, 1991; Xia et al, 2004). Pricing acts as a lever that has the highest and quickest impact on maximizing profit. Multiple studies have shown just how powerful price strategy can be for a business. In fact, the landmark study was published in a 1992 Harvard Business Review by Michael Marn and Robert Rosiello, both senior pricing folks at McKinsey and Company. The dynamic pricing duo studied the unit economics of 2,463 companies and found that a 1% price improvement results in an 11.1% increase in operating profit, which compares to 1% improvements in variable cost, volume, and fixed cost only resulting in profit increases of 7.8%, 3.3%, and 2.3% (respectively). Over the past decade, companies have tried to entice buyers with a growing number of discounts, including discounts for on-line orders as well as the increasingly popular performance penalties that require companies to provide a discount if they fail to meet specific performance commitments such as on-time delivery and order fill rates. (Michael V. Marn et. al., 2003). Research conducted by Chan K. et.
In 2014 found that systematic improvement of business’ pricing capabilities can have a lasting positive impact on profitability. Companies can fight back in various ways, cost-cutting included. But it is proven from past researches, that systematic improvement of a business’s pricing capabilities can have a lasting positive impact on profitability. Measurements of customer price acceptance represent a direct attempt to establish the potential buyers' willingness to purchase as a function of various prices (Monroe, 1990). The level of acceptance can thus be defined as the maximum price which a buyer is prepared to pay for the product (Monroe, 1990). Several different methods are suitable for determining the price that the customer subjectively presumes to be appropriate observations of the market, experimentation with prices and surveys (either direct or indirect) of experts’ or customers’ opinions (Monroe, 1990).

Perceived Price Fairness

Price Fairness can be defined as a customer’s subjective assessment of whether the difference between a seller’s price and the price of a comparative other party is reasonable, acceptable, or justifiable (Bolton et al., 2003; Xia et al., 2004). Frederick Offiong Bassey (2014) defined perceived price fairness as customer’s perception of a sales transaction being just, acceptable and reasonable. In common parlance, fairness might refer to the extent to which outcomes are deemed reasonable and just, and transaction fairness might refer to the extent to which sacrifice and benefit are commensurate for each party involved. (Bolton et al., 2003). Perceived price represents customers’ perception of the monetary and the non-monetary price associated with the acquisition and use of product or service. To customers, perceived price is more meaningful than the monetary price of the product or service. Research has established the importance of the psychological underpinnings of price perception and demonstrated that a variety of psychological factors influence customers' responses to price (Kamen and Toman 1970; Monroe 1973). Anderson et. al. (1994) emphasized price as an important factor of customer satisfaction, because whenever customer evaluate the value of an acquired service, they usually think of price of the service. To manage price decisions, the marketers should be able to understand both economic and psychological effect of various prices.

Researchers have proposed several factors that may influence customers’ price fairness perceptions. For instance, in Xia et al.’s (2004) conceptual framework, factors such as transaction similarity, choice of comparison party, buyer-seller relationship, and social norms are believed to influence perceived price unfairness. On the other hand, Bolton et al. (2004) found that customers’ perceptions of price unfairness could be influenced by their knowledge of prices, profits, and cost in the marketplace. Value pricing requires identifying all the key buying factors that determine how much a product is worth to a given customer, understanding how those factors compare with competitors’ offers, and being able to quantify the value created for the customer (Chan K. et. al.). According to the result of the study conducted by them, perceived price fairness has a significant positive effect on customer satisfaction.

From customer’s cognitive conception, price is something that must be given up or sacrificed to obtain certain kinds of products and services (Zeithaml, 1998). Thus, price is a kind of sacrifice customers have to do. For all the sophistication provided by advanced analytics to master a complex array of prices, the price of a product or service ultimately depends on how much a customer thinks it’s worth, i.e., value. The best companies augment their pricing analytics with detailed customer insights.

Perceived price and its effects on customer purchase behavior

Research suggests that customers are often concerned with price fairness and are unwilling to pay the price which is perceived unfair by them, and they refuse to patronize companies that they perceive as unfair. On the other hand, if increased prices cannot be justified by the marketers either by higher associated costs or by certain desirable changes, customer will most probably switch to other brands. Accordingly, pricing in its central role in customer behavior and cost effectiveness is regarded and ranked as an important criterion by the customer when making product choices and selections (Martin-Consuegra et al., 2007). Several studies that have concentrated on studying the link between prices, customer satisfaction loyalty, such as Kimes, S.E. and Wirtz, J. (2002); Xia et al (2004); Bolton et al. (2003) have proven that, price as an adjustment parameter, if handled well can produce positive result and serve as a competitive advantage. It is believed that the perception of customers influences their judgment thereby increasing satisfaction and loyalty outcomes.
Typically, when customers discover a disadvantaged inequality, negative price fairness perceptions trigger negative emotions such as disappointment and anger which may lead to consequent negative behavioral intentions (e.g., intentions to spread negative word-of-mouth, complain, switch to competitors, seek legal action) (Xia et al., 2004). They found that the buyer-seller relationship also influences customer’s price fairness perception. They noted that “buyers begin to consider themselves as loyal customers” after buyers gain more information about the seller’s trustworthiness through repeated transactions, and loyal customers typically believe they are entitled to certain benefits (e.g., lower prices) in the relationship. Although previous research has shown that perceived fairness and satisfaction are highly correlated concepts and are often used interchangeably (Ordonez et al., 2000), perceived fairness is different from satisfaction. Previous research shows that perceptions of price unfairness may trigger customers’ negative emotions such as dissatisfaction, disappointment, and anger (Campbell, 1999; Xia, et al. 2004).

III. CUSTOMER SATISFACTION

According to the marketing concept, it is specifically required that organizations and firms effectively identify, offer and satisfy the needs of their actual and potential customers at a greater level than their competitors (Day, 1994; McCarthy, 1960). Customer satisfaction is defined as the extent to which the customer believes the shopping experience evokes positive feelings (Cronin et al, 2000). Furthermore, satisfaction of the customer is directly connected to several aspects of relationship marketing like customer loyalty, confidence and price (Martin-Consuegra, Molina, and Esteban, 2007). Satisfaction (or the lack of satisfaction) is one such event that appears almost inevitably as a consequence of purchasing and consumption. While some purchase outcomes may be given little thought, those that are processed for the satisfaction they provide powerful insight into the workings of the marketplace (Oliver 2014). Customer satisfaction is important because it shows that an organisation is successfully doing what customers want them to do. Research shows that customer satisfaction leads to greater customer retention, higher lifetime value and a stronger brand equity.

Importance of customer satisfaction

- **Increases customer lifetime value** – Kotler and Armstrong (1996) define a profitable customer as “a person, household, or company whose revenues overtime exceed, by an acceptable amount, the company costs of attracting, selling and servicing that customer.” This excess is called Customer Lifetime Value (CLV). In other words, Customer lifetime value (CTV) refers to the expected profit you can make from a single customer for as long as they stay with your business. Satisfied customers are not only more likely to remain loyal and less likely to churn, they are also more likely to spend more money with your business. On the other hand, if a customer is unhappy with your products and services, they’ll likely never return to your business after that initial purchase. That customer’s lifetime value is low, so you’d miss potential revenue opportunities.

- **Leads to positive word of mouth** - Loyal customers don’t only contribute to high CLV (Customer Lifetime Value). They are also your company’s biggest promoters that draw new customers in with recommendations. An unhappy customer has a decent amount of power over your brand’s reputation. People are actively searching for unfiltered reviews and discussions before making their purchasing decisions. Once brand reputation gets a hit, it almost creates a domino effect on sales. On the other hand, if customer satisfaction is high, then not only they will be loyal, they’ll also refer new leads to the brand and generate more testimonials for the marketing team.

- **It helps in understanding core competencies of the business** - By tracking and measuring customer satisfaction, marketers can understand what their business does well, and thus continue doing it. But they can’t find out unless customer satisfaction surveys are carried out by them. Growing companies prioritize customer success, and an essential way to identify satisfied customers is through customer feedback. Results, will let them know who these customers are and what they’re doing that’s leaving them satisfied with their experiences with the brand. When marketers have this information, they can continue doing the things customers like in the hopes of inspiring customer retention.

- **Reduced customer service cost** – as satisfied customers stay with the company for a long time they become more experienced, likewise they make fewer demands with the supplier such as they need less information about the brand and assistance thus contributing to the greater profit for the marketers by reducing the costs of familiarizing the customers with the brand.

- **More chances of success while launching new products** – when a company has a satisfied customer base, the chances of success of new product launch increases, as the existing customers are more likely to trust the processes by the brand and more likely to remain loyal to them. A satisfied customer base results in having
customers comfortable in paying more for their product instead of the competitors, which apparently results in success of new products.

IV. CUSTOMER LOYALTY

Oliver, (1999) defines loyalty as "a deeply held commitment to rebuild and re-patronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behaviors. Research shows that it’s five to twenty-five times more valuable to retain your existing customers than acquiring new ones. According to Bain & Co, the creators of NPS, “5% increase in customer retention produces more than a 25% increase in profit. Marketers should always try to keep their customers satisfied to prevent them from churning. Their needs should be met and problems should be solved. This doesn’t only concern with products or services offered but there is also a need to have positive interactions with them.

Customers are not automatically loyal to any one firm. We rather need to give our customers a reason to consolidate their buying with us and then stay with us. We need to create value for them to become and remain loyal. Customer retention involves developing long-term, cost-effective links with customers for the mutual benefit of both parties, but these efforts need not necessarily target all the customers of a firm with the same level of intensity. Research has confirmed that customer profitability and return on sales can be increased by focusing a firm’s resources on top-tier customers (Wirtz J. 2018). If marketers are not able to meet the needs of their customers, then unhappy customers won’t hesitate to switch to other brands in the market. It is evident with past researches that avoiding frictions is more important than going out of the way to delight them. High-quality products and associated services designed to meet customer needs will create high levels of customer satisfaction. This high level of satisfaction will lead to greatly increased customer loyalty. And increased customer loyalty is the single most important driver of long-term financial performance. (Jones T.O. and Sasser W.E. 1995).

![Figure 2: Satisfaction-Loyalty Relationship.](source)


Figure 2 shows that the satisfaction-loyalty relationship can be divided into three main zones: defection, indifference, and affection. The zone of defection occurs at low satisfaction levels. Customers will switch unless switching costs are high or there are no viable or convenient alternatives. Extremely dissatisfied customers can turn into ‘terrorists’ providing an abundance of negative word-of-mouth for the service provider. The zone of indifference is found at moderate satisfaction levels. Here, customers are willing to switch if they find a better alternative. Finally, the zone of affection is located at very high satisfaction levels, where customers have such high attitudinal loyalty that they do not look for alternative service providers. Customers who praise the firm in public and refer others to the firm are described as ‘apostles.’
V. CONCLUSION

The review conducted by us provides evidence that the price is an important element in customers’ purchases, therefore, it has a large influence on customers’ satisfaction judgments. Therefore, after reviewing number of research papers, books and articles we can conclude that perceived price, in fact has a great influence on customer satisfaction which ultimately affects customer loyalty in long term. We can also conclude that consumers establish higher loyalty towards a brand, when they are more satisfied. Recent research in marketing and psychology has shown that satisfaction is positively correlated with fairness perceptions (Bowman and Narayandas, 2001; Huffman and Cain, 2001; Kim and Mauborgne, 1996; Smith et al., 1999). There were many researches supporting this view, they propose that, in contrast to performance, perceived price fairness might be the dominant determinant of satisfaction. Their empirical results suggest that when there was a perceived price performance inconsistency (i.e., an inequitable or unfair outcome), it had a stronger effect (negative) on satisfaction judgments. Similar results were also found by Oliver and DeSarbo (1988) and Oliver and Swan (1989). Researchers have argued that buyers’ perceptions of price are based on the relativity of price and the perceived performance or quality of product as well as their comparisons with their expectations (Monroe, 2003; Voss et al., 1998). When buyers perceive the quality or performance is consistent with the price, their perceptions of the price will be favourable, enhancing a fair price perception. Similarly, when a price offer meets one's expectation, the evaluation is likely to be positive. A completely satisfied customer typically believes that the company excels in understanding and addressing his or her personal preferences, values, needs, or problems.

REFERENCES


