

## **An Empirical Study of the Effect of Perceived Price on Purchase Intention Evidence from Low-Cost Carriers**

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### **Abstract**

*Low-cost Carriers (LCCs) have become an option for Taiwan's travelers now. This study uses LCCs consumers as research subjects to investigate the relationships and effects of perceived price, perceived value, perceived risk, purchase situation, and purchase intention. The research findings show that perceived price fairness has a direct effect on perceived value, perceived risk and purchase intention. Perceived price fairness also has an indirect effect on purchase intention via perceived value and perceived risk. Moreover, purchase situation has a direct impact on purchase intention. However, perceived risk does not have a direct effect on perceived value.*

**Keywords:** Low-cost Carriers; perceived price; perceived risk; perceived value; purchase situation; purchase intention.

### **1. Introduction**

Low-cost Carriers (LCCs) have a cost advantage compare to Full Service Carriers. There has been a considerable growth of the low-cost carriers since its first entrance into Taiwan in 2004. According to the statistical results from Taiwan's Civil Aeronautics Administration, the market share (passenger load factor) of LCCs in 2012 and 2013 is 3.6% (79.1%) and 4.9% (78.7%), respectively. At the end of July 2014, there are 67 LCCs in Asia-Pacific region, and 14 have entered into Taiwan's market. LCCs have become an option for Taiwan's travelers now.

Though LCCs has become an important option for many travelers in Taiwan, but the related research studies are rather limited. Therefore, this study collected the opinions of 353 consumersto explore the relationships and effects of perceived price, perceived value, perceived risk, purchase situation, and purchase intention. Results of this study provide a reference for LCCs practitioners and consumers. The rest of this paper is organized as follows. Section 2 reviews previous research on LCCs, perceived price, perceived risk, perceived value, purchase situation, and purchase intention. Section 3 describes the data and method we employ. Section 4 reports the empirical results. Section 5 concludes the paper.

### **2. Literature Review**

#### **2.1 Low Cost Carriers**

Southwest Airlines is the world's largest low-cost carrier which operates in the United States and some surrounding areas. It was established in 1967 by Kelleher and King. The term Low Cost Carriers (LCCs) was first proposed by Kelleher and King in 1971, and it originated referring to airlines with a lower operating cost structure than their competitors. While in today, the term is often applied to any carrier with low ticket prices and limited services.

LCCs' operating strategy is dominated by a simple and cost-effective principle. In order to reduce operating cost, LCCs primarily distribute through the Internet and use online payments, use newer, efficient and low pollution airplanes, plan single cabin, and reduce the services in the airplane (food, baggage, or services such as priority boarding and seat allocating, will be charged extra). Additionally, it often takes off and lands in secondary or regional airports. Therefore, LCCs have a cost advantage compare to Full Service Carriers (Berster and Wilken, 2004). Although LCCs operate mainly in short-haul routes, some LCCs began to operate long-haul routes in the Asia-Pacific region in recent years. Daft and Albers (2012) considered that long-haul operations are possible for LCCs if the traditional full-service carrier product is effectively unbundled and suitable trunk routes can be identified. Additionally, LCCs primarily operated in regional or secondary airports, it will also promote the economic development of these areas directly or indirectly (Grigolon et al., 2012).

## **2.2 Perceived Price**

Price is what is sacrificed or given up to obtain a product or a service. Perceived price is a consumer's perceptions of price, and it includes sacrificed money, time cost, search cost, effort and psychic costs. Perception of price is formed by lower-level objective monetary price and perceived nonmonetary price (Jacoby and Olson, 1977). Objective monetary price is the actual price of a product, whereas perceived price is the price encoded by consumers. Consumers do not always know or remember actual prices of products or services. Instead, they encode prices in ways that are meaningful for them and remember the price only as "cheap" or "expensive" (Zeithaml, 1983; 1988). Monetary price is frequently not the price encoded by consumers. From consumers' perspective, perceived price is more meaningful than monetary price (Bei and Chiao, 2001). Lichtenstein, Ridgway, & Netemeyer (1993) classified perceived price into five "negative role" constructs (value consciousness, price consciousness, coupon proneness, sale proneness, and price mavenism) and two "positive role" constructs (price-quality schema and prestige sensitivity).

## **2.3 Perceived Value**

Perceived value has been argued to be the most important indicator to forecast purchase intentions and has been viewed as one of the most important measures for gaining a competitive advantage (Zeithaml, 1988; Dodds et al., 1991; Cronin et al., 2000). Consumers' perceptions of value represent a trade-off between the perceived quality or benefits in the product relative to the perceived sacrifice by paying the price. Perceived value is defined as a trade-off between buyers' perceptions of quality and sacrifice, and it is positive when perceptions of quality are greater than the perceptions of sacrifice (Monroe and Dodds, 1985) or "the consumer's overall assessment of the utility of a product, based on perceptions of what is received and what is given" (Zeithaml, 1988). Monroe and Dodds (1985) directly related perceived value to preferences or choice, whereby the larger the perceived value is, the more likely would the consumer express a willingness to buy or have a preference for the product.

## **2.4 Perceived Risk**

Consumer behavior is motivated to reduce risk (Bauer, 1960; Taylor, 1974). Bauer (1960) first proposed perceived risk to include two dimensions: uncertainty and adverse consequences. Dowling and Staelin (1994) defined risk as a consumer's perceptions of the uncertainty and adverse consequences of engaging in an activity. Perceived risk was also defined as the unfavorable outcomes related to a product or service (Engel, Blackwell and Miniard, 1995), the subjective perception of possibility and severity of a wrong purchase (Sinha and Batra, 1999), or the uncertainty a consumer perceives about the outcome of his or her purchase (Hoyer and Macinnis, 2010). Many researchers regarded perceived risk as a multi-dimensional concept. Jacoby and Kaplan (1972) defined perceived risk to include five components: financial, performance, social, psychological, and physical risk. Peter and Tarpey (1975), and Murray and Schlacter (1990) expanded the components to include time risk. Perceived risk increases as the probability of one or more negative outcomes increases (Dowling and Staelin, 1994).

## **2.5 Purchase Situation**

Many buying behaviors or consumption behaviors only happened under certain situations (Lavidge, 1966; Armstrong and Kotler, 2008). Therefore, it is helpful to study the situational influences to understand the relationship between consumers' behavior and their attitudes. Kakkar and Lutz (1975) defined situation as "an individual's internal responses to, or interpretations of, all factors particular to a time and place of observation which are not stable intra-individual characteristics or stable environmental characteristics, and which have a demonstrable and systematic effect on the individual's psychological processes and/or his overt behavior". Under this viewpoint, it is the psychological situation that relevant for the understanding of consumer behavior.

On the other hand, Belk (1974) defined situation as “those entire factors particular to a time and place of observation which do not follow from acknowledge of personal (intra-individual) and stimulus (choice alternative) attributes, and which have a demonstrable and systematic effect on current behavior”. Engel Blackwell and Miniard (1995) classified situations that influence consumers’ behavior into three components: communication situation, purchase situation and usage situation. Coney, Best and Hawkins (2001) expanded the components to include disposition situation.

## **2.6 Purchase Intention**

Purchase intention has been argued to be the most important indicator to forecast consumer behavior. It is defined as personal behavioral tendency to a particular product (Bagozzi and Burnkrant, 1979), the likelihood that a customer will buy a particular product (Fishbein and Ajzen, 1975; Dodds et al., 1991; Schiffman and Kanuk, 2000) or “an individual’s conscious plan to make an effort to purchase a brand”(Spears and Singh, 2004). A greater willingness to buy a product means the probability to buy it is higher, but not necessarily to actually buy it. On the contrary, a lower willingness does not mean an absolute impossibility to buy. According to Xu, Summers, and Bonnie (2004), Dodds et al. (1991), and Zeithaml (1988), purchase intention is determined by a consumer’s perceived benefit and value.

## **3. Data and Methods**

### **3.1. Hypotheses**

#### *1. Influence of perceived price on perceived value, perceived risk, and purchase intention*

Price plays an important role in valuation judgment and determining whether to buy or not (Voss et al., 1998). Dodds and Monroe (1985) proposed a relationship model of price, quality and perceived value. Their research results indicate that price positively influences the perception of quality, and inversely influences the perception of value and willingness to buy. Consumers usually regarded price as a key extrinsic quality signal when their product knowledge are limited. Higher quality products are seemed to have a higher price (Balestrini and Gamble, 2006). Some research found that perceived perceptions of price unfairness has a negative impact on consumers’ purchase intention (Campbell, 1999; Suter and Hardesty, 2005).

Higher-price product has a higher monetary expenditure. When consumers bought a product or service with bad quality, the higher the perceived price is, the higher the financial risk they suffered (Dowling and Staelin, 1994; Del Vecchio, 2001). In other words, consumers faced higher perceived risk because financial risk is one important dimension of perceived risk. Agarwal & Teas (2001) also suggests that perceived quality and perceived sacrifice mediate the relationships between price and perceived risk. Accordingly, perceived price fairness does ensure higher perceived value, lower perceived risk, and higher purchase intention. Therefore, we propose the following three hypotheses.

H1: Perceived price fairness has a significantly positive impact on perceived value.

H2: Perceived price fairness has a significantly negative impact on perceived risk.

H3: Perceived price fairness has a significantly positive impact on purchase intention.

#### *2. Influence of perceived value on purchase intention*

Perceived value represent a trade-off between the perceived quality or benefits in the product relative to the perceived sacrifice by paying the price. It plays an important role in purchase or consumption decisions. Many scholars have considered that perceived value is relevant to the emotional responses and consumption experiences of consumers, which can further influence the consumer’s purchase behavior(Sweeney and Soutar, 2001;Petrick, 2004; Dumana and Mattil, 2005).When other things remain unchanged, perceived value has a positive impact on purchase intention (Della, Monroe and McGinnis, 1981; Dodds and Monroe, 1985; Monroe and Chapman, 1987; Zeithaml, 1988; Dodds et al., 1991; Cronin et al., 2000; Xu, Summers, and Bonnie, 2004; Chen and Chang, 2012;Wu, Chen, Chen, and Cheng, 2014; Yee and San, 2011). Accordingly, we propose the following hypothesis.

H4: Perceived value has a significantly positive impact on purchase intention

### *3. Influence of perceived risk on perceived value and purchase intention*

Perceived risk exists in a consumer's decision process when he or she cannot foresee the purchase outcome and then uncertainty takes place (Hoover et al., 1978), and it is regarded as one of the necessary costs to get a product (Wood and Scheer, 1996). Consumer behavior is motivated to reduce risk (Bauer, 1960; Taylor, 1974). According to Bettman (1973), a consumer's purchase intention is affected by perceived risk. As a result, perceived risk is a critical factor influencing a consumer's purchase decision (Garrestson and Clow, 1999; Yee and San, 2011; Chen and Chang, 2012). Besides, Sweeney, Soutar and Johnson (1999), and Snoj, Korda and Mumel (2004) also found that perceived risk has a significantly negative impact on perceived value. Thus, we offer the next two hypotheses as follows.

H5: Perceived risk has a significantly negative impact on perceived value.

H6: Perceived risk has a significantly negative impact on purchase intention.

### *4. Influence of purchase situation on purchase intention*

Store atmosphere has an effect on consumers' purchasing behavior. Emotional responses induced by the store environment can affect the time and money that consumers spend in the store. Consumers experienced pleasantness of the in-store environment will enhance their intentions to spend more time and money (Donovan and Rossiter, 1982) or actually increase their spending in the store (Donovan, Rossiter, Marcoolyn, and Nesdale, 1994). The objective characterization of consumer situations also has an influence on consumer behavior (Belk, 1975). Accordingly, we set up the following hypothesis

H7: Purchase situation has a significantly positive impact on purchase intention.

## **3.2. Questionnaire Design and Data Collection**

According to the research framework, we design the items of the questionnaire for the five dimensions: perceived price, perceived value, perceived risk, purchase situation, and purchase intention. These items are measured on Likert's seven-point scale, ranging from 1 point to 7 points, denoting "very disagree", "disagree", "a little disagree", "neutral", "a little agree", "agree", and "very agree", respectively.

The gauging scales are selected from the literature. Perceived price is measured by 3 items proposed by Jacoby and Olson (1977). Perceived value is gauged by 9 items taken from Zeithaml (1988). Perceived risk is measured by 4 items taken from Jacoby and Kaplan (1972) and Peter and Tarpey (1975). Purchase situation is measured by 7 items taken from Engel, Blackwell, & Miniard (1995). Purchase intention is gauged by 5 items proposed by Fishbein and Ajzen (1975) and Dodds et al. (1991).

The questionnaire was modified through a pre-test. We selected 50 consumers based on convenience sampling for the pre-test of the questionnaire. The pre-test results show that all the dimensions have a Cronbach's  $\alpha$  between 0.747 and 0.958, these values greater than 0.7, it means a good reliability (Nunnally, 1978; Wortzel, 1979). The results from factor analysis indicate that all factors have an eigen value greater than 1, a factor loading greater than 0.6, a cumulative explained variation greater than 50%, and all the correlations between each factor and their items are greater than 0.5. This meets the criterion of convergent validity proposed by Kaiser (1958). Accordingly, we use this pre-test questionnaire as our formal questionnaire. We administered the questionnaires to consumers who have ever experienced LCCs from June 1, 2015 to September 30, 2015. A total of 360 responses were distributed, and 353 usable responses were collected. An acceptable response rate was 98.06%.

## **4. Analyses and Results**

We perform data analyses on SPSS 21.0 and AMOS 21.0. The methods adopted include descriptive statistics analysis, reliability and validity analysis, correlation analysis, and structural equation modeling (SEM) analysis.

### **4.1. Descriptive Statistics Analysis**

Through descriptive statistics analysis in Table 1, we found that the basic attributes of major group are female (62.6%), 21-30 years old (57.2%), unmarried (74.5%), students (39.1%), and monthly income below NT\$10,000 (35.7%).

**Table 1: Descriptive statistics analysis of sample**

	Items	No. of respondents	Percent (%)
Gender	Male	132	37.4
	Female	221	62.6
Age group	Younger than 20 years old	38	10.8
	21-30 years old	202	57.2
	31-40 years old	50	14.2
	41-50 years old	42	11.9
	Older than 50 years old	21	6.0
Marital status	Unmarried	263	74.5
	Married	90	25.5
Occupation	Service industry	64	18.1
	Manufacturing industry	37	10.5
	Information technology	21	5.9
	Financial industry	13	3.7
	Public servants & teachers	26	7.4
	Students	138	39.1
	Others	54	15.3
Monthly income (NT\$)	Below 10,000	126	35.7
	10,001-25,000	54	15.3
	25,001-40,000	92	26.1
	40,001-55,000	34	9.6
	More than 55,000	47	13.3

This table shows the descriptive statistics analysis for the sample data. The first column is demographic variables in this study. The third and fourth column reveals the frequency and percentage of total number of observations in each category, respectively.

#### 4.2. Reliability and Validity Analysis

Composite reliability (CR) is used as a measure of the reliability. It is defined to have “internal consistency reliability” when CR has a value greater than 0.7 (Fornell and Larcker, 1981). As presented in Table 2, all the dimensions have a CR value greater than 0.7, which indicates good internal consistency reliability.

This research conducts confirmatory factor analysis (CFA) to measure convergent validity. According to the results in Table 2, all CR estimates are greater than 0.7, all factor loadings are greater than 0.5, and all Average Variance Extracted (AVE) estimates are also near or greater than 0.5 in these five dimensions. This is consistent with the criterion of convergent validity proposed by Fornell and Larcker (1981) and Hair et al. (2009).

**Table2: Confirmatory Factor Analysis**

Dimension		Factor loading	CR	AVE
Perceived price	PP1	0.805	0.901	0.753
	PP2	0.935		
	PP3	0.858		
Perceived value	PV1	0.708	0.899	0.499
	PV2	0.728		
	PV3	0.686		
	PV4	0.697		
	PV5	0.826		
	PV6	0.756		
	PV7	0.701		
	PV8	0.644		
	PV9	0.586		
Perceived risk	PR1	0.617	0.836	0.571
	PR2	0.923		
	PR3	0.862		
	PR4	0.554		
Purchase situation	PS1	0.719	0.872	0.496
	PS2	0.785		
	PS3	0.806		
	PS4	0.728		
	PS5	0.664		
	PS6	0.648		
	PS7	0.546		
Purchase intentions	PI1	0.905	0.960	0.827
	PI2	0.911		
	PI3	0.904		
	PI4	0.950		
	PI5	0.876		

This table shows confirmatory factor analysis on expectation, service quality, satisfaction, and behavioral intention. CR, AVE represents composite reliability, and average variance extracted, respectively. \*\*\*, \*\* and \* indicate significance at the 0.1, 1 and 5 percent levels, respectively.

Table 3 presents the results of discriminant analyses, with the values on the diagonal being AVE of our five dimensions (constructs): perceived price, perceived value, perceived risk, purchase situation, and purchase intention. Values on the non-diagonal are the square of the correlation between two constructs. We note that the questionnaire has discriminant validity, because the AVE of each construct is greater than the square of the correlation between any two constructs (Fornell and Larcker, 1981). In addition, it also has content validity, because our scale and item contents are constructed according to the literature review and do pass the questionnaire pre-test.

**Table 3: Discriminant Analysis**

	Price	Value	Risk	Situation	Intention
Price	0.753				
Value	0.186	0.499			
Risk	0.012	0.007	0.571		
Situation	0.271	0.192	0.000	0.496	
Intention	0.327	0.230	0.066	0.260	0.827

This table shows discriminant analysis of perceived price, perceived value, perceived risk, purchase situation, and purchase intention. Values on the diagonal and non-diagonal are AVE estimates and the square of correlation between two constructs, respectively.

**4.3. Structural Equation Modeling Analysis**

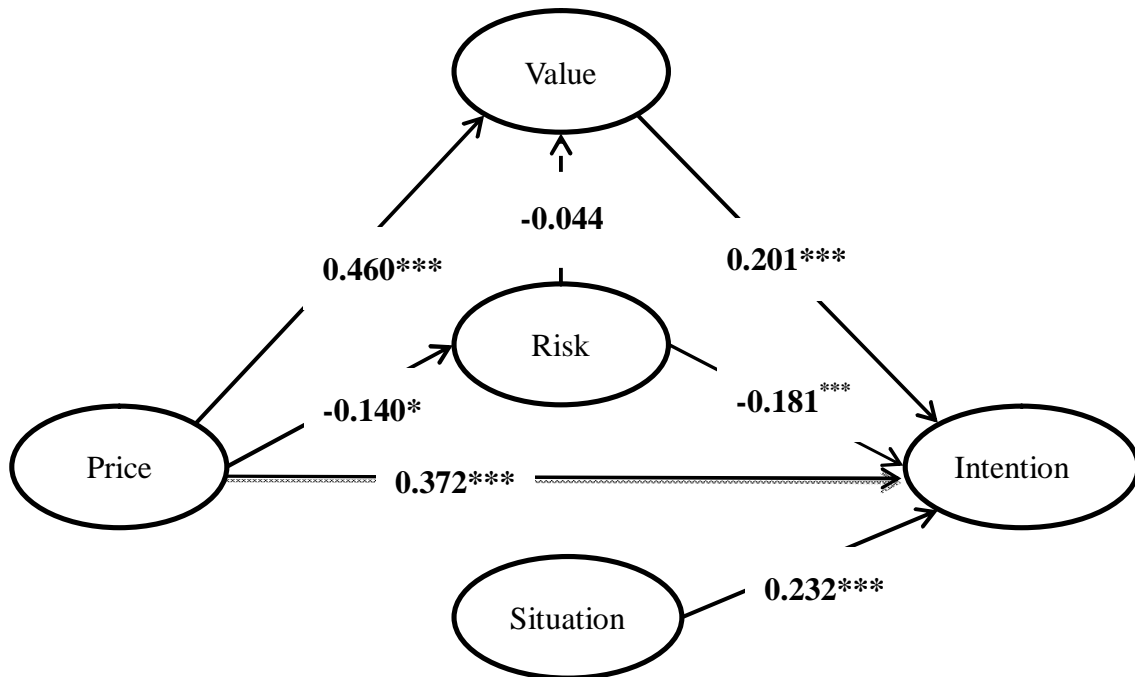
This section conducts structural equation modeling (SEM) analysis to test the fit of the factors (dimensions) of perceived price, perceived value, perceived risk, purchase situation, and purchase intention. For a model with good fit, GFI (goodness of fit) should greater than 0.8 (Browne and Cudeck, 1993). AGFI (adjusted goodness of fit) should be greater than 0.8, and CFI (comparative fit index) should be greater than 0.9 (Doll, Xia, Torkzadeh, 1994; Mac Callum and Hong, 1997; Hair et al., 2009; Hu and Bentler, 1999; Gefen et al., 2000). RMSEA (root mean square error of approximation) should be under 0.08 (Browne and Cudeck, 1993), and the ratio of the chi-

square value to degrees of freedom ( $\frac{\chi^2}{df}$ ) should be no greater than 3 (Carmines and Maclver, 1981; Hair et al., 2009). The goodness-of-fit indices of the model are as follows: GFI is 0.834, AGFI is 0.803, CFI is 0.906,

RMSEA is 0.072, and  $\frac{\chi^2}{df}$  is 2.834. All these indices are within the acceptable range, meaning that the overall model fitness is good.

**4.4. Results from the Hypotheses Verified**

Figure 1 presents the path analyses from SEM. According to the estimated values of the standardized parameters of the relationship model in Figure 1, we find that perceived price fairness has a significantly positive influence on perceived value and purchase intention (H1 and H3are supported), and has a significantly negative influence on perceived risk (H2is supported).



**Figure 1: SEM from Path Analysis**

With regard to the relationships of perceived risk, perceived value, purchase situation, and purchase intention, we find that both perceived value and purchase situation have a significantly positive impact on purchase intention (H4 and H7 are supported). Additionally, perceived risk has a significantly negative impact on purchase intention (H6 is supported). However, the impact of perceived risk on perceived value is insignificant (H5 is not supported). The results from H1, H2, and H3 indicate that perceived price fairness has a direct effect on perceived value, perceived risk and purchase intention. Besides, the results from H1, H2, H4, and H6 show that perceived price fairness has an indirect effect on purchase intention via perceived value and perceived risk.

Moreover, the supported H7 shows that purchase situation also has a direct impact on purchase intention. However, the unsupported H4 indicate that perceived risk does not have a direct effect on perceived value.

**Table 4: AMOS Model Fit Test Results**

Hypotheses and Paths	Factor loadings	Results
H1: Perceived price Perceived value →	0.460***	Supported
H2: Perceived price Perceived risk →	-0.140*	Supported
H3: Perceived price Purchase intention →	0.372***	Supported
H4: Perceived value Purchase intention →	0.201***	Supported
H5: Perceived risk Perceived value →	-0.044	Unsupported
H6: Perceived risk Purchase intention →	-0.181***	Supported
H7: Purchase situation Purchase intention →	0.232***	Supported

This table shows the estimated values of standardized parameters and the hypothesis test results. The first column represents our research hypotheses (paths). The figure in second column is the standardized factor loading of each path. \*\*\*, \*\*, and \* indicate significance at the 0.1, 1 and 5 percent levels respectively.

### 5. Conclusion and Implications

Low-cost Carriers (LCCs) is a popular option for Taiwan's travelers now, and there has been a considerable growth of the LCCs since its first entrance into Taiwan in 2004. Thus, this study uses LCCs consumers as research subjects to investigate the relationships and effects of perceived price, perceived value, perceived risk, purchase situation, and purchase intention.

Using random sampling, we administered the questionnaires to consumers who have ever experienced LCCs from June 1, 2015 to September 30, 2015. A total of 360 questionnaires were distributed, and 353 usable responses were collected, for an acceptable response rate of 98.06%. We perform data analyses through SPSS 21.0 and AMOS 21.0, with the adopted methods including descriptive statistics analysis, reliability and validity analysis, correlation analysis, and structural equation modeling (SEM) analysis.

The research findings show that perceived price fairness has a significantly positive influence on perceived value and purchase intention (H1 and H3 are supported), and has a significantly negative influence on perceived risk (H2 is supported). Besides, both perceived value and purchase situation have a significantly positive impact on purchase intention (H4 and H7 are supported). Perceived risk also has a significantly negative impact on purchase intention (H6 is supported). However, the impact of perceived risk on perceived value is insignificant (H5 is not supported).

The results from SEM show that perceived price fairness has a direct effect on perceived value, perceived risk and purchase intention. Moreover, it has an indirect effect on purchase intention via perceived value and perceived risk. The implication is that perceived price fairness cannot only enhance consumers' purchase intention directly, but also improve consumers' perceived value and lower their perceived risk, which in turn stimulating consumers' purchase intention. Therefore, we suggest that LCCs practitioners should pay more attention to enhance consumers' perceived price fairness. LCCs practitioners are also advised to improve consumers' purchase situation.

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