Why Some Prices Are Fairer Than Others

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Many resources, besides money, can be used to acquire things. We show that consumers believe these resources vary in how well they signal someone’s true preferences (i.e., high WTP doesn’t necessarily signal a strong preference). Importantly, these beliefs influence whether people perceive various pricing strategies as fair.

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Resource Accumulation and Exchange:
How Consumers Perceive, Monitor and Manage Scarc Resource

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Paper #1: Passing the Buck to the Wealthier: Egocentric Judgments of Financial Resources Influence Donation Obligations
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Paper #2: Financial Inability or Financial Savvy? Subjective Financial Well-being Shapes Preferences for Discounted Purchases
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Paper #3: Why Some Prices Are Fairer Than Others
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Paper #4: The Negative Consequences of Petty Exchange
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SESSION OVERVIEW
In essence, the study of consumer behavior is the study of resource exchange. The consumption choices that consumers make are ultimately shaped by how they choose to relate to their resources, be it the income they earn, the spare hours in their day, or their willingness to exert effort.

In order to better understand this relationship, the present session explores the diverse ways in which consumers perceive, monitor, and ultimately, manage their resources. In doing so we seek to answer a number of questions regarding the way in which consumers think about resource accumulation and resource exchange: How do consumers perceive their own resources relative to the resources of others? How do consumers’ perceptions of their resources affect their willingness to take a deal? To what extent do consumers feel that resource exchange correctly reflects their true preference for a good? And when do consumers feel it is appropriate or inappropriate to actively manage their resources?

In the first paper, Berman et al. investigate how people evaluate their own resources relative to the resources of others. They find that consumers believe that those who earn more than they do have more financial resources than what those higher earners evaluate for themselves. They explore one consequence of this divergent perspective by examining estimates of how much individuals believe that they and others should donate to charity.

In the second paper, Sharma and Keller examine how perceptions regarding subjective wealth affect consumer preferences for deals—purchases offered at a discount to consumer. They find that financially deprived consumers are less receptive to discounted purchases as compared to their financially privileged counterparts. These effects are associated with feelings of embarrassment and shame towards deals, and are attenuated when deal adoption does not signal financial inadequacy but rather financial savvy.

Next, Shaddy and Shah examine how different expenditures of resources (such as money, time, and effort) reflect preference strength, or the extent to which consumers desire a given good. They find that resource expenditures are stronger signals of preference strength when (a) those resources are distributed more equally, and (b) when those expenditures are easy to quantify and understand. They further argue that the more that a price of a good reflects preference strength, the more fair that the price is seen.

Finally, Kim, Zhang and Norton investigate how individuals monitor resource exchange in social relationships. They find that individuals who more actively and precisely monitor the exchange of resources in social exchanges are seen as being petty, which is undesirable. This is because petty people are seen treating relationships in a transactional manner, which violates social norms.

Together, these papers offer unique perspectives on how consumers perceive, monitor, and manage their resources. We expect that this session will be of interest to a broad audience, not just those interested in consumer resource management, but will also appeal to those studying judgment and decision making, social cognition, policy making, and prosocial behavior as well.

PASSING THE BUCK TO THE WEALTHIER: EGOCENTRIC JUDGMENTS OF FINANCIAL RESOURCES INFLUENCE DONATION OBLIGATIONS
EXTENDED ABSTRACT
How much do individuals believe that they and others should donate to charity? Diminishing marginal benefits from money suggest that as income rises, the value of a marginal dollar—and the pain felt in sacrificing it—should decrease. Simply put, the more money people make, the easier it should be for them to give. However, consumers must judge for themselves how much their earnings they feel that they ought to sacrifice to help others.

In this paper, we investigate how individuals form judgments of donation obligations across the income spectrum, for themselves and for others. We argue that when evaluating how much a given individual should donate to charity, people base their judgment in part on the amount of spare financial resources they perceive that individual has. However, we find that these judgments about others’ spare financial resources depend on an individual’s own income. In particular, people believe that others who earn more than they do have more discretionary income, than those wealthier others actually experience for themselves. In other words, people tend to perceive higher earners as more flush than those higher earners themselves feel, which then impacts judgments of appropriate levels of monetary donations.

We begin by examining beliefs about discretionary spending in general. Study 1 (MTurk, N=305) examines whether an individual’s income influences how much money they perceive others spend on inessential (discretionary) versus essential (non-discretionary) expenses. Participants evaluated 5 target individuals who differed only in their yearly income ($20k, $40k, $60k, $80k, $100k). For each target individual, they estimated the percentage of the target’s spending money that persons uses towards essential expenses versus inessential expenses.

For each target individual, we created a relative income variable by categorizing participants according to whether they make either less than $20k of the target or within $20k of the target individual’s
income. We find that the relative income of the participant in relation to the target determined how much the participants believed that the target spends on essential vs inessential expenses, $F(1, 1178) = 15.07, p < .001$. Those who earn at least $20k less than the target believe that the target spends less money on essential expenses and more money on inessential expenses than what those who earn within $20k of the target estimate. In other words, consumers believe that those who earn more than they do spend less on things they need (essential expenses) and therefore have more money left over to spend on the things they want (inessential expenses) than what those richer others estimate for a similar other. This pattern of results holds across all income levels and is robust to different specifications of relative income.

If consumers expect higher earners to have more money for discretionary spending, then they might expect that those higher earners should be donating a greater proportion of their income to charity. Study 2 examines whether an individual’s income affects how much spare money they believe others have and whether perceived donation obligations follow the same pattern. This study was pre-registered (https://osf.io/pm7dn/), and utilized an online panel to recruit a balanced sample of participants who varied in their household income ($N = 1,023$). Participants again evaluated 5 target individuals, who differed in their yearly income. For each target, participants first evaluated the percentage of household income that they believe that the target should donate to charity. They then estimated how much spare money the target has by indicating the likelihood that each target would be able to make a one-time emergency payment of $2k on a scale from 1 = “extremely unlikely” to 11 = “extremely likely”.

We categorized each target individual by whether their household income was at least $10k less than or within $10k of the target individual’s income. Results from a mixed model linear analysis show that participants who earn at least $10k less than the target individual believed that the target would be more likely to make an emergency payment of $2,000, $F(1, 2,355) = 37.45, p < .001$, and also should donate a greater percentage of their income to charity than participants who earn within $10k of the target individual ($F(1, 1,852) = 6.86, p < .01$). For instance, on average, those who make less than $70k/year believe that someone who earns $80k/year should donate 15.5% of their income to charity. However, those who make $70k - $90k/year (i.e. roughly the same amount as the target), believe that the same person should donate only 8.8% of their income to charity ($t(728) = 3.91, p < .001$). Similarly, those who make those who make less than $70k/year believe that someone who earns $80k/year has more spare money ($M = 7.58, SD = 2.71$) than what those who earn about $80k a year believe ($M = 7.02, SD = 2.62$). This trend holds across all income levels and are robust to different specifications of the relative income variable.

Together, these studies show that consumers believe that those who have more income than they do have more spare money and discretionary expenses, and should therefore donate more to charity, than those higher earners report when evaluating for themselves. Across all income levels, consumers consistently pass the buck to the wealthier.

**Financial Inability or Financial Savvy?**

**Subjective Financial Well-being Shapes Preferences for Discounted Purchases**

**EXTENDED ABSTRACT**

Within the retail marketing mix, sales promotions have one of the strongest effects on short-term consumption behavior. In particular, deals that take the form of price markdowns, coupons, and rebates give consumers opportunities to obtain promoted products at reduced prices. These deals may benefit retailers in several ways as well. For example, “two-for-one” offers are often used to trigger impulse purchases (Inman et al., 1990), encourage consumers to switch brands, and may increase long-term sales and loyalty in times of competitor activity (Neslin et al. 1985).

Despite the potential benefits to consumers and retailers, consumer uptake of discounts may fall short. In 2013, on average, every person in the United States was offered $1,617 in coupon savings; however, consumers only took advantage of $3.7 billion of these savings or $11.60 per person (Inman Trend Reports, 2014). Accordingly, the current work investigated one consumer-level factor that may help explain consumer preferences for discounted purchases. Specifically, we investigated effects of consumers’ objective and subjective financial standing.

Economically, one would expect the prospect of saving on expenditures to be especially appealing to those who feel pinched financially. However, several real world surveys suggest that wealthier individuals are more likely to price-comparison shop, seek deals, and use mobile coupons (e.g., Bhatnagar, Garf, and Lawry 2014; Nielsen 2010). The literature on subjective financial well-being and coupon usage is equivocal, with some studies suggesting a positive relationship between income and coupon usage (e.g., Laroche et al. 2003) and others suggesting a negative one (e.g., Mittal 1994).

The current research makes three main contributions. First, we establish that compared to a psychological sense being better off financially, feeling worse off (financially deprived) reduces the attractiveness of deals. Second, we show that feeling poor decreases increases (decreases) feelings of shame (pride) associated with deals. Finally, we then examine contexts that minimize the unpleasant feelings financially deprived individuals have towards discounts and hence enhance their adoption of them.

Study 1 was conducted among 81 participants in a field setting: at either a check-cashing or pay day lender site. Participants imagined purchasing high-end shoes available at a 20% discount and reported their attitudes towards the offer (e.g., the extent to which they felt that paying full price was a waste of money). Participants reported their ability to spend money freely as a proxy for their financial standing. Results supported our predicted negative relationship between financial deprivation and deal receptiveness. The more people felt unable to spend freely, the less they felt that paying full price was a waste of money, $p = .02$.

Study 2 tested the causal relationship between subjective wealth and receptiveness towards discounts. We asked 242 participants on Amazon’s Mturk to imagine the purchase of discounted shoes at a second-hand store, and to indicate how purchasing the discounted items would make them feel. Consistent with the results from Study 1, those who felt worse off financially ($M = 2.79, SD = 2.23$) indicated feeling more ashamed, relative to participants who felt better off financially, ($M = 2.24, SD = 1.81$), $F(1, 226) = 4.21, p = .041$. In addition, those feeling worse off financially ($M = 1.71, SD = .88$) indicated feeling more distressed while reading about the scenario, as compared to those led to feel better off financially ($M = 1.38, SD = .70$), $F(1, 226) = 10.02$. Together, Study 1 and 2 suggest a negative relationship between subjective wealth perceptions and the extent to which people are amenable to discounted offers. These effects occur both when the discount is available at “high end” and “thrifty” locations, mitigating the possibility that norms (e.g., appropriateness of spending, desirability of spending) contributed to the effect.

Study 3 investigated deal receptiveness in a different context. After manipulating participants’ perceived financial standing, we
asked participants to imagine a buy one, get one (BOGO) offer for a more utilitarian purchase: their preferred shampoo. They indicated their agreement with two statements regarding the offer using a seven-point scale (1 = strongly disagree, 7 = strongly agree): (1) “The offer is a good deal” and (2) “I would accept the offer”. These measures were used as a proxy for consumers’ receptiveness to the deal (r = .82, p < .001). As expected, evaluations of the deal were lower in the financially deprived (M = 3.93, SD = 1.79) versus privileged condition (M = 4.36, SD = 1.73; F(1, 287) = 4.39, p = .037. Consistent with patterns found in Study 1 and 2, participants in the deprived condition (M = 1.76, SD = .96) reported feeling more ashamed and distressed than did participants in the privileged condition (M = 1.53, SD = .81), F(1, 287) = 4.58, p = .033, and participants in the privileged condition (M = 2.13, SD = 1.03) reported feeling more proud and excited than did participants in the deprived condition (M = 1.87, SD = 1.04), F(1, 287) = 4.43, p = .03.

Study 4 tested one method of boosting preferences for discounted offers. Previous work (Sharma and Keller 2016, unpublished manuscript) has shown that people who feel poorer are more amenable to opportunities to earn rather than save. Accordingly, we aimed to reframe discounted offers as opportunities to “earn / get” money rather than to “save” money. We tested this intervention using a sample of individuals who were led to feel financially deprived and found the anticipated results. Financially deprived individuals rated the discounted offer as more attractive in the “earn / get” condition as compared to the “save” condition, M_earn = 4.27, SD = 1.92; M_save = 3.66, SD = 2.04; F(1, 232) = 5.38, p = .02.

Results from ongoing follow-up studies provide preliminary evidence of two additional boundary conditions: (1) salience of wealthier peers and (2) attributions associated with the discount. When the context involves non-socially-threatening individuals (e.g., family), or when the use of discounts does not signal one’s ability to spend, receptiveness towards discounts increases.

Why Some Prices Are Fairer Than Others

EXTENDED ABSTRACT

When demand for goods and services increases, prices often follow. Airlines and Uber charge more during peak hours, some soda machines raise prices on hot days, and the cost of new prescription drugs can soar with demand. But monetary prices are just one way to ration things that are in short supply. For example, suppose a drought forces a township to regulate water permits. How should it decide who gets the permits? The township can set a monetary price or auction the permits to the highest bidders. It can allocate the permits on a first-come/first-serve basis, which sets a price on time because people must wait in line. It can offer the permits to those with social influence or political connections. It can offer the permits to individuals who were led to feel financially deprived and found the anticipated results. Financially deprived individuals rated the discounted offer as more attractive in the “earn / get” condition as compared to the “save” condition, M_earn = 4.27, SD = 1.92; M_save = 3.66, SD = 2.04; F(1, 232) = 5.38, p = .02.

In Study 3a, we tested the two proposed factors that influence preference signaling: equality (i.e., whether the resources are distributed equally) and ease-of-use (i.e., whether the resource’s scales, magnitudes, and purchasing power are easy to understand). Participants read scenarios that described how housing, enrollment for college courses, or leisure events would be auctioned off to the highest bidders. In Study 3a, we manipulated participants’ beliefs about whether resources were distributed equally or unequally. In Study 3b, we manipulated ease-of-use (e.g., a currency was volatile or stable, or people did or did not know the rules for using a currency). Participants then rated both the fairness of the auction and whether bids in the auction could be taken as a clear signal of consumer preferences.

In Study 3a, participants perceived the auction to be fairer in the equal condition (M = 4.44, SD = 1.90) than in the unequal condition (M = 2.85, SD = 1.75; F(1, 566) = 107.32, p < .001), and preference signaling mediated the effect of resource equality on fairness (95% C.I. = [–.320, –.075]). In Study 3b, participants perceived the auction to be fairer in the equal condition (M = 4.06, SD = 1.77) than in the difficult condition (M = 3.00, SD = 1.65; F(1, 581) = 55.51, p < .001), and preference signaling mediated the effect of ease-of-use on fairness (95% C.I. = [–.513, –.248]).

This research shows that consumers believe resources vary in how well they actually reveal one’s preferences. These beliefs, in turn, influence whether people perceive prices as fair, which has implications for how we consider a range of policies, from surge price-
ing to the allocation of government assistance. Our findings, therefore, can better inform how marketers and policymakers alike might respond to spikes in demand.

The Negative Consequences of Petty Exchange

EXTENDED ABSTRACT

Informal exchanges of resources—including money and time—are prevalent in our daily lives. We may send gift cards for a favor received, split a bill from dinner, or spend time with a colleague to brainstorm. One factor deemed important in these situations is the objective value of a resource: in other words, giving “more” improves the quality of interpersonal relationships (e.g., Cotterell, Eisenberger, & Speicher, 1992; Flynn, 2003; Flynn & Adams, 2009). We argue that the quality of interpersonal relationships does not solely depend on giving (and receiving) more; it also depends on how petty—being deliberately attentive to trivial details—the exchange feels.

We first establish a contextual boundary by demonstrating that the negative impact of pettiness is unique to interpersonal relationships. Study 1 recruited participants with Venmo or PayPal accounts, who were assigned to interpersonal or impersonal conditions. Those in the impersonal condition saw Venmo histories of two individuals: one listed petty money transfers to three companies ($9.99, 34.95, 20.05), and another listed round money transfers to the same three companies (10, $35, $20), each summing up to $65. Participants in the interpersonal condition also saw petty and round transfers—but to three individuals. When asked with whom they would rather be friends with, 81% in the interpersonal condition chose the individual with round payments, far more than those in the impersonal condition (50%; p<.001), suggesting that pettiness is unique to interpersonal exchanges.

Studies 2a and 2b further examined the effect of pettiness with money. In Study 2a, participants rated a person who paid $9.99 for $9.99 owed, $10 for $9.99 owed, or $10 for $10 owed when splitting the dinner bill. There was no difference in evaluations between the two $10 conditions; however, the giver who paid $9.99 was disliked more (p<.001), suggesting that people expect others to round up, rather than paying the exact amount owed.

But, could pettiness cause harm even when the amount given is objectively larger than a non-petty amount? Study 2b participants evaluated an individual who gave them a $4.85, $5, or $5.15 gift card in return for a favor. Participants in both $4.85 and $5.15 conditions disliked the giver more than those in the $5 condition (p<.001; p=.03 respectively), despite that $5.15 was higher than $5.

Study 3 examined whether pettiness can manifest through a different type of resource: time. Participants whose relationship status was single participated in an online dating simulation and saw a match. In addition to other information, they also saw what their match had responded to the following scenario—“Your friend is moving to a new home this Saturday and needs some help with moving large pieces of furniture. He/she texts you, asking if you are free to help. What would you text back?”—in one of three different ways: that he/she can help from 1-3pm, 1-2:56pm, or 1-3:04 pm. Those in the 3pm condition were much more likely to accept going on a date (61%) than those in the 2:56pm (35.7%) or in the 3:04pm (43.4%) condition, providing additional evidence that pettiness breeds social avoidance.

Studies thus far operationalized pettiness by manipulating the precision of the amount offered. Here, we operationalize pettiness in two additional ways: an explicit rationale that acknowledges one’s act of monitoring (study 4a) and an action that implicitly signals one’s intention to monitor (study 4b). In study 4a, all participants read that they helped their neighbor by driving him to a wedding 3 hours away. They further read that the neighbor offered either to get premium gas for $3.29 to make it the same price as taking a round trip bus ride, or to get regular gas for $3.09. Despite that those in the premium condition received a clearly better option, participants liked the neighbor significantly less than those in the regular condition (p=.01) and found the relationship more transactional (p=.001). Perceived transactionality mediated the relationship between pettiness and liking (95% CI: .14, .60).

In study 4b, participants read about a friend who is spending an hour to help them. Those in the petty condition also read that she had turned a timer on to keep track of time. When asked which 5-minute task they preferred to complete—writing a positive note to the friend or responding to an essay prompt—those in the petty condition were less willing to write a positive note (55.8%) than those in the non-petty condition (69%, p=.01), despite that in each condition, participants received an hour of their friend’s time. Those in the petty condition also found the relationship more transactional (p<.01), which mediated the relationship between pettiness and preferred choice (95% CI: -.88, -.24).

Study 5 examined whether removing intentionality can mitigate the negative impact of pettiness. Participants evaluated a person who had given a $10 or $13.50 café gift card. They also saw that the café’s website listed $13.50 as a default option or did not. If $13.50 were a default option, one would infer that the giver did not intentionally give $13.50. There was a significant interaction (p<.001): among those who did not see $13.50 as a default, participants found the relationship more transactional after receiving $13.50 over $10, which led them to evaluate the giver more negatively (95% CI: .11, .31). However, this pattern reversed when participants knew $13.50 was a default option, and perceived transactionality no longer mediated the relationship (95% CI: -.09, .09).

Six studies, featuring everyday exchanges of goods, money, and time, examined how pettiness can engender negative consequences, even when the petty amount is objectively larger. We also documented the process behind this effect: pettiness makes the relationship feel more transactional, reducing liking and social preference. With the rise of digital tools that facilitate exchanges of resources, we constantly face the question of “how much should we give?” While one may intuit that being attentive to small details signals a more valuable relationship. However, our results indicate otherwise: choosing not to be petty could make your friendships healthier, and may even give you a second date.

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