

THE INFLUENCE OF PRICE FAIRNESS ON INTENTION TO PURCHASE LOW COST CAR IN INDONESIA

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ABSTRACT

This research aims to explore consumer's intention to purchase low cost cars. When the consumers want to buy, they think and feel that the price is (un)fair. They will compare whether the price differences is reasonable, acceptable, and justifiable or not. Data was collected from 320 consumer of Toyota Agya in Jakarta Province, Indonesia. Data analysis used structural equation modeling (SEM). Result indicated that purchase intentions are influenced by consumer knowledge about cars and buyer-seller relationship after comparing the prices offered. Price fairness is positive affecting on purchase intention. This indicates that price differences acceptable so can increase purchase intention.

Keyword: Price fairness; consumer knowledge; buyer-seller relationship; comparing the price; purchase intention.

Introduction

In 2013, Indonesian automotive released a new segment that called hatchback entry. That segment already reached 164,930 units in August 2014 which hosted by five companies: Daihatsu (Ayla), Toyota (Agya), Honda (Brio Satya), Suzuki (Wagon R), and Nissan (Go Panca) while the price offered ranges from 77.8 million to 120.8 million. Prices in the hatchback entry segment are the least expensive among car prices in Indonesia. The contrast between price and market share can be seen from Figure 1 below.

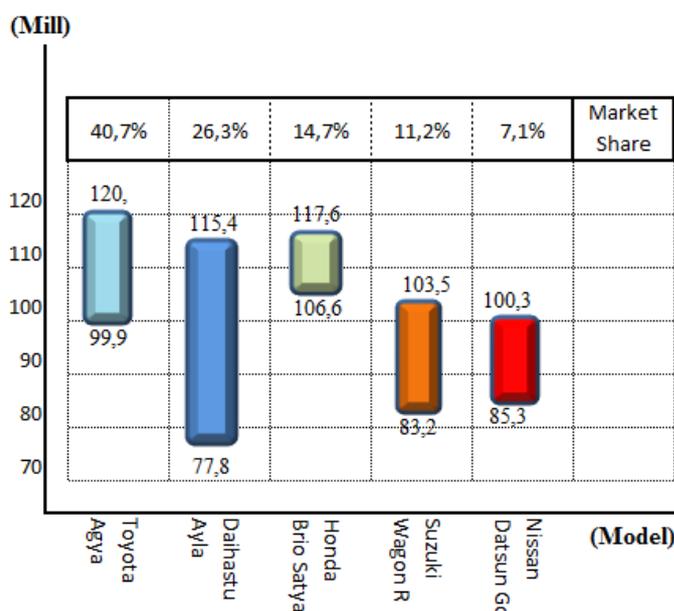


Figure 1 Price versus Market Share (Low Cost Car)
Source: Gaikindo (2014)

From Figure 1, the phenomenon shows that even the hatchback entry segment for low cost car, the highest market share (44.2%) not for the brand with the lowest price but for the brand with the highest price. The condition above are in contrast to the research Maxwell (1995) who explained that low price is one of the factors price fairness that influence the purchase intention. In many cases, customers consider a price is fair may be another way of saying it is lower (Darke and Dahl, 2003). From this fact, it is interesting to determine whether consumers feel (un)fair from the difference of price offered. Do the price fairness influence purchase intentions?

Literature Review

Price Fairness

The existence of several preferred brands of automotive makes the higher involvement of consumer in choosing products. Thus, the process of purchase a car becomes a complex process. Price is an important element in consumers' purchases (Herrmann, Monroe, Huber, & Xia, 2007). In the relatively, expensive product will increase the perception of price (un)fairness and become important. Consumers will think whether the price offered (un)fair.

There are some conditions that may cause the perception of price (un)fairness in the process of buying car. First, when the demand is high, dealers will reduce the discount while consumers have to pay more expensive and dealers get profit more than normal condition. In the other hand, consumers need a car as soon as possible so that there is no choice. In this condition consumers may feel that the offered prices are not fair, in accordance with the principle of dual entitlement (Kahneman et al., 1986) no party is taking advantages from the loss of others.

Second, while the pricelist in each dealer is same but giving the different discounts to different customers. In general, consumers know that the amount of discounts can be negotiated, so the price is different. Some consumers will compare with other consumers and other dealers (equity theory (Adams, 1965) and Distributive fairness (Homans, 1961)), experience and expectation will be accepted. It can trigger feelings of unfair when consumers know that the price offered is higher than the other.

Third, the increase in car prices due to rising production costs, will trigger the perception of price unfairness of consumers. As consumers feel aggrieved and dealers take advantage too much (Kahneman et al. (1986)). This condition can be overcome if the seller can give a reason which is appropriate and acceptable as to why the price increases, (Xia, Monroe, & Cox (2004); Bolton, Lisa, Luk and Joseph (2003)). Example: price increase due to changes in currency

Some dimensional measurements of price fairness have been developed, the dimensions of price fairness proposed are: choice of comparison party, consumer knowledge, buyer-seller relationship. These dimensions modify from the study concept of Xia et al (2004) in accordance with the process of buying a car in Indonesia (Fig. 2).

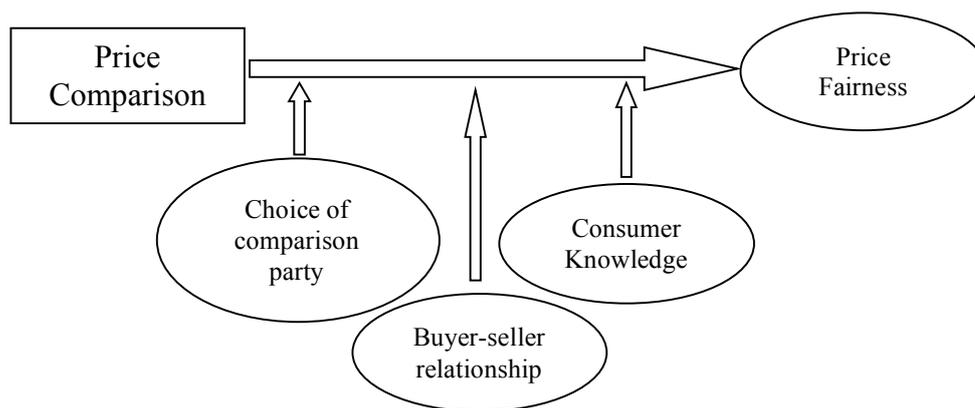


Figure 2 Conceptual Model of Price Fairness

Choice of comparison party, price fairness is assessed subjectively from the standpoint of the buyer as well as evaluated comparatively (Xia et al., 2004; Bolton et al., 2003). Xia et al (2004: 3) defines price fairness as a consumer's assessment and associated emotions of whether the difference (or lack of difference) between a seller's price and the price of a comparative other party is reasonable, acceptable, or justifiable. In price comparisons (equity theory), there are three types of comparative reference parties that consumers may use: self, other customers, or different dealer (Xia et al., 2004). Meanwhile Bolton et al (2003) state that price comparison used is past prices, competitor prices, and vendor costs (dual entitlement principle).

In this study, price comparison party that will be used are other customers, different dealer (equity theory), past price and competitor price (dual entitlement), while vendor cost is not included as a comparison. Due to the complexity of the car pricing, therefore the consumer will have difficulties to determine the cost of producing a single car indeed they will tend to underestimate (Bolton et al., 2003). By comparing prices with consumers and other dealers as well as considering the previous purchase and competitor price, the consumers can bring the perception of price (un) fairness.

Consumer knowledge, the perception of (un)fair prices does not only come from the higher prices, but also from the knowledge and understanding of why goods are sold at a higher prices (Xia et al., 2004). Information on prices and car specifications can be seen in general as well as online publications, so that consumers can easily compare and consider the price based on his experience (Herrmann et al., 2007). They develop knowledge about the prices in the market and the composition prices in a car. Knowledge of how prices are determined has a significant impact on how the perceived price (Maxwell, 2002).

Consumers can assess whether the price offered has good value, as expected, and affordable or not. This knowledge influences the consumer's perception of price fairness. The selling price plays an important role in the assessment of whether the price or price increase is acceptable or fair (Bolton et al., 2003).

Buyer-seller relationship, the most important thing in the buyer-seller relationship is trust (Sirdeshmukh, Singh, and Sabol, 2002). There are three dimension of trust, namely: (1) ability (skills and competencies), (2) benevolence, and (3) integrity (Mayer, Davis, and Schoorman 1995). The early stage of a buyer-seller relationship is the two parties governed by the potential benefits of their promise. Someone will do what they say, because they fear the consequences if not done (calculus-based trust) (Lewicki and Bunker, 1995)

At the initial stage, the most important dimension of trust is ability. Buyer-seller relationship will be positive depending on the seller's skill and competence. Sellers who have a good competence may establish the initial trust of buyers (Xia et al., 2004), increase the perception of price fairness and decrease the perception of price unfairness when the price discrepancies occurs (Campbell, 1999).

Purchase Intention

The definition and measurement of purchase intention have been developed and used in previous research. One approach to the purchasing process is through a process or series of steps known as the "Hierarchy of Effect" (Lavidge & Steiner, 1961), which connects the aspects of human psychological (cognition, affection and conation) against the hierarchy of effects. This is in line with the opinion of Kotler & Armstrong (2013) that there are six buyer readiness stages that must go through in normal condition at the time when make a purchase: awareness, knowledge, liking, preference, conviction, and purchase.

Schiffman and Kanuk (2010) stated that purchase intention as the decision-making process of consumer in undergo purposes, purchase, evaluation, and the use of a product or service to meet their needs. Purchase intention is one type of judgment about how an individual intends to buy a specific brand (Tsuii, 2010 ; Teng & Laroche, 2007). The purchase of a car is a complex process, involving multiple stages including information retrieval, comparison the alternatives and the interaction with the seller in dealer. Purchase intention is the purchase process that occurs before the actual purchase, therefore important process occurs in the initial meeting between sellers and buyers. Purchase intention is not only influenced by consumer attitudes but also combined with the stimulus of external factors (Lin & Lu, 2010).

Some dimensional measurements of purchase intention have been developed, the dimensions of purchase intention for the purchase of cars proposed by the authors are: intend to buy, consider buying, expect to buy, and plan to buy as the dimension of this research. This dimension refers to Mathur (1998), Teng, & Laroche (2007), and Yi (1993).

Relationship of price fairness to purchase intention

Kahneman et al., (1986) states consumers' purchasing intentions are determined by the perception of price fairness. A study by Lee, Illia, & Lawson (2011) on price fairness in the electronics market has found that the perception of price fairness is identified as a strong predictor of purchase intention. The reaction of buyers on price unfairness can lower purchase intention (Campbell, 1999; Martins, 1995).

In line with the above study, Maxwell (2002) pointed out that prices affect consumers' perceptions of fairness and intentions to purchase. Several previous studies have indicated that the perception of price fairness directly influences the purchase intention of consumer (Herrman et al., 2007; Liu and Jang, 2009).

Hypotheses

In the model, focus on the influence of price fairness on purchase intention. First, there are three purposed dimensions that influence price fairness (choice of comparison party, consumer knowledge, buyer-seller relationship). Second, the price fairness may impact the purchase intention which has four indicators: intend to buy, consider to buy, expect to buy, and plan to buy (see Fig. 3)

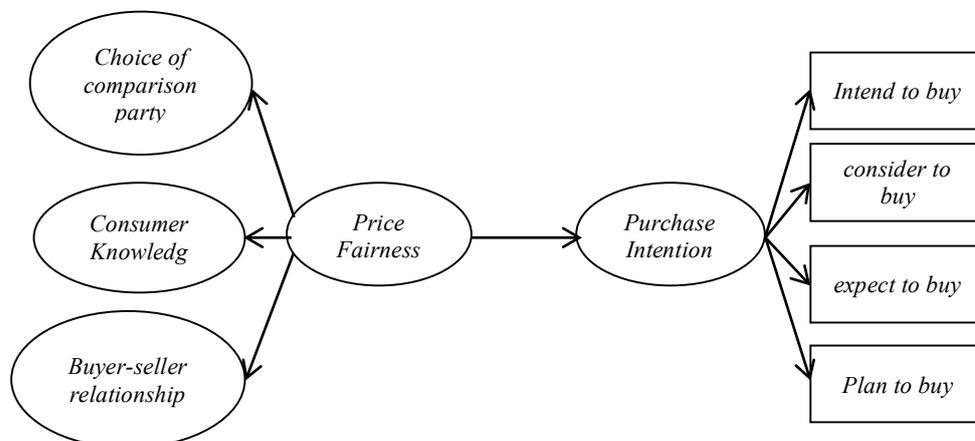


Figure 3 Effect of Price Fairness on Purchase Intention

Research Methodology

This study uses a questionnaire as a data collection tool; so it is necessary to test the validity and reliability of the questionnaire. The next stage is analyzing and interpreting the data obtained in the field using inferential statistics (Structural Equation Modeling). The total sample of 320 customers is drawn proportionately from each dealer Toyota in Jakarta province. In the questionnaire completed by customers, items to measure the construct dimensions were adapted from previous studies. Xia et al (2004) for price fairness (choice of comparison party, consumer knowledge, and buyer-seller relationship), and Teng and Laroche (2007) for purchase intention (intend to buy, consider buying, expect to buy, and plan to buy). The eventual total items were 11. All items were measured by responses on likert scale point 5, ranging from 1 = strongly disagree to 5 = strongly agree.

Analysis and Results

Demographic data show that respondent by gender 52.8 percent male and 47.2 percent female. The majority of the respondents were in 21-30 (27%), 31-40 (53%), and 41-50 (12%) age groups. The highest education level of respondents was 51 % undergraduate. The internal consistency of the research instrument was tasted by validity and reliability analysis. The descriptive statistics, validity and reliability are show in Table I.

Table 1. Descriptive Statistics, Validity and Construct Reliability

Variable/Dimension	Indicator	+	CR	VE
Price Fairness				
Choice of comparison party	Similarity price for everyone	0.72	0.82	0.61
	Similarity price with other dealer	0.73		
	Similarity price compared to the similar car	0.88		
Consumer Knowledge	Conformity price according to expectation	1.00	0.92	0.86
	Conformity price with the car's specification	0.85		
Buyer-seller relationship	Knowing the price offered	0.91	0.87	0.72
	Trust with the offered prices	0.85		
Purchase Intention				
	Intend to buy	0.68	0.89	0.68
	Consider buying	0.66		
	Expect to buy	0.94		
	Plan to buy	0.96		

All scales used in the study were statically reliable and valid

The result of the SEM analysis summarized in Table 2 show that price fairness contribute significant to purchase intention (t-value > 1, 96) at 5 percent significance level.

Table 2 SEM Analysis

Path	Coefficients	T-Value	Result
H ₁ : Price Fairness → Purchase Intention	0.65	15.42	H ₁ Accept

Here, hypothetical relationship was found to be statistically significant

Implication

The outcome of this research provides empirical evidence for the influence of price fairness toward the purchase intention. Purchase intention is affected by consumer knowledge about cars and communication with the seller after comparing the prices offered. Price fairness has positive influence on purchase intention, although the highest price offered in its segment. This indicates that price differences acceptable so can increase purchase intention.

Implication for Pricing Managers

The perception of buyer towards price unfairness is based on the perception of price differences (Xia et al., 2004). The problem is how to make the price differences more acceptable, in order to reduce the perception of unfairness. There are some things that can be used as a reference price to reduce the appearance of price unfairness.

Provide Relevant Information

Before the prospective buyers find price discrepancies, marketers must be proactive to prepare the relevant information related to price discrepancies. Sellers may be unwilling to make their cost structures and margins known to customers, they can switch buyers' attention away from prices to focus on the value that they provide (Xia et al., 2004). For example: the difference price

due to the addition of safety items (airbags). Marketers provide relevant information in advance will be able to lower the perception of price unfairness (Collie, Bradley, and Sparks, 2002).

Manage Customer Relationships

The most important in a buyers-sellers relationship is trust and one of the dimensions of trust is ability (skills and competencies). Sellers who have high competence can build initial trust and attract new customers. This condition also can help dealers to reduce negative image in the event of price deviation. Therefore, by managing relationships between sellers and buyers, it is expected to reduce the perception of price unfairness from the consumers

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