Pacific Business Review International
Volume 5 Issue 6 (December 2012)

A Link for Perceived Price, Price Fairness and Customer Satisfaction

Vinita Kaura*

This article examines whether perceived price increases price fairness and price fairness further promotes customer satisfaction in Indian commercial banks. It also finds the relationship between perceived price and customer satisfaction. Data were collected from 341 customers of scheduled commercial banks in Rajasthan (India). Results suggest that perceived price increases price fairness and price fairness increases customer satisfaction. Perceived price does not have any impact on customer satisfaction.

Key Words: Perceived price, price fairness, customer satisfaction, banks

Introduction

The banking industry is facing a market that is rapidly changing; fierce competition, more demanding customers and the changing environment have presented an unparalleled set of challenges. The challenge for banks is to lower costs, increase efficiency, while improving the quality of their service, and increase customer satisfaction (Mishra, 2010). Marketing literature is replete with the studies that have considered service quality as antecedent of customer satisfaction in Indian banking sector. According to Dutta and Dutta (2009), for banking services evaluation, there is not much differentiation in the service product and price (due to regulations by RBI). It implies that service product and price are not important in Indian banking industry. But, Associated Chambers of Commerce and Industry of India (2009) survey on growth and emergence of public and and private sector banks in India reveals that private sector banks are not preferred for traditional items, such as loans, as their offers are difficult to understand and perceived rate of interest is high, whereas public sector banks are perceived more reliable with lower rates of interest. After deregulation in Indian banking sector, price is playing lead role in customer satisfaction. Hardly any research is conducted on Indian banking sector which has studied the impact of perceived price and price fairness on customer satisfaction and impact of perceived price on price fairness. This article aims to fill this void.

The remainder of this article is organized as follows. In the next section, I present literature review and research hypotheses. After that methodology of research is presented. I test these hypotheses using data collected in the context of banking. Finally, on the basis of the results of my study, I present conclusion.

Literature Review and Research Hypotheses

Customer Satisfaction

According to Churchill and Surprenant (1982), "Customer satisfaction is an output, resulting from the customer's pre-purchase comparison of expected performance with perceived actual performance and incurred cost. Oliver (1980) defines that "Customer satisfaction is a summary psychological state when the emotions surrounding disconfirmed expectations are coupled with the consumer's prior feelings about consumption experience".

Perceived Price

Zeithaml (1988) has defined price as "what is given up or sacrificed to obtain a product" (p. 10). Price is an important antecedent of customers' satisfaction as Consumers depend on price because it is extrinsic signal of quality. Price is distinguished as objective price and perceived price (Jacoby & Olson, 1977).

Jacoby & Olson (1977) defined objective price as the actual price of a product/ service. Perceived price was defined according to Zeithaml (1988) as the price that is encoded by the consumer. Chang and Wildt (1994) defined perceived price as the consumers' perceptual representation or subjective perception of the objective price of the product / service. Price perceptions are formed in relation to internal reference prices; the theoretical justification for which can be found in prospect theory (Varkie and Colgate 2001).

Price Fairness

Fairness is defined as a judgment of whether an outcome and/or the process to reach an outcome are reasonable, acceptable, or just (Bolton et al., 2003). Conceptually, perceived price fairness is defined as consumers' assessments of whether a seller's price can be reasonably justified (Xia et al., 2004). Consumers tend to rely on several reference points such as past prices, competitor prices and cost of goods sold when inferring price fairness to make comparisons (Bolton et al., 2003). Apart from this, if hidden charges are encountered by

*Research Scholar, Faculty of Management Studies, Mody Institute of Technology & Science (A Deemed University), Lakshmangarh –332311, Disst. – Sikar, Rajasthan, India.

customers during service purchase then it is also considered as unfair prices.

Price Perception and Customer Satisfaction

Using empirical data from the banking industry in New Zealand and the United States, Varki and Colgate (2001) tested absolute and comparative price perception on customer satisfaction. In the U.S. data, absolute price perceptions didn't show significant influence on overall customer satisfaction whereas in the New Zealand data, comparative price perceptions have a strong, significant influence on overall customer satisfaction. Singh & Sirdeshmukh (2000) have also revealed that price significantly influences customer satisfaction in service industries. Han and Ryu (2009) found that perceived price has significant influence on customer satisfaction in restaurant industry. Herrmann et al. (2007) have found that price perception has a positive impact on customer satisfaction.

This study, therefore, proposes that the perceived price has a positive impact on customer satisfaction.

H1-1: Perceived price has a positive impact on customer satisfaction.

Price Perception and Price Fairness

According to Monroe (2003) if buyers perceive that the benefits offered by the product relative to the perceived sacrifice (i.e. price to be paid) is favorable, and then they will be more likely to perceive that the price is fair. Herrmann et al. (2007) have found that price perception has a positive impact on price fairness.

This study, therefore, proposes that the perceived price has a positive impact on price fairness.

H1-2: Perceived price has a positive impact on customer satisfaction.

Price Fairness and Customer Satisfaction

Fairness and satisfaction are linked through service price. Previous research on satisfaction indicates that equity (e.g. perception of price fairness) has a major influence on satisfaction judgments. Since Szymanski and Henard (2001) have shown that equity has a dominant effect on satisfaction judgments. Herrmann et al. (2007) and Yieh et al. (2007) have found that price fairness has a positive impact on customer satisfaction.

This study, therefore, proposes that price fairness has a positive impact on customer satisfaction.

H1-3: Price fairness has a positive impact on customer satisfaction.

Research Methodology

Sample chosen for the present study is the urban customers of retail banking in Rajasthan. This study is conducted in the capital of Rajasthan. Survey instruments were administered personally on 341 customers. Customer satisfaction was measured using a three item scale developed by Cronin et al. (2000). Items were: My choice to avail this bank service is a wise one; I did the right thing when I chose this bank for its services; and Services of this bank are exactly same what I need. Perceived price was measured using three item scale from the study by Herrmann et al. (2007). Items were: The price of this bank product is appropriate; the price of this bank product meets my expectations; the price of this bank product provides good value for money. Price fairness was measured by three items developed by author. Items were: this bank provides transparency in service charges; this bank does not have hidden charges; this bank informs regarding any changes in prices.

Results

Confirmatory Factor Analysis

AMOS 16.0 was used to perform the confirmatory factor analysis. Confirmatory factor analysis revealed that the measurement items loaded well on respective factors. Table1 indicates fit measure of scale.

Table1 : Fit measure of scale

χ^2	*df*	CMIN/df	GFI	CFI	NFI	RMSEA
53.329	24	2.2	.966	.989	.980	.060

Construct Validity and Reliability

According to Hair et al. (2006) 'construct validity is the extent to which a set of measured variables actually reflects the latent construct they are designed to measure'. Construct validity is established in this study by establishing the convergent validity and discriminant validity. Along with validity of items, reliability of each construct was calculated (Cronbach alpha > .60). All the indicators had significant loadings onto the respective latent constructs ($p<0.001$). In addition, the average variance extracted (AVE) for each construct is greater than or equal to 0.50, which further supports the convergent validity of the constructs (Table 2).

Table 2: Convergent Validity

Constructs	Measurement items	Standardized estimates	p-value	Reliability	AVE
Perceived Price	PP1	0.96	*	.92	0.841857
	PP2	0.864	*		
	PP3	0.926	*		
Price Fairness	PF1	0.86	*	.89	0.703503
	PF2	0.875	*		
	PF3	0.778	*		
Customer Satisfaction	CS1	0.834	*	.91	0.783372
	CS2	0.919	*		
	CS3	0.9	*		

Note: *Implies that the factor loadings are significant at $p < 0.001$

From Table 3 it can be concluded that the square root of the AVE values of perceived price, price fairness and customer satisfaction are greater than the inter-construct correlations which supports the discriminant validity of the constructs. Thus, the measurement model reflects good construct validity.

Table 3: Discriminant Validity

	CS	PF	PP
CS	0.885		
PF	0.735	0.838	
PP	0.551	0.638	0.917

Note: Diagonal elements in the correlation matrix of constructs are the squa re root of the AVE values; for discriminant validity to be present the diagonal elements should be greater than the off diagonal elements

Empirical Testing of Hypothesized Paths

Hypotheses were tested based on the proposed model using structural equation modeling. The fit of the model indicated that the conceptual model is parsimonious and fits well (see Table 4), so it provides a good basis for testing the hypothesized paths. Obtained chi-square value was significant ($p < .001$). The relative chi-square (CMIN/df) was below the required value of 3 (Kline, 1998). Because of the sensitivity of chi-square to large sample size, the other fit measures of the model were considered. The measures (GFI, CFI, NFI) were close to 0.90 suggesting the good fit of the models. The lower the Root mean square error of approximation (RMSEA), the better is the model.

Table 4: Fit Measures of Model

χ^2	*df*	CMIN/df	GFI	CFI	NFI	RMSEA
53.329	24	2.2	.966	.989	.980	.060

Results in Table 5 indicated that perceived price has positive impact on price fairness and price fairness has positive impact on customer satisfaction. These results have confirmed hypotheses 1 and 2. Perceived price did not show impact on customer satisfaction and thus did not support hypothesis 3.

Table 5: Results of Hypotheses Testing

Hypothesized paths	Standardized path coefficients	p-value	Results
PP→PF	0.63	.001* *	Accepted
PF→CS	0.64	.001* *	Accepted
PP→CS	0.14	.051 NS	Rejected

Notes: * *Implies significant at p<0.01; NS implies "not significant"

Conclusion

Findings revealed that improved perceived price increases price fairness. If prices are perceived reasonable by customers then it is likely to be fair and transparent. Previous research findings also found that perceived price has significant impact on price fairness (Herrmann et al., 2007). This study results confirm these findings.

Price fairness shows positive impact on customer satisfaction (Herrmann, et al., 2007). This study confirmed these notions. In banking industry, price structure is complex and difficult to understand, therefore, transparency plays an important role in customer satisfaction.

Perceived price shows positive impact on customer satisfaction (Singh and Sirdeshmukh, 2000; Voss et al., 1998). This study results are not consistent with previous study. There are not many changes in prices among banks in spite of deregulation of bank prices. The difference exists in service charges and price fairness plays an important role in customer satisfaction than perceived price.

This study is conducted in the capital of Rajasthan. Therefore, results can not be generalized. This study considers only retail banking customers. Future studies should focus on price fairness for saving products and credit products separately.

References

Associated Chambers of Commerce and Industry of India. (January 13, 2009). Press Release: Slowdown Inspires Salaried Personnel to Opt PSU's for Deposits. Retrieved from Website: http://assocham.org/prels/shownews-archive.php?id=1861

Bolton, L. E., Warlop, L. and Alba, J. W. (2003). Consumer perceptions of price (un)fairness. *Journal of Consumer Research,* 29(4), 474-491.

Chang, T. Z. and Wildt, A. R. (1994). Price, Product Information and Purchase Intention: An Empirical Study. *Journal of the Academy of Marketing Science,* 22(1), 16-27.

Churchill Jr., G. A. (1979). A paradigm for developing better measures of marketing constructs. *Journal of Marketing Research,* 16(1) 64-73.

Cronin, J. J., Brady, M. K., and Hult, G. T. M. (2000). Assessing the effects of quality, value, and customer satisfaction on consumer behavioral intentions in service environments. *Journal of Retailing,* 76(2), 193-218.

Dutta, K. and Dutta, A. (2009). Customer Expectations and Perceptions across the Indian Banking Industry and the Resultant Financial Implications. *Journal of Services Research,* 9(1) 31-49.

Hair, J.F. Jr, Black, C.W., Babin, J.B., Anderson, R.E. and Tatham, L.R. (2006). *Multivariate Data Analysis*. Upper Saddle River, NJ: Pearson.

Han, H. and Ryu, K. (2009). The Roles of the Physical Environment, Price Perception, and Customer Satisfaction in Determining Customer Loyalty in the Restaurant Industry. *Journal of Hospitality and Tourism Research,* 33(4), 487-510.

Herrmann, A., Xia, L., Monroe, K. B., and Huber, F. (2007). The influence of price fairness on customer satisfaction: An empirical test in the context of automobile purchases. *Journal of Product and Brand Management,* 16(1), 49-58.

Jacoby, J., and Olson, J. C. (1977). *Consumer response to price: An attitudinal, information processing perspective.* In Y. Wind and P. Greenberg (Eds.), Moving ahead with attitude research (pp. 73-86). Chicago: American Marketing Association.

Kline, R.B. (1998). *Principles and practice of structural equation modeling.* New York: Guilford Press.

Mishra, A. A. (2010). Factors Affecting Customer Satisfaction and Their Relative Importance in the Retail Banking Sector: An Empirical Study. *The IUP Journal of Management Research,* 9(3), 6-23.

Monroe, K.B. (2003). Pricing: Making Profitable Decisions. IL: McGraw-Hill.

Oliver, R. L. (1980). A Cognitive Model of the Antecedents and Consequences of Satisfaction Decisions. *Journal of Marketing Research,* 17(4), 460-469.

Singh, J. and Sirdeshmukh, D. (2000). Agency and trust mechanisms in consumer satisfaction and loyalty judgments, *Journal of the Academy of Marketing Science,* 28(1), 150-167.

Szymanski, D.M. and Henard, D.H. (2001). Customer satisfaction: a meta-analysis of the empirical evidence. *Journal of the Academy of Marketing Science,* 29 (Winter), 16-35.

Varki, S., and Colgate, M. (2001). The Role of Price Perceptions in an Integrated Model of Behavioral Intentions. *Journal of Service Research,* 3(3), 232-240.

Voss, G. B., Parasuraman, A. and Grewal, D. (1998). The Roles of Price, Performance, and Expectations in Determining Satisfaction in Service Exchanges. *Journal of Marketing,* 62 (4), 46-61.

Xia, L., Monroe, K. B., and Cox, J. L. (2004). The Price Is Unfair! A Conceptual Framework of Price Fairness Perceptions. *Journal of Marketing,* 68(4), 1-15.

Yieh, K., Chiao, Y. and Chiu, Y. (2007). Understanding the Antecedents to Customer Loyalty by Applying Structural Equation Modeling. *Total Quality Management*, 18(3), 267-284.

Zeithaml, V. A. (1988). Consumer perceptions of price, quality, and value: A means-end model and synthesis of evidence. *Journal of Marketing,* 52(3), 2-22.