

CHAPTER II

LITERATURE REVIEW

2.1. Theoretical Review

2.1.1. Perceived Price

According to Zeithaml (1988), from the consumers' perspective, price is what is given up or sacrificed in order to obtain a product, and that price consists of three components, which are objective price (also known as the actual price of a product), perceived nonmonetary price (also known as the price as encoded consumers), and sacrifice. Parvin and Chowdury (2006) stated that consumers sacrifice their money and benefit from other competitive brands in order to get the highest utility from a brand whose products they purchased. Geçti (2014) mentioned that there are several variables that could affect consumers' decision making including price. Price is seen as one of many important marketplace cues that consumers usually use in term of making a decision. As a lot of people know, consumers often have different reactions to price.

Price and price perception or perceived price, however, slightly hold different meanings. While price is seen more as an objective price, which means the actual price of a product, perceived price is seen as a price of a product that is set by the consumer (Zeithaml, 1988). There are a lot of definitions or descriptions associated with price perception or perceived price. For example, Lichtenstein, Bloch, & Black (1988) referred price perception as the process by which consumers translate price into meaningful cognitions. Geçti (2014) described price perception

as the process of price interpretation and evaluation of products or services by consumers. Li (2017) defined perceived price as the price of a product codified by the consumer. Additionally, based on consumer's point of view, the definition of perceived price is the price that consumer perceived and that perceived price is more meaningful than monetary price (Bei and Chiao, 2001).

Customers usually go through a process called encoding when they try to perceive a price of a product. Since it is common for customers to have difficulty in remembering the exact price that he or she paid for a particular product or service, customers often encode prices in meaningful ways (Kashyap and Bojanic, 2000). Consumers usually encode the price of a product as "expensive" or "cheap" rather than remembering or knowing the actual price of a product (Zeithaml, 1988). Berkowitz and Walton (1980) indicated that the encoding process is very important to someone's price perception. They then continued to explain that the encoding process is important to someone's price perception because at the encoding stage, the consumer interprets and evaluates the price cue. According to Herrmann, Xia, Monro, and Huber (2007) buyers' price perception will be favourable when buyers perceive the quality or performance is consistent with the price. Furthermore, when a price meets one's expectation, the evaluation is likely to be positive.

Throughout the years, perceived price theory and its roles have been included and been studied by a lot of researchers in their studies. For an instance Geçti (2014) conducted a research on the relationship among perceived price's dimensions via structural equation modeling that was tested on Turkish consumers. His study's findings showed that price perception's dimensions change according

to the positive or negative roles that price plays on consumer's buying behavior. For example, if an increase in price causes the probability of consumers' purchasing, then we can mention the positive role of price. Additionally, some relationships among price perceptions were significant, while some were not. It was also revealed that the most exploratory dimensions of price perception were value consciousness and price consciousness. His research gave us understanding about price perceptions and its dimensions. In addition, in comparison with other countries, Chinese consumers are not "ethnocentric", while Japanese and Korean consumers tend to be more ethnocentric.

There are also several researches proving that price perception and customer satisfaction are related. Price is undoubtedly an important factor in term of consumer satisfaction, as whenever consumers evaluate the value of an acquired service, they usually think of the price (Anderson, Fornell, & Lehmann, 1994; cited in Parvin & Chowdurry, 2006). According to Moslehpour et al., (2017), consumers could be satisfied when they feel the price and the quality are reasonable and they also can judge whether the product is offering a good value of price based on the performance or benefit of the products. Additionally, Khan, Naumann, & Williams (2012) stated that the price perception of customers could also be seen as the final expected key driver of repurchase intentions. Therefore, perceived price is important as price is seen as a form of a sacrifice in a lot of previous research.

2.1.2. Country of Origin

According to Saeed (1994), country of origin can be defined as the home country that is usually linked with a manufacturer's product or brand (cited in Murtaza, 2016). Nagashima (1970) identified country of origin by looking at the "made in" or "manufactured in" labels attached to a product or a brand. Abdi (2014) stated that country of origin is an identity in product attributes that affects consumer evaluations when it comes to identifying the origin of a product. Country of origin itself began during the World War 1, when defeated countries were forced to put the symbol of country of origin on their products (Cai, 2002; cited in Rezvani, Dehkordi, Rahman, Fouladivanda, Habibi, and Eghtebasi, 2012).

Country of origin and country image are not the same but quite related to one another. Country of Image is frequently used to describe effects caused by country of origin on product evaluations (Ayyildiz and Cengiz, 2007). Han and Terpstra (1988) referred the term country of origin effect to a consumer's dependency upon country of origin when forming opinion on quality of a product.

According to Hong and Wyer (1989) the effects of country of origin in consumers' cognitive process they are presented with the country of origin cue along with other cues such as price and brand, can be observed in two ways. Those two ways are the halo effect and the summary construct. As for the halo effect, it directly affects consumers' beliefs about products of a country they are not familiar with and indirectly affects the overall evaluation of them through these beliefs. For example, when a particular country is mentioned, it triggers feelings in consumers' minds, be it positive or negative. On the other hand, the summary constructs work

when a consumer is familiar with a country's product and the consumer concludes a country's image from its product information.

Citra and Syahlani (2008) reported that consumers often associate a particular company or brand with a particular country, which is generated from the effect of country of origin. Generally, a lot of consumers associate the country of French with wine, Italian country with pasta, and the country of Japan with electronic goods (Citra and Syahlani, 2008).

The fact that consumers pervasively use country of origin information as an indicator of quality has constantly being supported by studies' findings (Kotler and Gertner, 2002). Kotler and Gertner (2002) identified that country of origin has become an integral part of the repertory of extrinsic cues to product evaluations, along with price, brand name, packaging and seller, as opposed to the study of the role of intrinsic qualities of the product such as materials, design, style, workmanship, color, and smell. Consumers often use information cue as a factor or as help in term of evaluating products or brands. A research conducted by Schooler (1965) regarding the effect of country of origin on consumer evaluations showed that those consumer evaluations utilize country of origin as one of their information cues (cited in Katsumata and Song, 2016).

Kotler and Gertner (2002) revealed that a lot of studies regarding country of origin have been developed on behalf of a variety of durable and non-durable consumer products including cars, electronics, apparel, smoke detectors, and pickles. In a study of country of origin effect on automobiles industry, which was tested on three Asian countries (China, Japan, and South Korea) and the US,

Katsumata and Song (2016) found that Japanese and South Korean consumers tend to prefer products from their own countries. On the contrary, Chinese and US consumers do not care whether products originate from their home country. Another study about country of origin by Citra and Syahlani (2008) revealed that effect of foreign branding, which was English branding showed its positive effect better on consumer perceptions and attitudes of processed milk product. Foreign country of origin showed higher positive Indonesian consumers' attitudes than domestic country of origin.

2.1.3. Customer Satisfaction

Customer satisfaction is defined as an evaluation rendered that the product experience was at least as good as it was supposed to be (Hunt, 1977: 459; cited in Ryu, Han, Kim, 2008). Ilieska (2013) described customer satisfaction as the customer's feelings of pleasure or disappointment which is a result from comparing a product's perceived performance (outcome) in relation to his or her expectation. Customer satisfaction is said to be resulted from the measurement of products and service to meet one's desires, expectations, and demands, and it was the overall level of customer pleasures and contentment (Hellier, Geursen, Carr, and Rickard, 2003). Razak, Nirwanto, and Triatmanto (2016) stated that customer satisfaction is a feedback from a customer after purchasing some goods or services compared with customer expectations in the form of evaluation. Varga, Dlačić, and Vujičić (2014) mentioned that satisfaction is created through adjustment of the supply that is adapting the marketing mix according to expectations, needs and wishes of the

consumers. According to Razak et al., (2016), we can measure customer satisfaction by using the expectations of customers with the performance of the goods or services that could meet not only the needs but also desires of the customers. Illieska (2013) stated that consumer satisfaction may relate to a particular feature or characteristic of a product or service, or alternatively it may relate to the product or service a whole. From a lot of researchers' explanations regarding customer satisfaction, it can be seen that customer satisfaction is influenced heavily by how the customers expect the products and services to perform or to be and see whether the products and services truly meet their expectations or not.

Customer satisfaction is said to have a significant role in one's business and gives advantages for a company since customer satisfaction can create a lot of positive outcomes for them and can also influence customers' buying behavior. Illieska (2013) believes that the satisfaction about the product or service as a whole merit attention, since satisfaction influences consumers' future buying and consuming behavior. Razak et al., (2016) indicated that a satisfied customer means that there are similarities between the performance of a product or service with customers' hope, which will encourage customers to re-purchase products that they are satisfied with. While a disappointed customer would be more likely to persuade others to not re-purchase, resulting others to move to another brand competitor. Improving customer satisfaction could really help business to make profits since customer satisfaction both builds relationships with the old customers and also fighting for new customers in a cost-saving way (Feng and Yanru, 2013).

Additionally, firms can achieve higher retention rate, positive word of mouth and increase their profits by increasing customers' satisfaction (Zeithaml, 2000; cited in Pappas, Pateli, Giannakos, and Chrissikopoulos, 2014). Since the first time it was introduced into marketing in 1965, customer satisfaction has become an important indicator of business performance and as an indicator to guide the development of new products and correction power of new services (Feng and Yanru, 2013). Because customers' satisfaction gives a lot of benefits and positive to business, it is important to know what satisfy customers both for researchers and practitioners.

Customer satisfaction is also said to be important as a lot of studies have examined its relationship with other marketing variables and found that it could impact and be impacted by other marketing variables such as brand repurchase intention, price perception, country of origin, and the like. A study conducted by Feng and Yanru (2013) on the subject of brand consumers of mobile communication service providers, that was tested on students of China University of Mining and Technology, Xuzhou Normal University, Pengcheng College; found that customer satisfaction was the key factor of improving repurchase intention. Furthermore, customer satisfaction, through multi-path, can directly or indirectly affected repurchase intention. Jiang and Rosenbloom (2005) studied the role of price and customer satisfaction at different stages on customers' intention to return in the e-retailing industry. Those different stages are at checkout and after delivery. The study was tested on 416 customers through Bizrate.com. Their study's findings indicate that after delivery satisfaction is more prominent to influence customer satisfaction and their intention to return and that price perception of the customers

has a direct and positive effect on their satisfaction and repurchase intention. Despite many researches done on customer satisfaction, there are still very little number of customer satisfaction study associated with beauty products, hence, researcher would like to conduct a research on customer satisfaction impact on repurchase intention of buying a Korean beauty product.

2.1.4. Repurchase Intention

Over the years, repurchase intentions has been identified and defined in various ways by scholars. Zeithaml, Berry, and Parasuraman (1996) identified two forms of repurchase, the first is the intention to re-buy (repurchase) and the second one is the intention to engage in ways such as doing word-of-mouth and recommending the products customers are satisfied with (referral). Zeithaml et al., (1996) also stated that repurchase intention represents the five behavioral intentions along with loyalty, willingness to pay, word-of-mouth, and complaining. Repurchase intention is said to be the derivative behavior of customer loyalty (Jones and Sasser, 1995). One definition of repurchase intention, is that repurchase intention is said to be the individual's decision or judgment in term of buying again a designated service from the same company by considering his or her current situation and likely circumstances (Hellier, Geursen, and Carr, 2003). Repurchase intention represents customer's commitment in term of purchasing more goods and services from the organization, and also to promote word-of mouth recommendations (Khan, Naumann, and Williams, 2012). Implying that if customers see that a product or service is worthy enough, they would be more likely

to purchase that same exact product or service again in the future. In addition, customers may also help promote the product they are satisfied with through word-of-mouth. Ibazan, Balarabe, and Jakada (2016) stated that marketing managers can rely on repurchase intention when it comes to predicting sales in a variety of marketing activities such as new product introductions, effectiveness of advertising, service management, and demand forecasting for existing products. Moreover, repurchase intention can also be used as a proxy for purchase behavior and as an indicator of customer loyalty (Morwitz, Steckel & Gupta, 1977; Morgan and Rego, 2006). Jones and Sasser (1995) stated that intention to repurchase can be measured by asking consumers about their future intentions to repurchase a particular product or service. In addition, Jones and Sasser (1995) proposed that the information regarding intention to repurchase can be obtained by companies when they measure satisfaction, which makes it relatively easy to link intentions and satisfaction for analytical purposes; repurchase intention can also be measured at any time in the customer relationship make it especially valuable in industries with a long repurchase cycle; lastly, repurchase intention is a strong indicator of future behavior.

There are numerous studies regarding repurchase intention and its relationships with other marketing variables such as customer satisfaction, perceived quality, brand preference, country of origin and the like, conducted throughout the years in several industries and sectors. Most of those studies found a valid relationship between repurchase intention and other marketing variables, which shows that understanding more about repurchase intention might bring a lot

of advantages for business practitioners. A study conducted by Shin, Chung, Oh, and Lee (2013) about site quality effect on repurchase intention in internet shopping found repurchase intention can be indirectly affected by customer satisfaction through customer trust and customer commitment. Pappas, Pateli, and Giannakos (2014) conducted a study regarding the moderating effects of online shopping experience (performance expectancy) on customer satisfaction and repurchase intention. Their study concluded that experience has moderating effects on the relationships between performance expectancy and satisfaction, and satisfaction and intention to repurchase. Ebrahim, Ghoneim, Irani, and Fan (2016) suggests that consumer decision to repurchase the brand and repeat their experiences will not occur unless it results in favorable predispositions towards a certain brand among the alternatives. In another word, repurchase intention can also be influenced by brand preferences. Sohaib, Rehman, and Akram (2016) studied the underlying effect of customer satisfaction on repurchase intention mediated by trust and commitment in Pakistan banking industry by distributing questionnaires to 225 customers of banks. They reported that there is a positive relationship between customer satisfaction and repurchase intention mediated by trust and commitment, in which satisfaction positively enhances the trust then trust fosters the commitment and this increase customers' intent of repurchase. Despite many studies have been conducted on behalf of examining repurchase intention relationship with other marketing variables in diverse type of industries, there is still very little studies about repurchase intention's relationship with marketing variables such as price

perception, country of origin, and customer satisfaction in Indonesia beauty industry.

2.2. Theoretical Framework

The theoretical framework of this research consists of four variables: perceived price, country of origin, customer satisfaction, and repurchase intention. Previous similar research done by Moslehpour, Wong, Pham, and Aulia (2017) used the same variables as this research with the exception of the use of customer satisfaction variable. Instead, they used word of mouth variable as their mediator, meanwhile in this research the mediating variable is customer satisfaction. The reason for that is because Moslehpour et al., (2017) suggested to future research to change the mediator variable to other variables such as customer satisfaction since there is still very little research regarding the use of customer satisfaction as a mediating variable.

The researcher used a model used by Moslehpour et al., (2017) in their research to test consumer repurchase intention. Moslehpour et al., (2017) modified a general service sector model of repurchase intention developed by Hellier et al., (2003).

Research Model

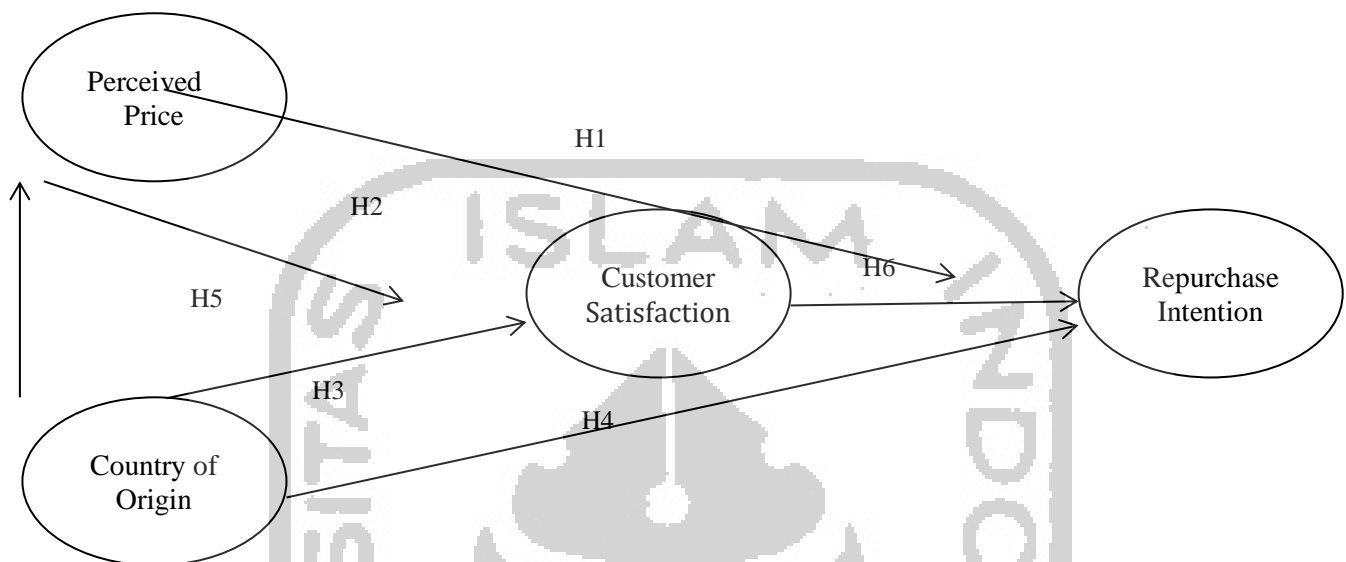


Figure 2.1 Research Framework

2.3. Hypotheses Formulation

2.3.1. Interrelationship Between Perceived Price and Repurchase Intention

Perceived price is important to determine repurchase intention because customers' price perception is deemed as the final expected key driver of repurchase intention (Khan, Naumann, and Williams, 2012). According to Lee et al., (2011), if consumers feel the price of the product is reasonable, then they may continue to buy the particular product in the future again (Cited in Moslehpour et al., 2017). In a study conducted by Moslehpour, Wong, Pham, and Aulia (2017) about repurchase intention of Korean beauty products among Taiwanese consumers, perceived price was found to significantly influence repurchase intention in the beauty product industry, which implies that perceived price is one

of the most important factors for consumers to consider in buying the same product. However, a study conducted by Khan et al., (2012) found that perceived price has negative impact on repurchase intention on Japanese B2B services, which is very different from cosmetic business (market and industry). Since some researches' findings on perceived price influence on repurchase intention differ, it would be interesting to address this issue in the cosmetic business specifically in Indonesia, hence the researcher proposed the following hypothesis to find out the influence of perceived price on repurchase intention:

H1: Perceive Price positively influences Repurchase Intention

2.3.2. Interrelationship Between Perceived Price and Customer Satisfaction

There is an indication that the extent of satisfaction was broader than just quality assessment and was subject to the factors of service quality, product quality, price, situation, and personal factors (Zeithaml and Bitner, 1996). Anderson, Fornell, & Lehmann, 1994) believed that price is undoubtedly and important factor in term of consumer satisfaction. According to Moslehpour (2017), consumers could be satisfied when they feel the price and the quality are reasonable and that consumers can also judge whether the product is offering a good value of price base on the performance or benefit of the products. Price perception is defined as an important factor for customer satisfaction in marketing literature since customer always refer to price when assessing product and service value (Fornell, 1992). Ha et al., (2010) found that worthy price is one of the marketing mixes that influence both customer satisfaction and repurchase intention regarding online shopping

(cited in Suhaily and Soelasih, 2017). Additionally, Herrmann et al., (2007) stated that price perceptions or perceived price directly influence satisfaction judgements as well as indirectly through perception of fairness. Based on stated theoretical background above, the hypothesis is presented as show below:

H2: Perceived Price positively influences Customer Satisfaction

2.3.3. Interrelationship Between Country of Origin and Customer Satisfaction

A research conducted by Hussein (2018) shows that brand of origin does moderate the effect of brand experience (local and international brands) on customer satisfaction. Both local and international brands have the same effect on customer satisfaction because when customers get satisfactory experiences in a casual dining restaurant, it will enhance their satisfaction notwithstanding the restaurant's brand of origin. Brand of origin itself is described as a country where a brand belongs to, based on customer perception (Koubaa, 2008; Thakor, 1996; cited in Huessein, 2018). Which means that brand of origin still has association to country of origin since country of origin is defined as a consumer's dependency upon country of origin when forming opinion on quality of a product (Han and Terpstra, 1988). Hilman and Hanysha (2015) indicated that country of origin has significant positive affect on brand trust, brand commitment, and brand satisfaction. Additionally, Guttman, Yvetz, and Rosenbaum (2017) conducted a research on customer's country of origin. Their study initiated that service managers can implement specific service recovery solutions based on the customer's culture, or at least understand how customer satisfaction scores may be influenced by

customer's country of origin. Their study implied that consumers' country of origins may affect the way they assess products that they would like to use and that it is possible for the consumers to have bias towards either products that are made locally or products made in other countries. Unfortunately, there are not many of researchers that conduct a research on country of origin effect on customer satisfaction, especially in the sector of beauty industry. Nonetheless, the researcher, following Moslehpour et al., (2017) recommendation on incorporating customer satisfaction as a mediator, wants to incorporate the effect of country origin on customer satisfaction in the cosmetic/beauty industry. Hence the researcher included the following hypotheses:

H3: Country of Origin positively influences Customer Satisfaction

2.3.4. Interrelationship Between Country of Origin and Repurchase Intention

Though there are several researches examining influence of country of origin on purchase intention, it is still very rare to find researches that examine influence of country of origin on repurchase intention. However, there are various studies that found that purchase intention has a positive influence on repurchase intention including one study that was conducted by Akhter (2010). Akhter (2010) stated that consumers who have positive purchase intention will intend to purchase more of the same product in the future. Reportedly, Yu et al., (2013) found that country of origin has significantly positive influence toward customers' intention to repurchase. One study conducted by Moslehpour et al., (2017) examines the

relationship between country of origin and repurchase intention mediated by word-of-mouth. Their analysis showed that country of origin significantly and positively influences repurchase intention. Therefore, the researcher includes the following hypotheses in their research:

H4: Country of Origin positively influences Repurchase Intention

2.3.5. Interrelationship Between Country of Origin and Perceived Price

Veale and Quester (2009) discovered that studies found consumers use price as a predictor of quality, particularly when they have limited knowledge of product offerings (cited in Brookshire and Yoon, 2012). A research conducted by Drozdenko and Jensen (2009) showed that US consumers are willing to pay more for US-made products compared to paying more for Chinese products. The result also indicated that consumers are more willing to pay a premium for a product from USA, Germany, or India over those from China. Implying that country of origin has an effect on perceived price. In agreement, a research conducted by Brookshire and Yoon (2012) reveal that country of origin has a negative effect on perceived price when the apparel is made in China from their textile industry. Additionally, consumers are willing to pay different premium prices for the same product and brand based on information from manufacturing country of origin of the product (Hulland, Todiño, and Lecraw, 1996). Their study concludes that country of origin has a significant influence on perceived price in the Philippines. Taking that into consideration, the researcher includes the following hypotheses to examine whether

country of origin has a significant impact on perceived price in the cosmetic business:

H5: Country of Origin positively influences Perceived Price

2.3.6. Interrelationship between Customer Satisfaction and Repurchase Intention

A lot of studies have found empirical evidence of a positive relationship between customer satisfaction and behavioural intention such as repurchase of a product or service and word-of-mouth intention (Ryu, Han, and Kim, 2008). It is found that high level of customer satisfaction decreases the perceived benefits of service provider switches, thus increasing repurchase intentions of customers (Anderson and Sullivan, 1993). A study conducted by Getty and Thompson (1994) about investigating the relationship between service quality, satisfaction, and behavioural intentions, implied that customer behavioural intentions to recommend and repurchase a product or service are positive functions of their perception of satisfaction and service quality.

Kotler indicated if the customer was satisfied, it was more likely for them to have willingness to buy again, namely repeating to purchase or recommending others to buy (cited in Feng and Yanru, 2013). Satisfaction also often regarded as the mediating variable of post-purchase behaviour, which links the beliefs of prior selection of products to cognitive architecture, consumer communication, and repurchase intention (Westbrook, 1987). Illieska (2013) believed that the satisfaction about the product or service as a whole merit attention, since

satisfaction influences consumers' future buying and consuming behaviour. Razak et al., (2016) indicated that a satisfied customer means that there are similarities between the performance of a product or service with customers' hope, which will encourage customers to re-purchase products that they are satisfied with. Furthermore, Francken (1983) indicated that a concept is supposed to link the post-purchase evaluation, which can be positive (satisfied) or negative (unsatisfied), to repurchase behaviour. With that being said, the researcher would like to address the issue to study the impact of customer satisfaction on repurchase intention in the beauty/cosmetic industry. Thus, the researcher created a hypothesis regarding customer satisfaction on repurchase intention as shown below:

H6: Customer Satisfaction positively influences Repurchase Intention

