Special Session Summary  the Many Routes to Price Unfairness Perceptions

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SESSION OVERVIEW

The issue of price unfairness has attracted considerable attention of consumer researchers in recent years. However, many questions remain unanswered. The three papers included in this special session try to extend the existing research in several important ways.

While most of existing research has focused on moderating variables of price unfairness perceptions such as cost-profit distributions between the comparison parties, or the rationale for price discrepancies including sellers’ inferred motive, and buyers’ attributions of whether sellers are responsible for the price discrepancies (Campbell 1999; Vaidyanathan and Aggarwal 2003; Bolton, Warlop, and Alba 2003), the first paper focuses on the comparison processes and consequences of such perceptions. A price comparison is a necessary although not sufficient condition for price unfairness perceptions to occur. However, no prior research has examined the price comparison processes in the context of price fairness. Results showed that how similar the two transactions are is the key mediating variable between various transaction characteristics and whether unfairness perceptions will arise and how serious they are. In addition, results also demonstrated that the influence of price unfairness perceptions on various behavior intentions were mediated by perceived value and different types of negative emotions.

The second paper focuses on the moderating variables of price unfairness perceptions. Different from existing research which examines the effect of one specific moderating variable, this paper uses an inductive approach and tries to identify a set of cues or moderating variables that potentially may lead to price unfairness perceptions. This approach enriches the existing research by uncovering a wider scope of factors that influence price unfairness perceptions. In addition, this paper complements the first paper by adding some rich moderating effects of price unfairness perceptions.

Finally, the third paper examines price fairness issues in the context of a specific pricing practice (i.e., price matching guarantees). While the first two papers focus on the issue of price fairness in the context of specific transactions, this paper examines price fairness from both a procedural aspect (i.e., what is the process specified for consumers to obtain a lower price) and a potential transaction aspect (i.e., given a task of purchasing a specific product). Results from two experiments show that consumer perceptions of the fairness of a price-matching policy influence price fairness perceptions, and that they both in turn influence consumers’ shopping intentions at the price-matching retailer. Factors specific to the price-matching retailer were found to influence price-matching fairness either directly or indirectly through inferred motives. In addition, the three papers are complementary in that we may find common comparative processes (i.e., self comparison vs. comparing with other customers) as well as common moderating variables (i.e., amount of discount or product assortment).

Meg Campbell summarized the similarities among the three papers. Together the three papers showed that price fairness is an important issue and unfairness perceptions may be evoked by various factors including cost perceptions, unfair pricing procedures, and comparative parties involved. The audience participated in the discussion and raised questions for future research such as the conditions when equal prices may evoke unfairness perceptions and the changes of unfairness perceptions overtime.

“Comparison Process and Consequences of Price Fairness Perceptions”
Lan Xia, Bentley College
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In this research we extend existing research on price fairness in several ways. First, although research has indicated that perceptions of price fairness are based on a comparison process, no consumer research has specifically examined such processes. Based on social comparison processes (Major 1994; Wood 1989), we introduce the concept of comparability between the two comparative transactions and suggest that the degree of price unfairness perceptions will vary relative to consumers’ perceptions of the comparability of the two transactions. Differences in products, promotional terms, and time of transaction all influence the comparability of the two transactions. Also, the influence of comparability on price unfairness perceptions is moderated by the source of comparison (i.e., self vs. other consumer).

Second, price unfairness has been defined as a judgment of whether a price is just and reasonable, which focuses mainly on the cognitive aspect (Bolton et al. 2003). Adding affect to the concept we propose that unfairness perceptions are accompanied by negative emotions. Thus, besides a perceived unfair price enhancing perceived monetary sacrifice (Martins 1995), consumers also experience an emotional sacrifice (upset, disappointment, anger or outrage). Conceptualizing monetary and emotional sacrifices is important because different emotions may lead to different actions (Bougie, Pieters, Zeelenberg 2003; Bechwati and Morrin 2003).

Third, although existing research indicates that perceptions of price unfairness will lead to negative word-of-mouth, complaints, and reduced purchase intentions, there has been no systematic analysis of what the purposes of these consumer actions are and how sellers can effectively handle these behaviors. Corresponding to the cognitive and affective components of a unfair price perception, we propose that consumers may take different actions to cope with these two types of consequences. Hence, potential actions induced by price unfairness may be mediated by either the cognitive aspect or the affective aspect. Finally, these behavioral intentions need not be the end of price unfairness perceptions. Sellers may offer remedies when unfairness perceptions arise, especially when buyers express their concerns to the sellers. Hence, sellers’ reactions to buyers’ concerns may lead to subsequent perceptions of price fairness, enhancing future behavioral intentions. Figure 1 depicts the overall framework of the research.

As indicated in Figure 1, Study 1 investigated the effect of comparability. Results show that when characteristics of two transactions vary, subjects perceive the price as less unfair compared to when the characteristics of the two transactions are the same or very similar. Among the four characteristics we investigated (product, promotion, store, and timing), product variation had the largest effect on perceptions of unfairness. Study 1 showed that the effects of different transaction characteristics were mediated by perceptions of transaction comparability.
Study 2 examined the source of comparisons. Although research suggests that consumers may use different references when they make price fairness judgments (Bolton et al. 2003), no research has studied the relative effect of different comparative parties. Based on social comparison processes, we propose that comparing oneself to another customer produces the largest effect relative to either consumers’ self-reference or comparing one store to another. Study 2 was a comparative (self, other customer, or other store) x price outcome (equal, advantaged price, disadvantaged price) design. There was an interaction between price outcome and comparative party. Comparing with another customer led to the most unfairness perceptions when one is disadvantaged and the fairest perceptions when prices are equal. Study 2 also show that purchase intentions were mainly mediated by perceived value while desire to spread word-of-mouth and report it to a third party was mainly mediated by the negative emotions.

Study 3 examined the influence of post-purchase interactions between buyer and seller on adjusted price fairness perceptions as well as future behavior intentions. Results showed that both psychological and financial compensation influences adjusted fairness perceptions. There was an interaction between the two factors on intention to keep the current order. Emotional compensation had a large effect when participants only received partial compensation. In fact, those who only got partial monetary compensation but were treated nicely by the representative were as equally likely to stay with the seller as those who got full monetary compensation. In addition, emotional compensation (when combined with partial or full monetary compensation) significantly reduced future switching behaviors while monetary compensation alone will be less likely to keep them in the future. The results correspond to the partial mediating effects observed in study 2.

“Consumers’ Perceptions of Pricing Unfairness”
Nada Nasr Bechwati, Bentley College
Jagdish N. Sheth, Emory University
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In this research, we address the following research question: What are the tools (heuristics or signals) that consumers use to judge the fairness (or unfairness) of a price? To build our model, we adopt an inductive approach where we draw on consumers’ experiences and perceptions. Our approach differs from that of most previous researchers. Instead of using experiments with hypothetical scenarios to test the influence of pre-determined factor(s) on consumers’ perceptions (see, e.g., Bolton, Warlop & Alba 2003; Campbell 1999; Cox 2001), we are led by common themes emerging from actual consumer experiences. This approach allows us to uncover important factors that have yet to be considered by previous researchers. It also enables us to have a more vivid picture of consumers’ thinking and conceptualizing.

Survey data were collected from 969 consumers. In the survey, respondents were asked to provide their perceptions of pricing practices for fifteen products or services, such as airline tickets, clothes, computers, grocery items, legal services, medical drugs, inkjet cartridges and razor blade cartridges. The items were chosen to represent a varied basket of products including products of high and low item prices, necessities and luxury products, industries known for their low versus high profit margins, and industries known for substantial price fluctuations versus stable prices. In addition to rating pricing practices for each product or service, respondents were asked to comment on the rating they provided. Moreover, respondents were asked with an open-ended question to “provide an example of what they consider unfair pricing or price gouging.”

A content analysis of the comments provided by respondents in answer to both the industry-specific questions and to the general price gouging question was performed. The analysis confirms a wide array of antecedents to price unfairness discussed by researchers. In addition to known reasons for price unfairness, the analysis
uncovers few other antecedents and provides insights concerning the mechanisms underlying perception formation. A main prevailing reason for price unfairness stems from comparing a product price to a “reference” price. Previously under researched reference figures are uncovered by the analysis. Consumers also use a variety of cues to estimate the cost of a product. Cases of extreme negative affect, e.g., outrage, are reported when consumers feel that moral/ethical standards are violated.

To make a judgment about price fairness, consumers compare a product price to a reference figure. Scores of our respondents concluded unfairness after comparing a product’s price to its price at a different point in time (e.g., during sale periods or off-season). Similar conclusions were drawn when prices were compared to those in other locations (stores or countries), to prices paid by other customers (e.g., for airline ticket on the same flight), to perceived cost of the product (e.g., ink cartridges), or to one’s income (e.g., drugs). Those findings are in line with previous research showing that perceptions of price fairness are based on a comparison process. Previous researchers have pointed to different possible reference values. For instance, Bolton et al. (2003) argue that consumers compare prices to several reference points including past prices, competitor prices, and cost of goods sold.

Respondents to our survey also compared prices of products to values that are less revealed by previous research. The price of a complementary product was compared to that of the “main” product. For example, prices of ink cartridges were perceived as unfair because they were considered excessively high relative to prices of printers. Similarly, razor blades cartridges were seen as unfairly priced because their prices are close to those of the blades. This finding is intriguing as it might imply that consumers approach a purchase decision as problem solvers. Hence, the costs of alternative ways to solve a problem are compared to make judgments of price (un)fairness. Accordingly, thinking that, to be able to print, replacing a printer costs a bit more than replacing the ink cartridge leads to the conclusion that prices of ink cartridges are unfair.

Interestingly, respondents compared a product’s current price to future sale price, i.e., to its price when the consumer wants to dispose of it, a value known as the product’s salvage value. As a result, cases of potential significant appreciation (e.g., houses) and depreciation (e.g., cars) were seen as indicators of price unfairness. This finding is in line with previous research showing that consumers do not favor price fluctuations caused by shifts in supply and demand (Dickson and Kalaparakal 1994; Kahneman, Knetsch and Thaler 1986). Our respondents used fluctuations as indicators of unfairness even when they were in their favor (e.g., with their house prices appreciating).

To estimate costs, consumers use several cues. Respondents evaluated raw materials, e.g., plastic used to make razor cartridges. In cases of services, time invested by the service provider, e.g., a lawyer, was used as indicator of cost. Price of generic drugs was used to estimate costs of branded ones. In estimating costs, many of our respondents tended to neglect research and development costs as well as overhead costs. Bolton et al. (2003) reported a similar tendency among consumers to neglect certain costs. The few respondents who acknowledged such costs were more understanding and more receptive of the prices offered. It is worth investigating whether educating consumers on the costs involved in making a product can impact their perception of price unfairness.

Negative affect accompanied cases of perceived price unfairness. Outrage was salient particularly in cases where consumers felt that moral rules were broken. Those cases included situations where consumers felt that they were taken advantage of because they had no choice but to buy the product. An example of such cases is the price of food at convention centers. Consumers who perceived prices of necessities to be too high to be affordable by the poor were angered by this fact. Pharmaceutical products, whose high prices were blamed on patents granted by the government, resulted in high negative emotions. In a comprehensive model of price unfairness, Xia, Monroe and Cox (2004) had violation of social norms as an antecedent of price unfairness. Xia et al.’s (2004) model also pointed to the possibility of affective consequences to price unfairness.

Different consumers reacted differently to the same pricing phenomenon. While many consumers welcomed deals and sales, other consumers saw them as the proof for pricing unfairness. Investigating whether consumers shopping styles and personality traits affect what they conclude from pricing practices is worth further research.

**“Effect of Price Matching Guarantees on Consumers’ Perceptions of Fairness”**

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No known research examines the fairness perceptions of store-wide pricing policies, such as price-matching guarantees. Price-matching guarantees are retail promises to meet or beat competitive prices at the time of purchase or within a specified period after purchase if the consumer finds a lower competitive price. Due to the prevalence of their usage and evidence that price-matching guarantees influence consumers’ store price perceptions and purchase behaviors (Biswas et al. 2002; Jain and Srivastava 2002; Kukar-Kinney and Walters 2003; Srivastava and Lurie 2001) it is important to investigate the perceived fairness of these policies.

Price-matching guarantees are store-level policies applying to identical items sold at competitive outlets, which may influence the final price consumers pay for products. For example, a consumer who buys a product for $100 at a store with the price-matching policy, and who later finds the same product selling for $10 less at a competitive store and returns to the price-matching store, pays a net price of $90 after the refund. Another consumer, who does not check competitive prices, pays the price of $100 instead. Thus, price-matching guarantees effectively permit differential pricing.

The present research investigates the drivers of consumer perceptions of the fairness of price-matching guarantees (i.e., the pricing policy fairness), as well as the effects of pricing policy fairness on price outcome fairness, and consequently, on consumer perceived value and shopping intentions at the price-matching retailer. The proposed antecedents of pricing policy fairness perceptions include the magnitude of the promised refund, the retailer’s motive for the price-matching guarantee (either expressed or inferred), and the product assortment uniqueness (see Figure 2). Based on the fair process effect, a positive relationship between the pricing policy fairness and price outcome fairness is expected. Furthermore, both pricing policy fairness and price outcome fairness perceptions are proposed to affect consumer shopping intentions at the price-matching retailer, both directly and indirectly through the perceived value.

Two experiments were conducted to test the proposed hypotheses. The refund magnitude, amount of product assortment subject to the price-matching policy (assortment uniqueness), and the retailer’s motive for offering the price-matching guarantee were manipulated in a 2x2x2 between-subjects design. The price-matching policy promised to either match the lower price or beat the lower price by 10 percent. Amount of product assortment subject to price-matching varied between 20 percent and 80 percent of the store’s
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FIGURE 2
Antecedents and Consequences of Fairness of Price-Matching Refund Policies

Given that in study 2 the price-matching policy did not apply to the purchase under consideration, we expected that pricing policy fairness perceptions would exert weaker influence on consumer shopping intentions. Indeed, we found that the direct effect of pricing policy fairness on shopping intentions was weaker, while the indirect effect through perceived value became insignificant.

However, the link between the pricing policy fairness and price outcome fairness still existed, indicating that when the policy is not applicable to the purchase, it may still signal the level of store prices, possibly by alerting consumers to the fact that the price-matching retailer does not have to compete with other stores on the price of such a product. The results of study 2 with respect to showing that the retailer’s motive and the assortment uniqueness were the main antecedents of consumer perceptions of price-matching policy fairness were largely consistent with the findings from study 1.