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## PRICE FAIRNESS AND CUSTOMER LOYALTY OF FOOD AND BEVERAGE INDUSTRY IN PORT HARCOURT

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### ABSTRACT

The study examined the relationship between price fairness and customer loyalty in food and beverage firms in Rivers State. The study adopted correlational research design. Data were collected from a sample of 132 customers of food and beverage firms using a structured questionnaire. The study utilized the Spearman's Rank Order Correlation ( $r$ ) to test its hypotheses at 0.05 level of significance, relying on the Statistical Package for the Social Sciences (SPSS) version 22.0. The study found that price fairness has significant positive relationship with customer loyalty through repeat purchase and customer retention. The study concludes price fairness drives customer loyalty in food and beverage firms in Rivers State; and recommends that managers of food and beverage firms should avoid over-pricing of their products in order not to lose their customers to competitors.

**Keywords:** Customer loyalty, customer retention, price fairness, repeat purchase

### INTRODUCTION

Customer loyalty is key factor to the successful running of an enterprise. Thus, determining factors that affect customer loyalty has been a paramount concern to business practitioners and researchers. Among the drivers of customer loyalty identified in literature is price. For food and beverage firms, determining and fixing the "right price" for their products have been a challenge. Perceived price unfairness results in customer defection and loss of revenue. These negative outcomes have a strong profit and competitive implications for food and beverages.

Price fairness is thus a fundamental issue that has attracted the interest of marketing researchers. In today's highly competitive global markets, managers seek to improve organizational effectiveness by identifying organizational factors that contribute to long-term success. One of the important marketing issues is the firms' marketing philosophy which says that in order to achieve sustained success; organizations must identify and satisfy customer needs and wants more effectively than competitors (Armstrong *et al.*, 1997). Also, a satisfied customer that perceives a firms' price to be fair will show the willingness to remain loyal with the firm. Price is an important determinant of purchase and post-purchase behaviours; and a plays a central role in service with complex pricing structures (Kotler & Armstrong, 1999).

Fixing a "fair price" for products has been an issue of concern for marketers in all ages. In the dark ages, merchants were put to death for exceeding public norms regarding the just price. Even

in modern market economics, putative price gougers often face press criticism, regulatory hassles and public boycotts (Nagle *et al.*, 2011). The fact is that both the price offered and the rationale for offering that price hold implication for sellers, including switching behaviour, negative publicity, and consumer activism (Campbell, 1994; Xia *et al.*, 2004). Consequently, marketers must understand and approach pricing with as much fairness as possible. Fairness appears to be totally unrelated issue in supply and demand. Naturally, assumptions about the seller's profitability influence perceived fairness and consequently customers' loyalty will result to repeat purchase and retention.

Many studies have been conducted on price fairness by different researchers using different industries and locations (Nagle *et al.*, 2011; Xia *et al.*, 2004). However, there is paucity of previous studies focusing on price fairness and customer loyalty in Rivers State. Hence, this work focused on the relationship between price fairness and customer loyalty in food and beverage firms in Port Harcourt.

## LITERATURE REVIEW

### Concept of Price Fairness

Price is the value customer give-up to acquire a product which they believe can satisfy their need. Price thus play significant role in product selection. It is argued that price improve both post-purchase satisfaction and repurchase intention (Liu & Arnett, 2000). Hence, firms try to match prices with the value of their offerings to encourage repeat purchase and also drive customer acquisition and retention. From a company's point of view, the price is reward or value given in return for fulfilling customers' need. Perceived customer expectations and price are therefore expected to be in alignment.

Price is multi-faceted, and includes monetary price, objective price and sacrifice. It is the value that consumers have to sacrifice to obtain what they want (Zeithaml, 1998). Product pricing is not easy because price is set based on the core values of customer satisfaction since consumers estimate product value before making purchase decision (Khan, 2011). In consumer's view, price is actually as a signal to evaluate their experiences with product performance (Taiwo, 2018).

Price has widely been accepted as an important marketing factor that influences customer behavior. While brands make efforts to make profits through product pricing, consumers search for fairly priced products that deliver maximum value. Scholars confirmed that perception of price fairness has a significant effect on reactions of customers to strategic decisions related to pricing (Sinha & Batra, 1999; Kahneman *et al.*, 1986). Perception of price fairness refers to consumers overall assessments of whether the offered price of a product is really reasonable or justified (Xia *et al.*, 2004). Particularly, customers are likely to rely on various reference sources to make better judgments such as cost of goods sold, previous prices, and rivals prices when evaluating price fairness in order to make comparisons (Bolton *et al.*, 2003). The rational facet of this reveals that the evaluation of price fairness involves comparing the price of a product with a certain standard or reference. Customer often reference prices by reeling past transactions, looking at competitors prices, seller costs, and price paid by other customers.

### Customer Loyalty

Customer loyalty is defined as a feeling of attachment to or affection for a company's products, services and people. Loyalty is a long-term commitment to repurchase involving both repeated patronage and favourable attitude (Dick & Basu, 1994). In a business context loyalty can be

defined as a customer's commitment to do business with a particular organization, purchasing their goods and services repeatedly, and recommending the services and products to other people. According to Nagle et al. (2011), loyalty truly exists when customers resist pressures to switch to another brand. The authors argue that service providers desire customer loyalty, because a consumer that has an "attitudinal and behavioural commitment" to a service provider may repurchase even if they are dissatisfied with their last experience.

Customer loyalty is the behaviour of the customer towards purchase of the same product from the same supplier. It is a psychological commitment that a customer has towards a specific brand or company. Oliver (1999) defines loyalty as "a deeply held commitment to re-patronize a preferred product consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behaviour." In modern businesses, customer loyalty is considered a crucial factor in profit progression and a basic measure of customer relationships.

Customer loyalty is very significant in the creation and maintenance of competitive advantage in the service industry. Loyal customers remain faithful to a firm and support its profitable growth. Oliver (1999) state that maintaining strong customer loyalty provides profit maximization opportunities for businesses through reduced marketing costs and increased resistance among loyal consumers to competitive strategies implemented by competing businesses.

Customer loyalty results from customers' experience with a service provider (Srinivassan et al., 2002). Nagle et al. (2011) explained that customers might be loyal towards particular products because of the brand's service, store, product categories and activities. Customer loyalty comprises attitudes and behaviours. Attitudinal component of loyalty represents notions like repurchase intention or purchasing additional products from the same brand, willingness to recommend the brand to others, demonstration of such commitment to the brand by exhibiting a resistance to switching to another competitor (Cronin & Taylor, 1992) and willing to pay a price premium (Zeithaml et al., 1996). Behavioral loyalty on the other hand represents actual repeat purchase of products from the same brand, recommending the brand to others and reflecting a long-term choice probability for the brand.

Kotler and Armstrong (2013) identified three components of customer loyalty as: advocacy loyalty, retention loyalty and purchasing loyalty. They noted that effective management of advocacy loyalty will drive "new customers" growth. Managing purchasing loyalty drive "existing customers" growth by increasing average revenue per user; while managing retention loyalty drive overall size of customer base. In this study however, repeat purchase and customer retention are used as metrics of customer loyalty.

### **Repeat purchase**

Repeat purchase describes a situation where a customer returns to a particular firm for more business after an initial trial (Ateke & Harcourt, 2017). Favourable purchase experience reinforces repeat purchase. So, the more frequent customers get a favourable experience with a brand, the more likely they will return for more business (Chao-Min et al, 2010). Nwiece and Ateke (2016) states that repeat purchase indicates customers' loyalty to a brand and that higher repeat purchase value tells of a satisfied and well retained customer. Firms can induce repeat purchase by responding proactively to feedback about their products and by providing value adding services (Nwiece & Ateke, 2016). Repeat purchase is the prime goal a company can set for its products since consumers' preference to purchase a given brand in a product category is a sure driver of business prosperity. Nwulu and Asiegbu (2015, cited in Nwiece & Ateke, 2016)

opines that customers who repeatedly patronize a brand are those who find emotional, intellectual and physical satisfaction in the value offering of a brand. Repeat purchase based on customer satisfaction informs long term business sustainability and profitability.

### **Customer retention**

Customer retention is an important topic in marketing due to the saturated and competitive nature of today's markets and marketing's shift from a transaction focus to a relationship focus. Customer retention is the activity that a selling organization undertakes in order to reduce customer switching behaviour (Reicheld, 2006). Ateke and Amangala (2020) describe customer retention as customers' commitment and loyalty to a brand, and expressed through continued patronage of products. Customer retention results from exceeding customers' expectation, so that they become delighted and desire to build a relationship with the firm. Firms focus on delivering quality product and excellent customer service to achieve higher customer retention rates (Ateke & Onwujiariri, 2014). Marketing praxis emphasize the relevance of customer retention to overall wellness of a business. Firms and customers alike increasingly look for mutually satisfying long-term relationships because it provides increased competitiveness for firms and reduce purchase related risks for customers (Augusto de Matos *et al.*, 2007). To be successful, a firm's effort to retain customers must start with the initial contact they make with a customer and continue throughout the duration of the relationship. Customer retention has been an important marketing objective of firms in view of the benefits that accrue from having a secured customer base. In order to retain customers in mature markets, implement programmes aimed at preventing switching behaviour, and offer special customer care programmes that raise the level of customer satisfaction (Yoda & Kumakura, 2007, cited in Ateke & Amangala, 2020).

### **Price Fairness and Customer Loyalty**

As the competitive environment becomes more turbulent, the most important issue facing marketers is no longer just to provide excellent, good quality products or services, but to also keep loyal customers that could contribute to long-term profit (Yang & Chen, 2010). To compete in a competitive marketplace, marketers must look beyond the traditional 4Ps of marketing strategy for achieving competitive advantage; they must develop loyal customers through consistent record of meeting and exceeding customer expectations. Kotler *et al.* (1999) assert that the cost of attracting new customers is five times the cost of keeping current customers happy and satisfied.

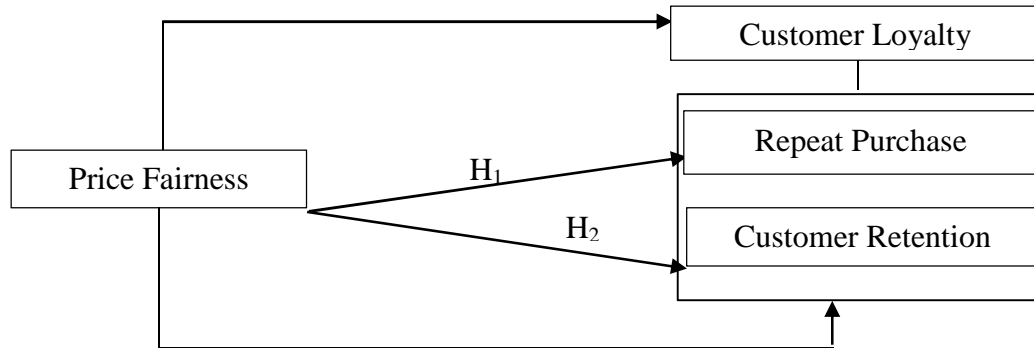
Price is essential to customer loyalty (Armstrong *et al.*, 1997), repeat purchase (Cronin & Taylor, 1992) and customer retention ((Zeithaml *et al.*, 1998). It also affects companies' market share, and thus profitability (Zeithaml *et al.*, 1996). Price appears to be the most important forecaster of customer loyalty by comparing to physical setting and product quality (Suleket *et al.*, 2004) Ha and Jang (2010) states that a positive relationship exists between price and customers loyalty. This position is in line with the view of Bitner and Hubbert (1994) that customer loyalty and customer perceptions of price are correlated.

Therefore, price fairness is an important factor that influences customer loyalty (Taiwo, 2018). Studies show that price fairness has significant relationship with customer loyalty. Khan (2011) found that fairness in price is a significant determinant of purchase intention. If customers have a good experience and satisfied with a product, they will continuously spread positive word of mouth to other potential customers in order to stimulate their intention to visit the firm. As a result, when the price is fair this may make the customers having good feelings and moods to

purchase the products in question. Consequently, this will help to create good relationship and emotional attachment between customers and the firm. Besides that, based on the research carried out by Namkung and Jang (2007), price fairness has significant relationship with customer's satisfaction, loyalty, and consequently leads to repeat purchase and customer retention. Therefore, we hypothesize that:

**H<sub>01</sub>:** There is no significant relationship between price fairness and repeat purchase in food and beverage firms in Port Harcourt.

**H<sub>02</sub>:** There is no significant relationship between price fairness and customer retention in food and beverage firms in Port Harcourt.



**Fig. 1:** Hypothesized conceptual framework of price fairness and customer loyalty

**METHODOLOGY**

The study adopted correlational research design. The population of the study consist 13 food and beverage firms in Port Harcourt that are with the Confectionary Association of Nigeria, Port Harcourt branch and the Port Harcourt Chamber of Commerce and Industry. The study adopted questionnaire as instrument of data collection. A 4-point Likert scale was adopted in the questionnaire design with response categories in the order of LE = low extent, ME = moderate extent, HE = high extent, and VHE = very high extent. Based on the interpretation of our mean where all responses with mean value (x) between 1-2 as being low, 2.5-3.5 as moderates 3.5-4.5 as high, and 4.5 above as being very high was adopted. Univariate analysis was carried out using frequencies, weighted averages and standard deviation while bivariate analysis was done using the Spearman’s rank order correlation with the help of the Statistical Packages for Social Sciences (SPSS) version 22.0.

**RESULTS**

**Table 1: Response Rate and Descriptive Statistics for Repeat Purchase**

S/N	Repeat Purchase	N	Min.	Max.	Mean	STD. Dev.
1	To what extent does your firm quickly respond to your needs?	132	1.00	5.00	4.0985	78227
2	To what extent does the firm care about your complaints?	132	1.00	5.00	4.0530	93543
3	To what extent does employees committed and responded to your request?	132	1.00	5.00	4.0985	87243
4	To what extent does the firm product offer you satisfaction?	132	1.00	5.00	4.1439	99719

Sources: Field work 2021

From Table 1, all the items, 1-4 show high mean scores of 4.0955, 4.0530, 4.0955 and 4.1439 respectively.

**Table 2: Response Rate and Descriptive Statistics for Customer Retention (N=132)**

S/N	Customer Retention	N	Min.	Max.	Mean	STD. Dev.
1	To what extent has your complain been attended to?	132	1.00	5.00	4.0707	.84612
2	To what extent does attention being giving to?	132	1.00	5.00	4.1136	.97793
3	To what extent does the firm ensure your expectations are met?	132	1.00	5.00	4.0682	.93474
4	To what extent have you referred your firm to others?	132	1.00	5.00	4.0303	.8551

Sources: Field work 2021

**Table 3: For Bivariate Hypotheses**

Rho		Price Fairness	Repeat Purchase	Customer Retention
Price Fairness	Correlation Coefficient	.598**	.488**	.449**
	Sig. (2-tailed)			
	N	.000	1.000	.000
Repeat Purchase	Correlation Coefficient	.488**	.499**	.499
	Sig. (2-tailed)			
	N	.000	.000	
Customer Retention	Correlation Coefficient	.499**	.488	.499**
	Sig. (2-tailed)			
	N	.000	1.000	1.000
		132	132	132

\*\*Correlation is significant at 0.01 level (2-tailed)

The result of the relationship between price fairness and the measures of customer loyalty shows that price fairness significantly relates to customer loyalty based on its level of significance with repeat purchase and customer retention as described below:

- i. At a significant level of 0.05 and a rho of .488, the result of the analysis indicates that price fairness moderately relates to repeat purchase. Thus, the null hypothesis was rejected.
- ii. At a significant level of 0.05 and a rho of .499, it shows price fairness significantly relates to customer retention. Hence, the null hypothesis was rejected.

The evidence of the relationship between price fairness and the measures of customer loyalty is positive and statistically significant. This implies that price fairness enhances customer loyalty.

### DISCUSSION OF FINDINGS

The role of price fairness in enhancing customer loyalty formed the core of this investigation. Results show substantial evidence of the imperative of price fairness in facilitating and enhancing a more quality oriented service delivery in the food and beverage industry. The evidence herein does not stand alone as it offers confirmations and supports for the observations

and assertions of previous studies. The relationship between price fairness and customer loyalty is observed to be significant. This follows the position of Zeithaml *et al.* (1998); Boston and Rotheberger (2015) that price fairness in form of cash compensation or refund is an indispensable aspect of the exchange which takes place between the firm and its customers.

### CONCLUSION AND RECOMMENDATIONS

Firms whose pricing strategies do not take into account fairness of price in the sales of their products will have little bond with their customers and, subsequently experience customer switch and loss. Therefore, based on the data analysis, the study concludes that price fairness enhances customer loyalty in terms of repeat purchase and customer retention in food and beverage firms in Rivers State. The study recommends that managers of food and beverage firms should always ensure fair price when fixing the prices for their products; and avoid overpricing to prevent customer switch, or under-pricing in order not to portray their products as being inferior.

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