



THE ROLE OF WORD OF MOUTH (WOM) IN MEDIATING THE RELATIONSHIP BETWEEN PRICE AND PURCHASE DECISIONS

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ABSTRACT

This study aims to examine the role of price in influencing purchase decisions with word of mouth (WOM) as a mediator. The sample of this study was 100 respondents. Data were collected by distributing questionnaires using purposive sampling to everyone who had made a purchase at Alfamidi, Ternate City, North Maluku at least 3 times in the past month. The collected data were then analyzed using the Partial Least Square-Structural Equation Modeling (PLS-SEM) technique with the help of the SmartPLS 3 application. Price has a positive and significant effect on purchasing decisions and word of mouth is the result of the analysis of this study. Word of mouth has a positive and significant effect on purchasing decisions. Word of mouth is able to significantly mediate the effect of price on purchase decisions.

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INTRODUCTION

Understanding consumer purchasing behavior is a topic that continues to attract the attention of many researchers (Ting et al., 2019; Andersch et al., 2019; Tejavibulya & Eiamkanchanali, 2011). The consumer decision-making process has become a hot topic in the business world, both from the perspective of consumer purchasing behavior and from the perspective of corporate marketing decisions (Aaker, 1970). Furthermore, the consumer decision-making process has also become a hot topic in the marketing world, focusing on understanding how consumers act when making purchasing decisions (Stankevich, 2017). The consumer decision-making process can be defined as the stages consumers must go through before making a final decision to purchase a product/brand (Hanaysha, 2018), one of which is searching for information about the product (Jun & Park, 2016).

Over time, purchasing decisions are influenced by many factors, both internal and external. One important determinant that often impacts purchasing decisions is price (Astuti et al., 2015; Djatmiko & Pradana, 2016). From a consumer perspective, price can be defined as the amount of money a person sacrifices to acquire an item (Kinney et al., 2012). Price has been a widely researched topic from both a cognitive neuroscience perspective (Tang & Song, 2019) and a behavioral perspective (Kinney et al., 2012). Furthermore, price is also a key determinant of purchasing decisions in business markets

(Anderson et al., 2000). In making purchases, several consumer segments are price-sensitive, where consumers will make a purchase if the price offered is considered relevant and reflects the quality of the goods/services offered (Astuti et al., 2015). Thus, it is crucial for marketers to formulate a pricing strategy that is relevant to the quality of the product itself to trigger consumer purchasing interest. Previous studies on the important role of price in purchasing decisions have been conducted by Liu & Lee (2016) and Matzler et al. (2019), who found that price is a significant determinant in consumer purchasing decisions for a brand/product. However, inconsistencies remain in the results of previous studies. Research by Zinoubi & Toukabri (2019) found the opposite, stating that price is not a determinant of consumer purchasing decisions.

Based on this gap, this study aims to establish a clear position on the role of price in influencing purchasing decisions by considering the mediating role of word of mouth (WOM). WOM plays a crucial role in influencing many factors, including consumer attitudes and behavior (Martin & Lueg, 2013), consumer opinions about products (Sache & Mangold, 2011), and can motivate consumers to maintain or switch to other brands (Konuk, 2019). Furthermore, consumers who perceive product prices as affordable and relevant to product quality will encourage consumers to spread positive WOM (Santos & Basso, 2012), and subsequently strengthen consumers to make purchasing decisions. Overall, this study aims to investigate the

role of price and WOM in influencing purchasing decision making.

LITERATURE REVIEW

Purchasing Decisions

Purchase decisions refer to consumer actions in making decisions regarding product selection, brand selection, terms (discounts), and purchase quantity (Djarmiko & Pradana, 2016). The concept of purchasing behavior explains the psychology of how consumers think, feel, and reason, choose between alternatives, and how the environment influences purchasing behavior (Stankevich, 2017). Consumers typically seek product information from their personal experiences before seeking information from external sources. Furthermore, some consumer purchasing decisions are formed from an integration of past purchasing experiences, marketing programs, and non-commercial information sources (Hanaysha, 2018). In line with this, Jun & Park (2016) suggest that the purchasing decision process begins with need recognition, information search, evaluation of alternatives, purchase decision, and ends with post-purchase behavior.

The Influence of Price on Purchasing Decisions and Word of Mouth (WOM)

Price refers to what consumers pay to sellers for goods or services offered (Anderson et al., 2000). Furthermore, price is a determinant of consumer perception of a product, determines the product's future sustainability, and provides long-term benefits for the company because consumers always assume that price is related to product quality (Wu et al., 2015). Price plays two roles in influencing purchasing decisions. In certain consumer segments, price has a negative relationship with purchasing decisions, where consumers are more attracted to low-priced products and avoid high-priced ones. Price also plays a positive role in influencing purchasing decisions, where consumers believe they will get something when purchasing a high-priced product (Kinney et al., 2012). Several previous studies have reported that price is a key determinant of purchasing decisions (Djarmiko & Pradana, 2016; Astuti et al., 2015).

H1: Price has a significant influence on purchasing decisions

Price is an important determinant that can motivate consumers to spread WOM. Consumers who have a positive price perception and perceive the offered price as a representation of product quality are more likely to build a strong attachment to the brand/product and are more likely to spread positive word-of-mouth (WOM). Conversely, the greater the perceived discrepancy between price and product quality,

the lower the consumer's attachment to the brand/product and the less likely they are to recommend the brand/product (Karjalainen et al., 2016). Furthermore, Santos & Basso (2012) suggest that how consumers perceive the price of a product significantly determines how they develop their attitudes and behaviors toward the product. Consumers who perceive a product's price as unfair will likely respond negatively, leading to the spread of negative WOM. Several previous studies have reported that price plays a significant role in influencing WOM (Liu & Lee, 2016; Matzler et al., 2019).

H2: Price has a significant influence on WOM

The Influence of Word of Mouth (WOM) on Purchasing Decisions

WOM refers to a form of informal communication that occurs between consumers regarding the evaluation of a product or service (Lim & Chung, 2011). Consistent with this statement, WOM can also be defined as interpersonal and informal exchanges between consumers regarding a product (Martin & Lueg, 2013). Consumers sometimes pay more attention to information derived from WOM than to information provided by the company (Martin et al., 2015). WOM can influence consumer attitudes and retention rates (East et al., 2008), influence consumer opinions about a particular product (Sachse & Mangold, 2011), and provide benefits for companies in acquiring new customers (Maxham, 2001). Several studies have shown that WOM is a key determinant of purchasing decisions (Basri et al., 2016; East et al., 2008; Dzian et al., 2015).

H3: WOM has a significant influence on purchasing decisions

The Influence of Price on Purchasing Decisions through Word of Mouth (WOM)

In practice, consumers often consider many factors before making a final decision to purchase. One important consideration is price. The better the product price matches the product quality, the more confident consumers will be in making a purchase (Djarmiko & Pradana, 2016). However, in their research, Zinoubi & Toukabri (2019) reported no significant role for price in determining purchasing decisions. This finding opens up further discussion about the possibility of other factors, in this context, word of mouth (WOM), acting as a mediator. Simply put, price may not have a direct influence on purchasing decisions but must first be influenced by word of mouth (WOM).

H4: WOM can mediate the influence of price on purchasing decisions.

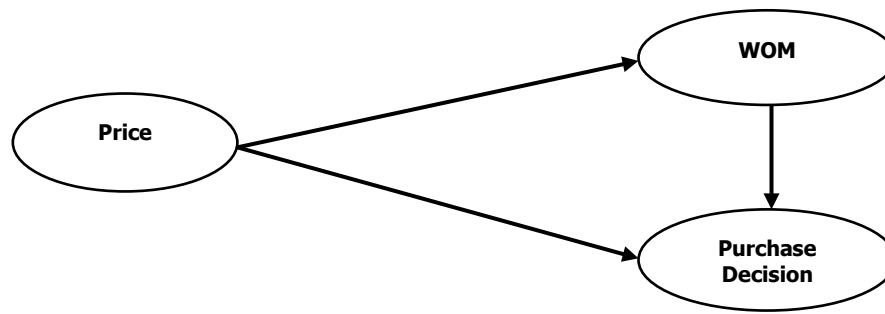


Figure 1. Conceptual Framework

RESEARCH METHOD

This study is a causal study designed to test the causal relationship between the variables used in the model (Malhotra et al., 2017:79). In the context of this study, causal research aims to examine the causal relationship between price and purchasing decisions, with word of mouth as a mediator. All consumers who have purchased at Alfamidi in Ternate City, North Maluku, whose total number is unknown, constitute the study population. The sample size in this study was determined based on a study by Hair et al. (2011), where the sample size for PLS-SEM analysis is the total of all reflective indicators in the research model multiplied by 10. Since the total number of indicators in this study is 10, the sample size is 100 respondents.

This study used a survey method as a data collection technique through the distribution of questionnaires. The researcher provided a set of statements related to the variables studied directly to respondents deemed eligible and meeting the criteria. The questionnaire was designed in two sections. The first section contained questions about demographic characteristics (gender, age, and education), while the second section contained statements about the variables studied. The measurement items for each variable in this study were adapted from several previous studies: two items for price (Astuti et al., 2015), three for word of mouth (Konuk, 2019), and five for purchase decision (Hanaysha, 2018). A 5-point Likert scale was used for the measurement. A purposive sampling technique was used to select the sample, with the criteria for eligible participants being anyone who had made at least three purchases at Alfamidi in the past month. Data collection took place from February to April 2021.

This study used Partial Least Squares-Structural Equation Modeling (PLS-SEM) as a data analysis technique, an analytical tool developed as an alternative to Covariance-Based-Structural Equation Modeling (CB-SEM), which emphasizes predictive power and is less demanding on sample size (Hair et al., 2012). There are two model evaluations carried out, namely the evaluation of the measurement model (outer model), which is aimed at evaluating the validity and reliability of the construct, and the evaluation of the structural model (inner model), which is aimed at evaluating the significance of the relationship between variables and also the predictive power of the research model.

RESULTS AND DISCUSSION

Respondent Characteristics

The characteristics of respondents in this study included gender, age, and education. As shown in Table 1, the majority of respondents were female (72%), aged 36–45 (52%), and had a bachelor's degree (44%).

Table 1. Respondent Characteristics

	Index	Frequency	%
Gender	Male	28	28.0
	Female	72	72.0
Age	17 – 25 years old	2	2.0
	26 – 35 years old	22	22.0
	36 – 45 years old	52	52.0
	46 – 55 years old	17	17.0
	>55 years old	7	7.0
Education	High School	43	43.0
	Diploma	8	8.0
	Bachelor degree	44	44.0
	Master degree	5	5.0

Measurement Model

The measurement model evaluation aimed to assess construct validity and reliability. Three criteria were used in evaluating the measurement model: 1) convergent validity based on loading values and Average Variance Extracted (AVE) values; 2) discriminant validity based on the Fornell-Larcker Criterion; and 3) construct reliability based on Cronbach's alpha and composite reliability.

Table 2. Convergent Validity and Reliability Results

Variable	Items	Convergent Validity		Cronbach's Alpha	Composite Reliability
		Loadings	AVE		
Price	P1	0.818	0.721	0.615	0.838
	P2	0.879			
Word of Mouth	WOM1	0.855	0.748	0.831	0.831
	WOM2	0.887			
	WOM3	0.852			
Purchase Decision	PD1	0.746	0.640	0.859	0.899
	PD2	0.843			
	PD3	0.804			
	PD4	0.790			
	PD5	0.814			

Based on the results of the measurement model test using PLS-SEM analysis (Table 2), the following results were obtained. First, all reflective indicators had loading values ≥ 0.7 and AVE values ≥ 0.5 , which meet the threshold recommended by experts. Second, as shown in Table 3, the square root mean correlation (AVE) value for each construct is greater than its correlation with the other constructs, indicating that it meets the threshold for discriminant validity recommended by experts. Finally, all constructs have a composite reliability value of ≥ 0.7 and a Cronbach's alpha value of ≥ 0.6 (see Table 2), which meets the threshold recommended by experts.

Table 3. Discriminant Validity Results

Variable	Price	WOM	Purchase Decision
Price	0.849	-	-
WOM	0.581	0.865	-
Purchase Decision	0.588	0.776	0.800

Structural Model

The evaluation of the structural model aims to assess the predictive ability of the model (R^2) and the path coefficient values, as well as the significance of the influence between variables. The results of the structural model test are shown in Table 4. Based on the test results, the coefficient of determination (R^2) for the WOM variable is 0.337, meaning that 33.7% of the WOM variable can be explained by price. On the other hand, the coefficient of determination (R^2) for the purchasing decision variable was also found to be 0.630, meaning that 63% of the purchasing decision variable can be explained by price and WOM.

Table 4. Hypothesis Results

Hypothesis	Path Coefficient	T-statistic	p-value
(H1) Price $\rightarrow$ Purchase Decision	0.207	3.006	0.003
(H2) Price $\rightarrow$ WOM	0.581	10.09	0.000
(H3) WOM $\rightarrow$ Purchase Decision	0.656	11.40	0.000
(H4) Price $\rightarrow$ WOM $\rightarrow$ Purchase Decision	0.381	8.306	0.000
R^2 : 0.337 (WOM)			
R^2 : 0.630 (PD)			

For the H1 test, regarding the effect of price on purchasing decisions, the path coefficient was positive, at 0.207, with a significance level of $0.003 < 0.005$. Therefore, H1 was accepted, as price is an important determinant of purchasing decisions. In other words, the more affordable the product price and the more appropriate the price is to the product quality, the more likely it is to encourage consumers to make a purchase. Furthermore, for the H2 test, regarding the effect of price on WOM, the path coefficient was also positive, at 0.581, with a significance level of $0.000 < 0.005$. Therefore, H2 was also accepted, as price is a determinant of WOM. In other words, the more affordable the product price and the better the price matches the product quality, the more likely it is to increase consumers' willingness to spread positive WOM.

For the next hypothesis test, the influence of WOM on purchasing decisions, a positive path coefficient value was obtained, namely 0.656 with a significance value of $0.000 < 0.005$. Therefore, H3 is accepted, where WOM is also known to be a determinant of purchasing decisions. In other words, the more consumers spread positive WOM in the form of giving recommendations to others, and talking about positive things, the more it will have a positive impact on purchasing decisions. Finally, based on the results of the H4 test, the influence of price on purchasing decisions through WOM as a mediator, a path coefficient value of 0.381 was obtained with a significance value of $0.000 < 0.05$. Therefore, H4 is also accepted, where WOM also plays an important role as a mediator between price and purchasing decisions. In other words, the greater the influence of price on WOM, the greater the influence of WOM on purchasing decisions.

Discussion

The results of this study indicate that price is a significant determinant of consumer purchasing decisions. These findings confirm those of previous studies that also found similar results (Djarmiko & Pradana, 2016; Astuti et al., 2015). Furthermore, these findings indicate that consumers use price as an evaluation indicator before making a purchase decision. When consumers perceive the price of a product offered by marketers as affordable and consistent with its quality, they are more likely to purchase the product.

Furthermore, the results of this study also confirm the significant role of price in WOM. These results confirm the findings of previous studies that also indicated that price plays a significant role in influencing WOM (Matzler et al., 2019; Liu & Lee, 2016). This means that more affordable prices and a more consistent product quality will generate positive WOM, reflected in consumers' behavior in making recommendations, discussing positive things about the product, and motivating others to purchase the product at that retailer. Furthermore, the empirical findings of this study confirm the significant role of WOM in purchasing decisions. Furthermore, these findings align with previous studies that also indicate that WOM plays a significant role in influencing purchasing decisions (Basri et al., 2016; East et al., 2008; Dzian et al., 2015). In this context, consumers always pay attention to advice and recommendations from those closest to them (such as friends, relatives, and family) before making a purchase. Positive recommendations from these close friends will encourage consumers to make a purchase. Conversely, if they receive negative recommendations, consumers will tend not to make a purchase.

Finally, the research findings confirm the role of WOM as a mediator between price and purchasing decisions. This indicates that a more affordable product price and a better price-quality match will encourage consumers to spread positive WOM to others, such as providing recommendations to those closest to them, discussing positive things about the product, and providing positive motivation to others. This ultimately strengthens consumers' confidence in making a purchase.

CONCLUSION

Overall, this study provides an overview of the role of price in influencing purchasing decisions, with WOM as a mediator. The findings of this study lead to the conclusion that all hypotheses have been proven and empirically accepted. The findings of this study indicate that price is a key determinant of WOM and purchasing decisions. Furthermore, the results also demonstrate the significant role of WOM in determining purchasing decisions. Furthermore, WOM also plays a significant role in mediating the relationship between price and purchasing decisions.

Consequently, it is crucial for managers in the retail industry to consider appropriate product pricing strategies that are affordable for consumers, while also ensuring that pricing is aligned with product quality. This study confirms that price is a determinant of consumer purchasing decisions in the retail market. Furthermore, retail industry managers should also pay attention to information circulating among consumers as a consequence of product use. This study shows that positive WOM (such as recommendations from close friends, positive product conversations, and positive motivation from others) will increase consumers' likelihood of making a purchase. The findings of this study indicate that WOM is the factor with the greatest influence on purchasing decisions. Thus, a good strategy formulation is needed to form a positive consumer perception of the products offered by retailers so that consumers are willing to share WOM with others.

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