

# The Influence of Price Fairness to Customer Satisfaction

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**Abstract:** The objective of this research is to analyze the influence of price fairness, customer satisfaction, empirically demonstrate the influence of perceived price fairness that can be broken down into price perception, consumer vulnerability, price offer fairness and price procedure fairness. Methodology used in this research is descriptive analysis, which is to identify characteristics of variables under certain circumstances and to scribal down the response of automobile customers in Jakarta, Bekasi, Depok, and Tangerang. Variables measurement ranked from price perception, consumer vulnerability, price offer fairness, price procedure fairness, satisfied with dealer's service, satisfied with delivery car and satisfied with purchase that the result would be used as information to manage automobile sales. The collected data was analyzed using multiple regression analysis. This research concluded that variable of price perception and perceived vulnerability has a significant impact toward price offer fairness, variable of price offer fairness and price procedure fairness has no effect toward satisfied with purchase, and variable of satisfied with dealer's service and satisfied with delivery car significantly affect the satisfied with purchase variable.

**Keywords:** Fair value, customer satisfaction, prices, perception

## INTRODUCTION

Whatever brand of car being marketed in Indonesia, consumers always buy it directly. This has made the car manufacturers happy. A lot of consumers are willing to wait a couple of months before they can bring the car home, such as Toyota, Honda, Mitsubishi, Nissan, Daihatsu, & Suzuki (Japan), KIA, Hyundai, Ssyang Yong, Daewoo (Korea), Ford, Chevrolet, Opel, Holden, & Chrysler (USA), Porsche, BMW, Mercedes-Benz, VW, (German), Peugeot, Renault (France), and Volvo (Sweden). The desire to have new car from consumers' favorite brand is not easy. They must go through the indent process for a couple of months. The long queue of indent causes consumers to lose patient thus want to take home the car immediately. The consumers are often willing to spend more money to pay the "on the road" price in order to get the dream car immediately. The additional payment is commonly called with the term "upping price". This phenomenon could be observed in Indonesia in 2004 when Toyota Avanza and Innova were first launched. Consumers had to wait for more than 5 months to get their car. Due to the high demand and long waiting time, the "upping price" was quite high. Speculator emerged and took advantage of the situation.

Consumers were charged with more money ranging from Rp 10 millions to Rp 15 millions for each car (Avanza or Innova) with the promise of getting their car faster than anyone else. Voss *et al.* (in Hermann *et al.* 2007) stated that satisfaction is the function of price, performance and expectation with the support of satisfaction-expectation relation to be weak. Being the opposite with performance, the accepted price fairness might be the dominant determinant of satisfaction. Empirical result stated that when there is an inconsistency of price-performance, then the effect to satisfaction judgment will be negatively strong. Similar result was also found by Oliver and DeSarbo (in Hermann *et al.* 2007). Other research also showed that equity correlates with satisfaction. Equity is a strongly correlated concept with fairness and is usually defined as judgment of fairness, rightness or deservingness made by consumers as the clue of comparison with the others (Oliver 1997. Xia *et al.* 2004). Previous research of consumer satisfaction analyzed factors that could enhance or increase consumer satisfaction in many contexts (for the latest, see Oliver 1997. Szymanski and Henard 2001. Shankar *et al.* 2003). As an important factor in marketing mix, the role of product price or service in consumer satisfaction formation has not yet been thoroughly studied in previous customer satisfaction research (Voss *et al.* in Hermann *et al.* 2007).

When price was included, it became one of the relevant product attributes (Fornell *et al.* Voss *et al.* in Hermann *et al.* 2007). However, the unique effect of product price to satisfaction judgment has not been cleared yet. This research includes consumer price as the significant factor that affects the whole satisfaction judgment. This effect is directly or indirectly achieved through the perception of price fairness. It expanded the result of Voss *et al.* in Hermann *et al.* (2007) in the perceived fairness issue. It incorporated two components of price fairness thus consumer psychological characteristics (vulnerability) and analyzed the effect to satisfaction judgment which started with general review of satisfaction concept and fairness thus lead to conceptual and hypotheses. It has several limitations that can be revealed such as: It pointed the effect of the accepted price fairness to satisfaction judgment empirically, it was done in the context of car purchase and the generalization usage of model needs further testing, the decision to purchase a car consists of several buying processes, the analyzed variables were price, perception and satisfaction, there are two types of car that were used in this research; Toyota Avanza and Toyota Kijang Innova, respondents are Toyota Avanza and Toyota Kijang Innova consumers that are a residence in Jakarta, Depok, Tangerang, Bekasi and Bogor.

## METHODS

Satisfaction is a “result” of psychology summarization when emotion surrounds uncertainty of expectation combined with feeling that is prioritized by consumers regarding their consumption experience (Oliver in Peris 2003). Satisfaction judgment was based on the accepted result and not based on the actual result. Car manufacturer should have known that price strategy can build consumer perception of a product. According to Schiffman and Kanuk (2004) price perception is how consumers see product price. Schiffman and Kanuk (2004) also stated that unfair price perception affects consumer’s perception toward value and eventually consumer’s willingness to buy a product. High price perception is a sign of good quality, pride and status. Price strategy can be used to increase consumers who come back to purchase more which is an important matter in a research (Levy *et al.* 2004). Consumers would make an offer by using the displayed price as the main factor in searching for their needs, and as a result consumers would do a purchase (Shankar *et al.* 2001). To effectively set a price, marketers should understand economic and psychological reaction to price modification and variety of price. Price fairness has been known as one of the psychological factors that has an

important effect to consumers’ reaction toward price (Etzioni, Kahneman, Knetsh and Thaler in Huang and Lin 2005).

Some studies revealed that consumers are often worried about price fairness, especially to high price. Consumers are often unwilling to pay an unfair price (Kahneman, Knetsh, Martins, and Monrow in Huang and Lin 2005). Input and output ratio can be used as a basis to determine expected price which can be considered as fair (Thaler in Padula and Busacca 2005). Price offer fairness perceptions and price procedural fairness perceptions are positively correlated. Other principal of perceived price fairness is the dual entitlement principal. When a company uses higher consumer demand to take its own profit by increasing price, then consumers feel exploited and perceive that the price is not fair. The dual entitlement principle implicates that the situation exists due to the effect of price fairness perception from buyers, especially when buyers do not have other alternatives (Kahneman *et al.* in Hermann *et al.* 2007). Buyers are more likely to get unfair price when they felt vulnerable to the possibility of seller’s exploitation. This vulnerability is greater when the need of product/service urges and the choice for other alternatives is limited (Hermann *et al.* 2007). Anderson, Fornell and Lehmann (in Ramlee 2006) pointed the importance of price to consumer satisfaction because whenever consumers evaluate value of the given service, they always think of the price.

Based on the way consumers think, price is something that must be delivered or sacrificed to get everything whether it is a product or a service (Zeithakl in Ramlee 2006). With the increased satisfaction and the acceptable price, then transaction will also increase (Anderson *et al.* in Ramlee 2006). One of the characteristics in price satisfaction is price fairness. According to literatures, perceived price fairness or unfairness is one of the psychological factors that have significant effect of consumer reaction to price. 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, Ordonez *et al.* 2000, Smith *et al.* 1999). In summary, there are various components of fairness perceptions and satisfaction judgments. The components of fairness perceptions are correlated with each other. And, the components of satisfaction are also correlated with each other.

In any specific purchase process, the direction of influence between the components of price fairness depends on the order in which the information about price and terms of the offer is received by the buyers.

Similarly, the direction of influence between the components of satisfaction depends on the sequence of the purchase process. In addition, specific factors that influence these constructs such as price fairness perceptions likely vary depending on the specific purchase context. Specific testable hypotheses for these relationships were developed within an automobile purchase context.

The buying process usually consists of a sequence of distinctive episodes that usually appears in a similar order for most vehicle buyers. This event gives an opportunity to separate consumer satisfaction with different encounter in the whole buying transaction procedure (Hermann *et al.* 2007).

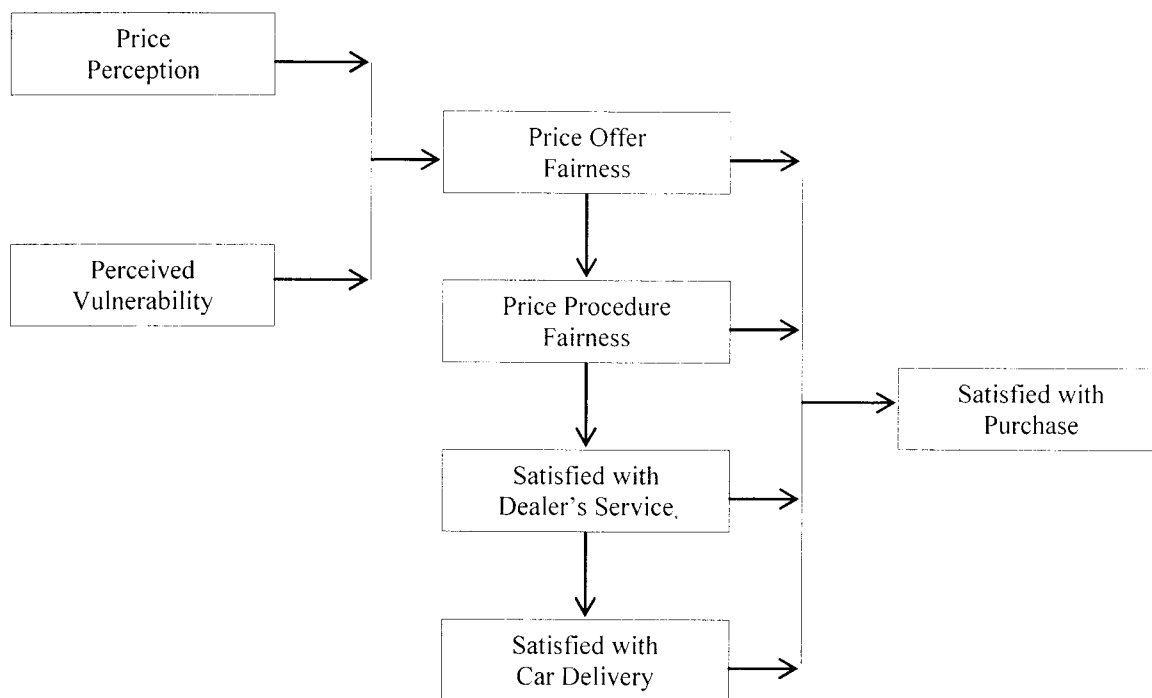
Consumerstend to consider the relative correlation or price and consumer expectation regarding the

performance of the product that they want to purchase (Voss *et al.* in Hermann *et al.* 2007). Therefore, seller’s initial price may be compared with previous experience or an expectation of acceptable price of a product.

If buyers’ perceptions of performance or quality of the car exceed their expectations and the car represents good value for money, then their perceptions of the quoted or listed price should be favorable (Voss *et al.* 1998). Consequently, if buyers perceive that the benefits offered by the product relative to the perceived sacrifice (i.e. price to be paid) is favorable, then they will be more likely to perceive that the price is fair (Monroe 2003):

H1 : Price perceptions influence the fairness of price offers.

The process sequence can be seen from the figure below:



**Figure 1. Conceptual Framework**

Consumers have some common knowledge that in a market economy prices are subject to variations in supply and demand. When demand increases relative to supply, sellers have an opportunity to raise prices and increase their profits. Therefore, when consumers need to purchase a car quickly and have few or no other options, they may feel more vulnerable due to the fear that the seller will take advantage of this opportunity to quote a higher price than in other situations regardless whether the seller actually takes such action. The dual entitlement principle implies that such situations do influence buyers’ price fairness

perceptions, especially when buyers have no other alternatives (Kahneman *et al.*, Kalapurakal *et al.* in Hermann *et al.*, 2007). The car buyers indicated some anxiety at the initial stages of the buying process. Regardless of previous purchase experience, they felt some concern that they would not know whether the price would be reasonable for their situation or not.

Hence, this research proposes that consumers’ feeling of vulnerability may contribute to their perceptions of price unfairness:

H2 : Consumers’ perceived vulnerability influence price offer fairness.

In terms of the influence between the two components of distributive and procedural fairness, this research found that when buying an automobile, buyers typically receive an initial price offer from the dealer before they discuss specific options that they want and negotiate the final price and financial terms with the seller. The principles of distributive and procedural fairness suggest that price fairness judgments will be based on both outcome (i.e. price) as well as information related to how the specific outcome was determined (i.e. procedure). Information on outcomes and procedures may interact with the order that information is received by influences perceptions of price fairness. Therefore, for a typical car purchase process in Indonesia, this research hypothesizes an influence from perceived initial price offer fairness to perceived price procedure fairness:

H3 : Consumers' price offer influence pricing procedure fairness.

This research hypothesizes that initial price offer fairness has several impacts on pricing procedure fairness. Getting information on pricing procedure and requirements related to price quotation is a part of interaction between customer and dealer's employees. Therefore, in accordance with buying sequence, the research proposes:

H4 : Pricing procedure fairness has an influence on satisfaction with the dealer's service.

H5 : Satisfaction of service given by dealer has influence on satisfaction with the condition of the car upon delivery.

Previous research on satisfaction indicates that equity (e.g. perception of price fairness) has a major influence on satisfaction judgments. Given that Szymanski and Henard (2001) have shown that equity has a dominant effect on satisfaction judgments this research proposes the direction of influence to be from price fairness to satisfaction:

H6 : Price offer fairness has influence on satisfaction with the purchase.

H7 : Pricing procedure fairness has influence on satisfaction with the purchase.

For a complex purchase situation, the overall judgment of satisfaction consists of various components including both satisfaction with the purchase process and satisfaction with the outcome. The major aspect of purchasing an automobile involves interactions with salespeople and other members of the dealer's staff.

Consumers rely on salespeople for specific information about the car to help them make an assessment.

There are also opportunities to interact with individuals who handle the financial aspects of the purchase. Hence, interaction with members of the

dealer's staff will have a direct influence on customer's overall satisfaction judgments. Furthermore, although buyers may have some general ideas about the quality of the car they are purchasing, product conditions upon delivery provide a direct opportunity for buyers to assess the quality of the car that they are actually buying (i.e. satisfaction with the outcome). Therefore, satisfaction with the condition of the car upon delivery will have a positive effect on overall satisfaction judgments:

H8 : Satisfaction with the dealer's service has influence on satisfaction with the purchase.

H9 : Satisfaction with the condition of the car upon delivery has influence on satisfaction with the purchase.

This research refers to the previous one that has been done by Hermann *et al.* (2007). It uses testing hypothesis to test the hypotheses in order to explain the characteristics of certain relationship or the difference between groups or the interdependency of two factors or more in a situation.

Operational variables in a research are meant to simplify and direct the composition of measurement data. The data needed for operational variables must be based on conceptual framework. The respondents answered questions regarding their purchase experiences using seven-point scales ranging from "strongly disagree" to "strongly agree." To select the final items for each construct, we used Cronbach's alpha, item-to-total correlations, and exploratory factor analysis. Exploratory factor analysis indicated that the measures loaded on the correct factors and provided initial assessments of the discriminant and convergent validities of the measures.

The population of this research is consumers who bought the new MPV and live in Jakarta, Bogor, Depok, Tangerang, and Bekasi. Samples were chosen in accordance with the aforementioned population by using non probability sampling with the purposive sampling technique which is sampling by considering certain criterion (Hermawan 2006). The determination of the numbers of sample used the Walpole formula (in Ramlee 2006):

$$n = \frac{Z\alpha^2}{4e^2} = \frac{(1,96)^2}{4(0,10)^2} = 96,04 \text{ respondents}$$

Where:  $Z\alpha$  is the value in the table figure distributed to  $z$  for level of confidence  $\alpha$ ,  $e$  is the error.

From 250 questioners deployed for this research, only 201 questioners came back. From 201 questioners not all can be analyzed, because there were 12 questioners which were not completed while the other 189 questioners were worth to be analyzed with a 75.6% respondent rate.

From 189 respondents, 128 were male and 61 were female. Most respondents (106 people) were among the age of 26-49 years old of age. 64 of them were below 25 y.o, 17 between 50-65 y.o and 2 were above 66 y.o. Most of the respondents were undergraduate with a total of 118 respondents. 34 of them were from high school, 28 from post graduate, and 9 were from diploma. Most of the respondents (130) live in Jakarta, 22 were from Tangerang, 17 were from Bogor, 11 were from Depok, and 9 of them were from Bekasi. The reliability testing correlated with consistency, accuracy and predictability of a measurement.

The reliability coefficient in this research used the Internal Consistency Reliability that according to Cooper and Emory (in Ramlee 2006) covered how

far the instruments are homogeny and reflect the construct similarity. The measurement scale of this research was based on ordinal scale, then to test the reliability the Cronbach's Alpha Reliability. According to Hair, Anderson (in Ramlee 2006) a construct is considered reliable if it has the lowest acceptable alpha coefficient of 0.6 until 0.7. The reliability testing of this research in total was 0.854 which showed that the variables in this research are worth analyzing.

The data in this research was primary data that was then analyzed to answer the existing problems. The method used in this research was the Multiple Regression with the help of SPSS software in order to predict the change in some independent variables that connect with the dependent variables.

**Table 1. The results**

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Price Perception	189	1.00	5.00	3.3933	0.72440
Perceived Vulnerability	189	1.50	5.00	3.3942	0.70290
Price Offer Fairness	189	1.50	5.00	3.2421	0.68315
Price Procedure Fairness	189	1.00	5.00	3.5767	0.74604
Satisfied With Dealer's Service	189	1.75	5.00	3.6032	0.65482
Satisfied With Delivery Car	189	2.00	5.00	4.1217	0.69267
Satisfied With Purchased	189	1.50	5.00	3.5820	0.72559

**RESULTS AND DISCUSSION**

Based on the data in table 1, most of the variables get mean value of more than 3.2 which means that respondents' answer were close to agreeing to the questions. The only variable with four pointer mean value is the variable satisfied with delivery car which has the 4.1217 of mean value means that the answers were close to highly agree to the questions.

As hypothesized, respondents' perceptions of price offer fairness were positively influenced by their price

perceptions ( $\beta=0.436$ ,  $t=6.6451$ , supporting H1), and positively influenced by their perceived vulnerability ( $\beta=0.177$ ,  $t=2.702$ , supporting H2) which can be seen on Table 2. When buyers perceive that the price offer is consistent with or exceeds their expectations about the car's perceived quality or performance, they are more likely to perceive the price offer as fair. Furthermore, an increase in buyers' need and demand enhanced a feeling of vulnerability, increases their concern as to whether the price offered by the dealer was fair.

**Table 2. Price perception and Perceived Vulnerability to Price offer fairness**

Variable	Beta	t	Sig.
Price Perception to Price Offer Fairness	0.436	6.645	0.000
Perceived Vulnerability to Price Offer Fairness	0.177	2.702	0.008

**Table 3. Price offer Fairness to Price Procedure Fairness**

Variable	Beta	t	Sig.
Price Offer Fairness to Price Procedure Fairness	0.413	6.209	0.000

In hypothesis 3 (H3) it is stated that perceived price offer fairness influence pricing procedure fairness since car buyers are more likely to obtain an initial price offer before a final price is negotiated. The initial

perceptions of the fairness of the offer are likely to influence perceptions of price procedure fairness. From table 3, looking at the  $\beta=0.413$ , means that price offer fairness influence price procedure fairness for 0.413.

**Table 4. Pricing Procedure Fairness to Satisfied with Dealer’s Service**

Variable	Beta	t	Sig.
Pricing Procedure Fairness to Satisfied with Dealer’s Service	0.362	5.312	0.000

Hypothesis 4 tested the effect of price procedure fairness to satisfaction with dealer’s service which stated that price procedure fairness has an influence on satisfaction with the dealer’s service. The significant value of 0.000 in table 4 supports hypothesis 4 and the  $\beta = 0.362$  shows that pricing

procedure fairness will increase satisfaction with the dealer’s service for 0.362. The result elucidated that consumers were able to understand and accept a lot of requirements and explanations regarding pricing procedure given by dealer’s employees which resulted to fair price agreement.

**Table 5. Satisfied with Dealer’s Service to Satisfied with Delivery Car**

Variable	Beta	t	Sig.
Satisfied with Dealer’s Service to Satisfied with Delivery Car	0.621	10.836	0.000

Hypothesis 5 tested the effect of satisfied with dealer’s service variable to satisfied with delivery car variable which is stated that satisfaction of service given by dealer has influence on satisfaction with the condition of the car upon delivery. The significant value of 0.000 in table 5 supports hypothesis 5 and the  $\beta = 0.621$  shows that satisfaction of service given by

dealer has influence on satisfaction with the condition of the car upon delivery for 0.621. The result elucidated that consumers were satisfied by the service given by dealer and the general commitment from dealer based on the interaction between consumer and dealer’s employees thus the condition of car upon delivery which was in accordance to consumer’s expectation.

**Table 6. Price Offer Fairness, Price Procedure Fairness**

Variable	Beta	t	Sig.
Price Offer Fairness to Satisfied with Purchase	0.096	1.256	0.211
Price Procedure Fairness to Satisfied with Purchase	-0.025	-0.340	0.735
Satisfied with Dealer’s Service to Satisfied with Purchased	0.201	2.331	0.021
Satisfied with Delivery Car to Satisfied with Purchased	0.338	4.407	0.000

The result on table 6 indicates that with significant value of 0.211 which is higher than 0.05 significant value, price offer fairness has no influence to satisfaction with purchase. It failed to support the hypothesis (H6) that stated price offer fairness has influence on satisfaction with the purchase. It means that consumers can not be influenced by offering price fairness in getting satisfaction in purchasing a car. The result also indicated that the significant value of 0.735 means the hypotheses (H7) that stated price procedure fairness has influence on satisfaction with the purchase is not supported. It means that price procedure fairness has no influence to satisfaction with purchase. The consumers in this research assumed that price procedure fairness given by dealer would not change consumers’ satisfaction of purchasing the car.

The result of hypothesis 8 shows the satisfaction that consumers got from the interaction with the dealer’s employees, specific information about the purchased car, satisfaction with the purchasing process and the satisfaction with the purchased car. The result of hypothesis 9 shows that consumers felt satisfied with the quality of the purchased car and the car’s condition upon delivery was in accordance with expectation.

**CONCLUSIONS**

However the result shows that hypothesis 8 (H8) (Sig =0.021 < 0.05, t =2.331, supporting H8) and hypothesis 9 (H9) (Sig =0.000 < 0.05, t =4.407, supporting H9) were significantly supported. This means that satisfaction with the dealer’s service has influences on satisfaction with the purchase and satisfaction with the condition of the car upon delivery has influence on satisfaction with the purchase.

This research provides concrete empirical data that price perception and perceived vulnerability have significant effect to price offer fairness. Price perception is one of the principles that make consumers interested in indulging into interaction with seller until price agreement occurred. In this research price perception does not have direct relation with satisfaction with purchase but through price offer fairness. Based on the result of this research, price offer fairness has no significant influence to satisfaction with purchase. However perceived vulnerability has significant influence to price offer fairness.

This shows that consumers did not feel cheated by seller while doing the transaction. In this research consumers felt that the price offered was fair or the offered price was suitable with consumer's expectancy toward the purchased product. Similar with price perception, perceived vulnerability also has no direct relation with satisfaction with purchase but through price offer fairness. In this research price offer fairness has no significant influence to satisfaction with purchase which caused perceived vulnerability to not directly has significant influence to satisfaction with purchase. It concludes that satisfaction with dealer's service and satisfaction with delivery car have significant influence to satisfaction with purchase. This concluded that consumers were more focus to satisfaction with result (satisfaction to car's condition upon delivery and satisfaction to car's quality).

Price fairness is one of the early stages of transaction that will be done by both consumer and seller. In order to go to the next step, consumers must go through several stages of purchasing process. This research generated a result that stated price offer fairness has significant effect to price procedure fairness. It means that the consumers were able to understand the information (price offered and price procedure) given by seller regarding the product that would be purchased. This research also concluded that between price procedure fairness affected, significantly satisfaction with dealer's service. This indicates that consumer could understand the information regarding price procedure and felt satisfied with the interaction with dealer's employees.

It concluded as well that there was a significant influence between satisfaction with dealer's service and satisfaction with delivery car. The satisfaction received by consumers from interaction with dealer's employees described consumer, thus the satisfaction to the car's quality thus the expectation upon car delivery. When the car was delivered and well accepted by consumer in accordance with consumer's expectancy, then the process is the end of the purchasing process which ended with consumer satisfaction.

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