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# Fair or Foul? Determining the Rules of the Fair Pricing Game

Jodie Lynne Ferguson

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FAIR OR FOUL? DETERMINING THE RULES OF THE FAIR PRICING GAME

BY

JODIE LYNNE FERGUSON

A Dissertation Submitted in Partial Fulfillment of the Requirements for the Degree  
of  
Doctor of Philosophy  
in the Robinson College of Business  
of  
Georgia State University

GEORGIA STATE UNIVERSITY  
ROBINSON COLLEGE OF BUSINESS  
2008

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## ACCEPTANCE

This dissertation was prepared under the direction of the candidate's Dissertation Committee. It has been approved and accepted by all members of that committee, and it has been accepted in partial fulfillment of the requirements for the degree of Doctor in Philosophy in Business Administration in the Robinson College of Business of Georgia State University.

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## ABSTRACT

### FAIR OR FOUL? DETERMINING THE RULES OF THE FAIR PRICING GAME

By

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DECEMBER 5, 2008

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Past research on perceived price fairness has examined *outcome* fairness, or the fairness of an offered price in respect to other prices (e.g., Campbell 1999a; b). In this research consumers' perceived fairness of the *process* used by the retailer to set the price, as well as outcome perceived price fairness (PPF), were examined. In the first of two studies, twelve price-setting practices were evaluated on procedural fairness, pervasiveness (i.e., commonness of price-setting practice in the marketplace), and social acceptability within six contexts. Social acceptability was found to be highest when the price-setting practice was both procedurally fair and perceived to be highly pervasive for a given context. An experiment bridged the two concepts of price fairness by detecting the negative effect of using a socially unacceptable price-setting practice on outcome PPF. Also, evidence of multidimensionality (i.e., a cognitive and an affective dimension) of the PPF construct was confirmed in the second study. Cognitive and affective assessments of PPF were found to bring about greater consumer intention to partake in self-protection behaviors such as complaining, and revenge-seeking behaviors such as posting negative online reviews.

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## Chapter 1: Introduction

For marketers to communicate the value of goods or services to customers, prices are a key basis. In setting prices, marketers may consider a variety of factors such as costs, demand, competitive pressures, and opportunities to differentiate their offerings. According to dual entitlement theory, consumers understand that sellers are entitled to set a price that reflects the cost to the seller plus a fair profit (Kahneman, Knetsch, and Thaler 1986). However, consumers are seldom privy to full information about costs and profits involved in price-setting practices (Bolton, Warlop, and Alba 2003). They respond, therefore, to market offerings based on available information and presumptions about how they believe prices are set and, therefore, what processes prices reflect. Although we know that consumers evaluate the fairness of offered prices (Bolton, Warlop, and Alba 2003; Campbell 2007), we know little about how they evaluate the fairness of the *processes* marketers use in setting prices.

Perceptions of price fairness (PPF) are “a consumer’s assessment and associated emotions of whether the difference, or lack of difference, between a seller’s price and the price of a comparative other party is reasonable, acceptable, or justifiable” (Xia, Monroe, and Cox 2004, p. 3). Not surprising, a consumer is more likely to judge a higher-than-expected price to be more unfair than a lower price (Maxwell 2005; Huppertz, Arenson, and Evans 1978). However, consumers will judge prices as more fair when they perceive that higher prices reflect that the sellers’ costs and not the sellers’ relative profit levels have increased (Kahneman, Knetsch, and Thaler 1986), that sellers’ cost increases and price increases are in alignment (Bolton and Alba 2006), and that factors outside the seller’s control have caused the higher prices (Vaidyanathan and Aggarwal 2003). Past research has identified influences of PPF (e.g., good seller reputation,

Campbell 1999a). PPF may also be enhanced when the consumer perceives that the seller set the price through a fair process.

## **Procedural Fairness and Pervasiveness of Price-Setting Practices**

Consumers may have perceptions about how sellers determine prices, but because their information is limited, they are forced to judge the fairness of prices by comparing them with other prices—competitors’ prices, prices their friends have paid, or prices the customer has paid in the past. For example, Progressive Insurance Company advertises their car insurance by presenting prices compared with three competitors’ quotes. With limited additional information about how competitors’ prices were set, the consumer might misjudge the fairness of Progressive’s quote.

On the other hand, if consumers had more information about how prices were set, they could more accurately judge the fairness of the sellers’ price-setting practices, or the fairness of the procedures the sellers used to set the prices. If consumers learned that their car insurance quotes were set according to their driving records, their vehicle models, and the number of miles they drive to and from work, they would probably perceive that insurance managers had set insurance quotes fairly, based on vehicle-related cues that inform of a potential client’s risk.

What if consumers knew that car insurance managers set prices according to credit report scores? Although the Supreme Court ruled that the use of credit reports does not violate the Fair Credit Reporting Act and that insurance managers are not required to disclose use of credit reports in setting price (*Safeco Ins. Co. of America et al. v Burr et al.* 2007), consumers may not feel that the use of credit report scores aligns with vehicle-related cues; therefore, consumers

might perceive that the process for setting a price is unfair for insurance companies to use credit reports.

In addition to the procedural fairness of a price-setting practice, consumers may also evaluate the commonness of use, or pervasiveness, of a price-setting practice in a given context. For example, they might view it as common practice for the health insurance industry to set a price quote based on medical history. However, setting a *car insurance* price quote based on medical history is not likely to be viewed as a common price-setting practice, and therefore consumers would likely find medical history to be an unacceptable price-setting practice for the car insurance industry.

## **What are the Rules of Price Fairness?**

Our existing knowledge of consumers' implicit rules for judging the fairness of price-setting practices is somewhat limited. In Maxwell's (2002) study on rule-based price fairness, social (price) fairness was defined as being "according to the rules." The study shifted the focus from PPF (i.e., consumer judgments of the fairness of an offered *price* compared with another price) to the fairness of the seller's price-setting practice (i.e., consumer judgments of the fairness of the *process* the seller used to set the price). Exploring what constituted fair price-setting practices for the airline industry, the study identified rules by which consumers judged the fairness of price-setting practices by selecting price-setting practices that had high approval ratings (i.e., indicating acceptance by the population sampled). The study did not, however, confirm what makes a price-setting practice socially acceptable to consumers.

Based on the premise that consumers vary in their knowledge of marketplace price-setting practices, Hardesty, Bearden, and Carlson (2007) developed a measurement of objective

knowledge of marketer pricing tactics. However, their studies did not indicate how consumers judge these price-setting practices in terms of fairness. The proposed research extends earlier research by empirically testing what makes a pricing rule acceptable to consumers by examining the overall procedural fairness of price-setting practices and the moderating effect of pervasiveness of the price-setting practice by context (i.e., the set of circumstances that surround the price-setting practice).

### **The Multidimensionality of Price Fairness**

Much prior research has viewed PPF as a singular judgment (i.e., more fair – less fair) (Kahneman, Knetsch, and Thaler 1986; Campbell 1999a, b; Bolton and Alba 2006). A few researchers have suggested that price fairness has both affective and cognitive components, and that some pricing situations may elicit more emotional (i.e., affective) responses to offered prices, whereas others may elicit more thinking (i.e., cognitive) responses to offered prices (Xia, Monroe, and Cox 2004). In fact, Campbell (2007) found that affect plays an important role in PPF in that affect and inferred motive alternately mediate PPF. However, affect and cognition were not measured as part of a multidimensional PPF construct, but as separate constructs. Also, the influence of affect was not tested on response behaviors, such as complaining about the price.

Studying the effects of fairness judgments on response behaviors is critical to sellers because it is negative consumer outcomes such as decisions not to purchase (Maxwell 2005; Grewal, Hardesty, and Iyer 2004; Maxwell 2002), reduced intentions to shop with that seller (Campbell 1999a, b), and complaining behavior (Kalapurakal, Dickson, and Urbany 1991) that affect businesses. Previous studies have examined response behaviors only as a result of price unfairness when, in fact, certain response behaviors may also depend on whether there is an

affective assessment or a cognitive assessment of PPF. Response behavior in which the consumer engages in self-protection behavior (e.g., complaining behavior, exiting the relationship) and revenge-seeking behavior (e.g., negative word-of-mouth) may be outcomes of affective PPF, whereas inaction (e.g., remaining loyal to the seller without complaining) may be an outcome of cognitive PPF (Xia, Monroe, and Cox 2004).

## **Focus of this Research**

In the price fairness literature, researchers have distinguished between the fairness of the process of setting prices (Maxwell 2002) and the perceived price fairness (PPF) of an offered price (Campbell 1999a, b; Bolton, Warlop, and Alba 2003). This research examines both procedural price fairness and PPF in two studies. The overarching objectives of these studies are:

- Study 1 – to determine price-setting practices that are more socially acceptable and less socially acceptable in the marketplace, and
- Study 2 – to measure the extent to which the social (un)acceptability of a price-setting practice affects perceptions of fairness of an offered price.

*Study 1.* The first study measures the extent to which the overall procedural fairness of multiple price-setting practices and the pervasiveness of each price-setting practice in the marketplace of a given context are associated with the social acceptability of a price-setting practice. Also measured are important covariates, including the extent to which consumers think about how prices are set and consumer knowledge about how prices are set. The results reveal how overall procedural fairness and pervasiveness affect the social acceptability of a price-setting practice, and provide manipulations for testing effects of deviating from an acceptable pricing rule (i.e., a price-setting practice that is socially acceptable to consumers) on perceptions of price fairness to be used in Study 2.



*Study 2.* The second study tests a model of outcome perceived price fairness, including the effects of seller use of a socially (un)acceptable process of price-setting on PPF. The measures of cognitive and affective assessments of outcome price fairness are developed, and included as part of the PPF construct in assessing the model. Consumer knowledge of marketer price-setting tactics is assessed as a covariate to PPF. Also measured is the proposed differential effects of type of PPF assessment (e.g., affective or cognitive) on consumer response behaviors. Specifically, the affective component of PPF is examined for effects on behaviors such as greater intention for self-protection and revenge-seeking behaviors, and the cognitive component of PPF is examined for effects on no-action behaviors.

## **Contributions**

The proposed research responds to prior price fairness literature's call for greater insight into consumers' beliefs about price-setting practices and the effects of beliefs on judgments of price fairness (Bolton, Warlop, & Alba, 2003; Xia, Monroe, & Cox, 2004). This research also builds on other recent research to better understand consumer marketplace knowledge (Wright, 2002; Wright, Friestad, & Bousch, 2005) by learning about consumer knowledge of price-setting practices in the marketplace and how such knowledge affects price fairness judgments. The proposed studies expand on recent researchers' studies of fair processes for setting price by determining what makes a price-setting practice socially acceptable (Maxwell 2002) and bridges the gap between studies of procedural price fairness and studies of outcome price fairness by examining effects of procedural fairness on outcome fairness. Finally, this research extends Campbell's (2007) findings that affect does play a role in price fairness by developing measures of affective and cognitive price fairness assessments. Our understanding of the detrimental

impact of price unfairness perceptions are further enhanced by measuring effects of affective/cognitive price fairness assessments on consumer response behaviors.

## **Overview of the Dissertation**

Chapter 2 provides an overview of the price fairness literature, marketplace knowledge about price-setting practices, and beliefs about the existence of social norms for sellers' behavior in setting prices. It also discusses the proposed two-dimensional conception of price fairness and the literature on consumer response behaviors, including revenge-seeking, self-protection, and no-action. Chapter 2 includes a description of the proposed model of price fairness. Chapter 3 describes the methods and results of the research. In Chapter 4, implications and limitations of the research are discussed, as well as suggestions for future research. The appendices conclude with tables, figures, charts, and references.

## **Chapter 2: Literature Review and Conceptualization**

### **Overview**

This chapter reviews the extant literature related to consumers' judgment of price fairness found in the marketing, psychology, and consumer economics literature, attending particularly to the revealed opportunities for future research related to consumers' knowledge and beliefs about price-setting practices and resulting judgments about price fairness. In particular, the chapter focuses on the concepts of the existence of social norms in regard to price-setting practices and the potential impact of violations of such norms between consumers and sellers. This chapter demonstrates that although a few studies (Maxwell 2002; Dickson and Kalapurakal 1994) have initiated the concept of evaluating the fairness of the rules used in price-setting, a deeper understanding of the fairness of these rules is warranted, including determining whether a pricing rule is universally accepted, or whether pricing rules are accepted in specific contexts.

In addition, the chapter explores the price fairness concept itself, specifically focusing on evidence for a multidimensional construct reflecting both affective and cognitive assessments rather than simple fair–unfair judgments. The limited research on the multidimensionality of price fairness will be highlighted as well as the opportunity to further develop the idea of an affective and a cognitive component of price fairness. Beyond the concept itself, the chapter further explores the literature on consumer response to price (un)fairness judgments, such as no-action, self-protection, and revenge-seeking.

From this review, a model of the rules of fair pricing and price fairness is conceptualized, including effects of breaking a socially acceptable pricing rule on price fairness, the

multidimensionality of price fairness, and subsequent consumer response behavior. This model and the associated hypothesized relationships are also presented in this chapter.

## **Perceptions of Price Fairness (PPF)**

Fairness has been thought of as “equity” and where consumers get “what is right” or “what they deserve” (Oliver and Swan 1989). “Fair” has come to be known as “a global measure of price acceptability” (Maxwell 1995) and perceived price fairness as a psychological factor that influences consumers’ reactions to prices (Campbell 1999a). For this research, the acronym PPF represents Xia, Monroe, and Cox’s (2004) definition of perception of price fairness:

A consumer’s assessment and associated emotions of whether the difference, or lack of difference, between a seller’s price and the price of a comparative other party is reasonable, acceptable, or justifiable (p. 3).

PPF has been examined in price decrease situations (Darke and Dahl 2003), price increase situations (Campbell 1999a; b; Bolton and Alba 2006), and both price increase and decrease situations (Campbell 2007). However, the current research examines PPF as a result of the price-setting practice, as exemplified by Haws and Bearden’s (2006) PPF study of online price-setting practices.

Although conventional economic theory has suggested that consumers perceive lower prices as more fair (Maxwell 1995), a number of PPF studies have demonstrated that consumers’ reactions to price increases are based on the dual entitlement principle (Kahneman, Knetsch, and Thaler 1986; Urbany, Madden, and Dickson 1989; Frey and Pommerehne 1993). Dual entitlement maintains that (1) raising price to maintain profit is fair, (2) raising price to increase profits is not fair, and (3) maintaining price in the face of a cost decline is fair (Urbany, Madden,

and Dickson 1989). Thus, dual entitlement recognizes that sellers are due a fair profit and that once prices are set, sellers are not expected to pass along cost reductions to consumers.

Studies of PPF have examined determinants and response behaviors of PPF. See Table 1 for a summary of price fairness literature. Campbell found that lack of good reputation (1999a) brings about greater perceptions of price unfairness. When price increases are aligned with cost increases, judgments of price unfairness are reduced (Bolton & Alba, 2006). Consumer involvement in price setting, such as consumer bidding, increases PPF (Haws and Bearden 2006). When the cause of the cost increase was external to the seller and the seller had low controllability, judgments of price were seen as more fair (Vaidyanathan and Aggarwal 2003). Studies of PPF have revealed negative perceptions of sellers' reasons for a given price (e.g., inferred motive for price increase; Campbell 1999a, b; Kukar-Kinney, Xia, and Monroe 2005). PPF studies have also shown that prices set higher in response to special circumstances (e.g., scarcity or heightened demand) led to price unfairness judgments (Kahneman, Knetsch, and Thaler 1986; Frey and Pommerehne 1993; Maxwell 1995; Campbell 1999b). Each of these studies provided insight into the cues that consumers rely on for PPF, yet they did not address whether consumers hold beliefs about the rules of price-setting and how perceived violation of such rules affects PPF.

### **Xia, Monroe, and Cox's (2004) Conceptual Model of PPF**

Xia, Monroe, and Cox (2004) conceptualized an overarching model of PPF, which is presented in Figure 1. In this model, the authors suggested that consumers compare an offered price with another price (e.g., a price offered in the past or a price another consumer paid). Subsequently, they assessed price fairness by comparing one transaction with another,

attributions of responsibility for a price increase, the buyer-seller relationship stage (i.e., trust), and knowledge, beliefs, and social norms in the marketplace. They also conceptualized PPF as multidimensional, deriving from both cognitive and affective assessments. Separately, they suggested that this cognitive/affective assessment of PPF elicits negative emotions and perceived value judgments. Depending on the perceived cost of taking action and the relative power of the consumer and the seller, consumers were described as responding either with no action, self-protection such as withdrawing from the transaction, or revenge seeking through active means such as taking legal action.

Prior research has addressed some of the relationships delineated in Xia, Monroe, and Cox's (2004) model as indicated in Figure 2. The white boxes represent research that has been conducted on specific areas defined in Xia and colleagues' conceptual PPF model, whereas the black boxes are areas defined by Xia and colleagues that are yet to be fully examined. Specifically, what has not been fully explored is how consumers' knowledge of and beliefs about the marketplace, in particular about how prices are set, affect their expectations of fair price-setting practices. Although Maxwell's research on social norms (1999) and on beliefs (2002) both examined effects on PPF, the current research furthers our understanding of beliefs, norms, and PPF. In addition, PPF has generally been treated as a single judgment of fair-unfair rather than a dimensional construct with cognitive and affective components as defined by Xia, Monroe, and Cox (2004). The current research seeks to address these issues.

### **A Call for Research on Knowledge, Beliefs and Social Norms**

Among other things, PPF has been proposed to be a function of knowledge, beliefs, and norms. It has been suggested that consumers may "rely on their general knowledge or beliefs

about sellers' practices to adjust their judgments of price fairness" (Xia, Monroe, and Cox 2004). Indeed, Bolton, Warlop, and Alba (2003) discovered that available information to the consumer, such as information on costs and profits, affects perceptions of price fairness; however, they suggested further research on consumer knowledge and PPF:

In our view, research on price fairness bridges the gap between product- and market-level knowledge, inasmuch as judgments about transaction fairness reflect consumer beliefs about marketplace dynamics (Bolton, Warlop, and Alba 2003, p. 489).

Other researchers have called for greater understanding of the impact of knowledge or beliefs on PPF. Campbell (1999b) suggested that it would be "useful to gain further understanding of consumers' inferences about pricing and other market actions" (p. 198), and Haws and Bearden (2006) proposed that "consumer knowledge about pricing in general should be examined as a potential factor explaining fairness perceptions" (p. 309). Similarly, PPF may be shaped or refined by marketplace metacognition, the "everyday individual's thinking about market-related thinking," including beliefs pertaining to marketplace cooperation and manipulation (Wright 2002, p. 677).

It is important to differentiate consumer knowledge of marketplace price-setting practices from consumer price knowledge, which has been studied extensively in the marketing literature (for a review, see Estelami, Lehmann, and Holden 2001), and from long-term price knowledge measurement (see Vanhuele and Dreze 2002). Traditionally, consumer price knowledge has been assessed by the accuracy of consumers' recall of prices with a variety of memory tests. Vanhuele and Dreze (2002) conceptualized price knowledge as a combination of recallable price knowledge, price recognition, and deal spotting. Although these measures are valuable for examining price awareness, this price knowledge construct does not tap the consumer's beliefs about price-setting practices; it tests only recognition of accurate prices.

Evidence of consumers' knowledge of price-setting practices in the marketplace has been provided by Hardesty, Bearden, and Carlson (2007), who developed a measure of pricing tactic persuasion knowledge. This seventeen-item true-false index assessed the degree to which consumers understood the merchant's intent behind a range of pricing practices. As such, the scale captured consumers' beliefs about pricing tactics and marketers' attempts to influence consumers through techniques such as captive pricing, loss leader pricing, price bundling, and price skimming. As an example, the pricing tactic persuasion knowledge index asked whether the following statement is true or false: "Everyday-low-pricing is used by marketers so that they will be perceived as having really low prices on some items and higher prices on others (FALSE)." The authors found that the index score moderated consumer reactions. Specifically, greater pricing tactic persuasion knowledge lessened the impact on consumer reactions associated with large quantity surcharges. These authors saw consumers' knowledge of marketer persuasion tactics as a possible determinant of PPF.

Further research is warranted on what consumers believe about pricing in the marketplace. As Dickson and Kalapurakal (1994) correctly pointed out, much of the existent literature on fairness has *assumed* the fairness of specific rules but has not directly established consumers' perceived fairness of rules. Determining what makes a price-setting practice socially acceptable and establishing which price-setting practices are socially acceptable in the marketplace (i.e., the "rules" of fair pricing) are essential to better understand consumer beliefs about pricing in the marketplace.



## **Distributive Justice and Procedural Justice**

Distributive justice looks at the fairness of an outcome; procedural justice looks at the fairness of the process through which the outcome is achieved (Brockner and Wiesenfeld 1996). In a review article on procedural and distributive justice, Brockner and Wiesenfeld (1996) described procedural justice as, among other things, procedures that are consistent, that are without self-interest, and that have represented interests of all concerned parties. On the other hand, past price fairness research has exemplified distributive justice by looking at the fairness of the price itself, or price as an outcome (Campbell 1999a, b). Limited research has focused on the perceived fairness of pricing, or the process by which the price is set. The current research first examines the fairness of price-setting as a process (i.e., procedural fairness) and then examines effects of procedural fairness on PPF (i.e., distributive fairness). Thus, this research extends past PPF research by examining effects of procedural fairness on PPF.

An extension of distributive versus procedural justice is a concept of dual-focused thought described by Escalas and Luce (2004). Individuals' use of either process-focused thoughts or outcome-focused thoughts influences behavior intentions. For example, when viewing an advertisement, consumers can either think about the *process* of using a product in their everyday lives (e.g., using shampoo A every day) or they can think about the *outcome* of using the product (e.g., having beautiful, clean hair as a result of using shampoo A). Escalas and Luce (2004) showed that manipulating process-focused thought can lead to greater desirable behavioral intentions, because process-focused thought creates an achievable plan for product usage. In the same manner, consumers may judge the fairness of a price solely on the price presented (i.e., the outcome), without thinking about how the seller set the price, or the consumer may judge the fairness of a price by thinking about how the seller set the price (i.e., the process).

The current research proposes that consumers may use process-focused thought when evaluating the fairness of a price-setting practice (i.e., when information about how the seller set the price is apparent) and use outcome-focused thought when evaluating the fairness of an offered price. A perceived unfair price may be the result of a consumer evaluating the seller's perceived adherence to or failure to use a socially acceptable price-setting practice during the process of setting the price.

### **Social Norms and Procedural Price Fairness**

Perceptions of the fairness of pricing practices may be viewed as a function of social norms (Maxwell 1995; 1999; 2002). In an exploratory study, consumers provided their own words to describe what a "fair price" means (Maxwell 1995). The resulting themes funneled into two distinct components of price fairness: economic and social (Maxwell 1995). Whereas the economic component was evidenced by the classic Marshallian economic theory, which suggests that maximizing utility results in the cheapest price being judged as "fairest," the social component reflected that price fairness includes the belief that prices are affordable to everyone or that marketers are not taking advantage of the consumer at the set price (Maxwell 1995). The findings of Maxwell's (1995) study also suggested that PPF is not just about the fairness of the price to the individual, but the fairness of the price to consumers as a community. Kahneman, Knetsch, and Thaler (1986) also suggested that implicit rules or community standards of fairness help shape conduct in the market. These normative "rules of fairness" are socially acceptable, and deviations from these rules bring about PPF and resultant consequences. Although sellers may have the prerogative to change prices, they may be held to consumer acceptance through unspoken social rules of the exchange (Maxwell 2002).

Maxwell (1999) performed a classification of social norms of economic exchange, among which are “decentralized” norms (i.e., shared expectations suggest how each group member must behave within the exchange), “hegemonic” norms (i.e., a less powerful party must behave as expected by a more powerful party in order for an exchange to occur), and “cooperative” norms (i.e., two parties collaborate to facilitate their transactional relationship). Whereas hegemonic and cooperative norms are typical of relational exchange (e.g., inter-firm transaction market), decentralized norms are more typical of discrete exchange (e.g., consumer market) (Maxwell 1999). These decentralized norms are shared expectations of how others “ought” to behave and are enforced by consumers’ approval or disapproval, developed over time, and are influenced by traditions, beliefs, and routines (Maxwell 1999). According to these decentralized norms, sellers’ setting of prices would be a function of, and mitigated by, the practices of others in the marketplace, further promoting the norms. As an example, Maxwell pointed to the practice of prices ending in “9.” The original purpose was to force clerks to use cash registers to ring up sales, making it more difficult for them to pocket the money (Maxwell 1999). Now, however, sales tax forces sales clerks to ring up sales on registers anyway. The functional purpose of prices ending in “9” is no longer valid; however, the practice pervades today such that prices ending in “round numbers” may be unexpected (Maxwell 1999).

Kahneman, Knetsch, and Thaler (1986) discussed unfair pricing practices and pricing practices that have become norms, but their study did not explicitly identify or test actual rules of fairness. Two studies in the price fairness literature have, however, examined the fairness of price-setting rules (Maxwell 2002; Dickson and Kalapurakal 1994).

Maxwell (2002) provided evidence that social norms of price-setting practices exist in a study of “rule-based” price fairness. Social fairness of the pricing *process* was described

separately from social fairness of the *outcome*, in this case, of the price itself. “The rules” were described as patterns of exchange between two parties; over time these rules become institutionalized and constrain behavior (Maxwell 2002, p. 193). Two studies investigated (1) the effects of consumers’ beliefs of adherence to the pricing rule on attitudes and willingness to buy, and (2) the effects of revealing a negative price-setting practice with a justification rule (i.e., “everybody does it”) on price perceptions and willingness to purchase.

In the second study (Maxwell 2002), belief about adherence to the rules was not directly tested for effects on PPF. Instead, adherence to the rule was manipulated by describing how an airline ticket price is set using cost-plus pricing (i.e., a price-setting practice that is assumed to adhere to the rule) or yield pricing (i.e., a price-setting practice that is assumed to deviate from the rule). This manipulation of adherence to the rule was found to affect price perceptions. The justification of rule (i.e., “everybody does it”) was unexpectedly not found to significantly affect price perceptions, perhaps because of the context of the study (i.e., the airline industry).

Although this study distinguished between procedural fairness (i.e., rule-based fairness) and outcome fairness (PPF), limitations (e.g., limited examples of price-setting practice rules examined, the assumptions of whether a price-setting practice is socially acceptable, and the unexpected null effects of justification of rule on price perceptions) present opportunities for further examination of social acceptability of price-setting practices and subsequent effect on PPF.

*Pervasiveness.* The perceived pervasiveness of a price-setting practice may differ by contexts with some practices common in one arena but unheard of in another. Although Maxwell’s (2002) study of rule-based pricing used the airline industry, it was based in part on a study of fairness of price-setting rules in another context, the bulk electricity market (Dickson

and Kalapurakal 1994). This earlier study used actual price-setting practices as well as frequency of use in the bulk electricity market. Traders in the industry provided the price-setting practices *and* provided fairness judgments for each rule. Eight price-setting practices were evaluated in total, four categorized as “cost-based rules” (e.g., cost plus pricing) and four categorized as “market-based rules” (e.g., seller increases price when supply decreases). Results of this study indicated that frequency of use of the rule correlates with judgments of fairness; however, it did not provide evidence of how consumers might judge the practices. The results contradicted the dual entitlement principle in that price increases as a function of heightened demand were evaluated as less fair. These contradicting results to the dual entitlement principle may be because they were sellers’ judgments, not consumers’, and also because the study was context specific (i.e., bulk electricity market). These results are not assumed to be generalizable to consumers or to other industries.

### **The Multidimensionality of Perceived Price Fairness**

Though commonly approached as a unidimensional judgment (i.e., fair–unfair), PPF may be driven by a combination of affective and cognitive assessment of a price, such that affective and cognitive assessments are precursors to the unidimensional judgment. Xia, Monroe, and Cox (2004) suggested in their definition that price fairness is a “consumer’s assessment” (i.e., cognitive) and “associated emotions” (i.e., affective) (p. 3), though the affective and cognitive components of price fairness are not to be confused with the emotion or perceived value consequence of PPF as described in Xia, Monroe, and Cox (2004). Affective and cognitive assessments are part of the PPF, and emotions and perceived value can be *elicited* from PPF.

Xia and colleagues suggested that not only do consumers have cognitions about the price equality or inequality, they may also have emotional, or affective judgments about price as well. Feelings of unease, guilt, anger, or outrage may accompany cognitive PPF. Not clear in their definition is whether both components (i.e., cognitive and affective) must always exist with PPF or whether their existence or relative impact on PPF may vary by context.

Some disagreement has appeared in the literature as to when emotion is activated in PPF. Xia, Monroe, and Cox (2004) suggested that the construct of PPF includes an affective component, implying that the emotion is present in, or concurrent with, the fairness judgment of the price. The authors also proposed that emotions are elicited from PPF, and actually act as a mediator for consumer response behavior. Clear evidence has been given of emotional effects of price-setting practices (i.e., excitement: Babin, Hardesty, and Suter 2003), and emotion effects on preference for prices (i.e., sadness and disgust: Lerner, Small, and Loewenstein 2004).

Shiv and Fedorikhin (1999) suggested that affective and cognitive assessment occur in decision making. The first is an automatic response, likely to give rise to affective reactions; whereas the second is a deliberate, controlled response, likely to give rise to cognitive reactions (Shiv and Fedorikhin 1999). Rottenstreich, Sood, and Brenner (2007) also supported the idea that consumer choice includes two assessments. Borrowing from Kahneman and Frederick (2002), they described two systematic responses in evaluation, which are similar to Shiv and Fedorikhin (1999). System 1 response (i.e., affective) is automatic, rapid, and affective; System 2 response (i.e., cognitive) is controlled, slow, and deductive.

The current research posits that cognitive and affective assessments may be concurrent in price fairness judgments (PPF). Depending on the information cues present, either the cognitive assessment or the affective component will dominate the other in the judgment. For example,

Shiv and Fedorhkin (1999) demonstrated that manipulating the availability of mental processing resources (e.g., memorizing a series of one-digit numbers versus a series of two-digit numbers) in a binary choice decision produced differences in affective and cognitive assessments. Specifically, when consumers' mental processing resources were restricted (i.e., memorizing the series of *two*-digit numbers), decisions relied more heavily on an affective assessment; in less restrictive conditions (i.e., memorizing the series of *one*-digit numbers), they relied more on cognitive assessment. In terms of PPF, Shiv and Fedorikhin's (1999) research suggested that the dominance of affective and cognitive assessments may differ across contexts. The important question is—under what conditions will these different assessment processes occur?

Recently, Campbell (2007) examined the cognitive and affective assessment as mediators of PPF, and therefore antecedents to PPF. Using Shiv and Fedorikhin's (1999) distinction between cognition and affect, Campbell (2007) found that inferences about the seller's motive had greater influence on price unfairness when cognitive processing resources were available, and affect had greater influence on PPF when cognitive resources were limited. Also, the measurement for affect and inferred motive were measures distinct from PPF; therefore Campbell (2007) did not test a multidimensionality of PPF itself. Her research also did not explore whether cognitive and affective effects on PPF had differential effects on response behavior variables (e.g., no-action, self-protection, revenge-seeking).

### **PPF Effects on Consumer Response Behavior**

A model of response behaviors associated with dissatisfaction, initiated by Hirschman (1970) and extended by Singh (1990), provided guidance for the effects of PPF. The model's premise was that a customer has four potential responses to a dissatisfactory purchase

experience: exiting, voicing, remaining loyal (i.e., no-action), or spreading negative word-of-mouth (WOM) (Hirschman 1970; Singh 1990). By exiting, the customer severs the relationship with the selling firm. The customer who activates the voice option indicates a desire to change the undesirable situation and to seek satisfaction. Remaining loyal is not synonymous with staying “faithful” or adhering “to a course of action”; rather Hirschman (1970) characterized *loyalty* as the omission of exiting and voicing. Loyalty in this sense is passive; it is *inaction*. Negative WOM involves spreading the word to others (not the seller) about the dissatisfactory experience (Singh 1990). Although the PPF literature has declared that perceptions of price *unfairness* are not equivalent to dissatisfaction (Xia, Monroe, and Cox 2004), such perceptions are still negative judgments about a transaction experience, and therefore the Hirschman–Singh model of response behaviors can be adapted to understanding response behaviors to PPF.

An extension of the exit, voice, loyalty, and WOM dissatisfaction response behaviors could be the response behaviors to PPF, as outlined in Xia, Monroe, and Cox’s (2004) conceptual model of PPF, shown in Figure 1. Xia and colleagues (2004) classified consumer behavioral responses to PPF into three categories: no action, self-protection, and revenge. Figure 2 shows the research that has examined these different consequences of PPF. *No action* behaviors (cf., Hirschman–Singh’s *loyalty*) are situations in which the consumer does not act to bring equality back to the transaction or change future transactions with the seller, even if the consumer perceives the price as unfair (Monroe and Xia 2006). *Self-protection* behaviors (cf., Hirschman–Singh’s *exit* or *voice*) include responses that the consumer undertakes to restore equality to the transaction. *Revenge* behaviors (cf., Hirschman–Singh’s *spreading negative WOM*) are intended to damage the seller in efforts to “get even” (Monroe and Xia 2006).



The PPF literature has given the most attention to *self-protection* as response behaviors to PPF. Specifically, PPF has been linked to shopping and purchase intentions (Maxwell 2005; Homburg, Hoyer, and Koschate 2005; Xia and Monroe 2005; Grewal, Hardesty, and Iyer 2004; Campbell 1999a, b; Kalapurakal, Dickson, and Urbany 1991). Response behaviors of PPF examined in other research can be found in Table 1. Only two studies (Xia and Monroe 2005; Urbany, Madden, and Dickson 1989) have examined price fairness effects on no-action behaviors and revenge-seeking behaviors. Also, within the self-protection category, limited research has been conducted on effects of PPF on complaining behavior (Huppertz, Arenson, and Evans 1978).

Urbany, Madden, and Dickson (1989) found that even though consumers judged a price to be unfair, they did not necessarily intend to switch retailers (i.e., exit the relationship). Instead they preferred to continue their relationship as usual (i.e., no-action), perhaps because the switching costs may have been too great, or they had come to terms with the new price. On the other hand, in situations of revenge, the consumer may have sought to punish the seller by switching to another seller even at the consumer's expense (Bechwati and Morrin 2003) or by spreading negative WOM in efforts to "get even" (Monroe and Xia 2006).

Singh (1990) empirically tested the Hirschman–Singh model of consumer response behaviors and found that the consumers' beliefs about the probability of successful complaint, worthwhileness of complaint, and consumer sophistication all positively influenced actual complaining, exiting, and spreading of WOM. Although Xia and Monroe (2005) found that perceived price *unfairness* increased desire to spread negative WOM as mediated by negative emotions, to our knowledge, no PPF studies have examined effects of the multidimensionality of

PPF on response behaviors. Specifically, how does affective assessment of price fairness influence consumer response behaviors differently from cognitive assessment of price fairness?

## **Summary of Literature Review**

Limited research has been conducted to understand the way consumers think about the marketplace, including consumers' beliefs about marketplace practices. Most previous PPF literature has focused on the distributive justice interpretation of PPF, where the outcome of an offered price is judged for fairness. Little research has been done on procedural price fairness, or the judgments about the fairness of price-setting practices. Maxwell (2002) demonstrated that consumers may be judging the fairness of a price based on the rule used by the seller to set the price (i.e., procedural price fairness). However, it is unclear as to what makes a price-setting practice rule acceptable to society: Is it procedural pricing fairness alone or does pervasiveness of the practice by context play a role? The effects of use or misuse of a socially acceptable price-setting practice on PPF are yet to be tested.

Previous research has revealed that perceptions of sellers' motive in setting a price and special circumstances (e.g., scarcity or heightened demand) have been linked to PPF and subsequent effects on consumer response behavior (e.g., purchase intentions) (Campbell 1999b; Kalapurakal, Dickson, and Urbany 1991; Xia and Monroe 2005). However, this review of the literature uncovers aspects we still do not understand about PPF. Although affect may play a role in PPF (Campbell 2007), no research has been conducted on multiple dimensions of PPF, including components of cognitive and affective assessments. Although some self-protection response behaviors to PPF have been studied extensively (e.g., shopping intentions), limited research has been conducted on no-action and revenge-seeking response behaviors to PPF. These

response behaviors have received insufficient examination in the literature and have not been examined as consequences of a multidimensional PPF (e.g., affective/cognitive) where some response behaviors may be results of affective PPF and others results of cognitive PPF. This research is intended to fill these gaps in the literature and advance our understanding of price fairness, both as a process and as an outcome.

### **A Model of the Rules of Fair Pricing and PPF**

In the next section, a model of the rules of fair pricing and PPF, including hypothesized relationships, is presented. Figure 3 illustrates the model. Specifically, perceived overall procedural fairness, moderated by perceived pervasiveness of price-setting practice by context, is posited to determine social acceptability of a price-setting practice. The effect of a seller's decision to use a socially unacceptable price-setting practice to set a price will be hypothesized to bring about greater perceptions of price unfairness and, more specifically, to bring about greater affective assessment of PPF. Negative affective assessment of PPF and negative cognitive assessment of PPF are each argued to influence revenge-seeking, self-protection, and no-action behaviors.

### **Determining the Rules of Fair Pricing**

Dickson and Kalapurakal's (1994) study demonstrated a means to assess fairness of eight price-setting practice rules within a specific context. Building from these rules and investigating beliefs within other industries could help to determine whether some price-setting rules are seen as universally fair in the consumer marketplace or whether rules vary by context. Specifically,

the overall procedural fairness of the price-setting practice may be moderated by perceived pervasiveness of the practice in a context that may then determine a socially acceptable price-setting practice rule, or social norm.

Maxwell's (2002) study of rule-based fair pricing examined the beliefs about fairness of a price-setting practice in the airline industry. Through focus groups and open-ended surveys, she selected cost-based pricing as an "acceptable" rule of pricing for the airline industry. Indeed, analysis of her model of rule-based fair price resulted in inferred pricing fairness being a significant predictor of overall fairness of price-setting practices. Similarly, the overall procedural fairness of a price-setting practice was posited to lead to the social acceptability of the price-setting practice.

In a review on reference prices, Mazumdar, Raj, and Sinha (2005) discussed mental representations of reference price, suggesting that internal reference prices (i.e., price information in memory) may be encoded in memory as numeric and nonnumeric forms such as price beliefs. For example, not only could a precise quantitative price be an internal reference price, but so could the price belief that a brand of laundry detergent is frequently on sale (Mazumdar, Raj, and Sinha 2005). In discussions of psychological pricing, Monroe (1973) talked about the phenomena that buyers tend to expect certain prices after being exposed to them over time, an observation that may also apply to exposure of price-setting practices. Price beliefs, or expectations of sellers' use of a price-setting practice, may be created from repeated exposure to a seller's use of a price-setting practice in the marketplace (e.g., brand of detergent frequently on sale) over time. The repeated exposure to and expectation of a seller's use of a price-setting practice could also heighten perceptions of the commonness or the pervasiveness of the price-setting practice, which may lead to social acceptability of the price-setting practice.

In this research, pervasiveness is posited to affect whether the price-setting practice is accepted as a social norm in the marketplace. When a price-setting practice is thought to be pervasive within a given context, the consumer is expressing belief that the price-setting practice is commonly used for setting prices in the marketplace. Although it is plausible that the overall procedural fairness of the price-setting practice may bring about the social acceptability of the price-setting practice, the perceived pervasiveness of the price-setting practice may moderate the relationship between overall procedural fairness and social acceptability of the price-setting practice. Specifically, the perceived commonness or pervasiveness of the practice used in a context may strengthen a low procedural fairness judgment. Figure 4 illustrates the hypothesized moderating effect of pervasiveness. Thus, the hypothesis states:

H1: Whereas high overall procedural fairness will be seen as more socially acceptable than low overall procedural fairness, perceived pervasiveness of the price-setting practice for a given context will moderate the relationship between overall procedural fairness and social acceptability: (1) when procedural fairness is low, pervasiveness will have a direct positive effect on social acceptability, and (2) when procedural fairness is high, pervasiveness will have no effect on social acceptability.

### **Covariates - Socially Acceptable Price-Setting Rule**

The results of Bolton, Warlop, and Alba's (2003) multiple studies suggested that consumers have a difficult time mentally assessing seller costs and profits, and that consumers have inaccurate perceptions of seller costs and profits. This may mean that consumers do not possess adequate information about how prices are set, or consumers may not think much about how prices are set. The more knowledgeable consumers are about how prices are set and the extent to which consumers think about price-setting practices (e.g., price-setting consciousness) may bring about differences in determining social acceptability of a price-setting practice. Also,

consumers' familiarity with the context in which a price-setting practice is used may also influence the social acceptability of a practice.

### **Effect of Breaking a Socially Acceptable Price-Setting Rule on PPF**

Bolton, Warlop, and Alba (2003) measured PPF as a result of price-setting strategy. They found that access to additional information about how prices are set, such as information about sellers' costs and profits, can either positively or negatively affect PPF, depending on the kind of profit or cost information provided. For example, information that revealed a price was set according to costs attributable to reducing risk led to *lower* PPF than information that revealed a price was set according to costs attributable to quality. In the same way, consumer knowledge that a seller used a price-setting practice that is not socially acceptable to set an offered price should lead to greater perceptions of price unfairness.

Haws and Bearden (2006) discussed the "rules" of price-setting. They described the fairness heuristic theory that once consumers accepted a pricing rule and judged the rule as fair, subsequent transactions utilizing the pricing rule should also be judged as fair. When a price-setting practice is a norm or is socially acceptable, consumers then expect that price-setting practice will continue to be used to set prices for a particular context. When sellers continue to use this pricing rule, it reinforces the acceptability of the price-setting practice, whereas failure to use an acceptable practice would be seen as a break in expectations. If the consumer expected a subsequent transaction to have been set by a socially acceptable rule, but the rule was, instead, violated, perceptions of price unfairness would be expected to follow. Therefore,

H2: A seller's use of a socially unacceptable price-setting practice (i.e., "breaking a rule") will bring about greater perceptions of price unfairness than use of a socially acceptable price-setting practice.

## The Multidimensionality of PPF

Affective assessment and cognitive assessment are two components of PPF (Xia, Monroe, and Cox 2004). PPF judgments may be a two-fold mental process. Drawing on Shiv and Fedorikhin's (1999) and Rottenstreich, Sood, and Brenner's (2007) two modes of consumer decision making, an outcome price fairness judgment<sup>1</sup> (i.e., fair–unfair) is the result of cognitive and affective mental processing of price fairness. Table 2 outlines the differences between the two mental processing modes. The cognitive assessment is more slowly developed and is rule-based, deliberative, and deductive. The affective assessment is the automatic, feeling-based, emotional evaluation. This assessment is reflexive; the consumer would not have much control over the affective, unlike the cognitive assessment.

Researchers have found support that affective mental processing is dominant in certain situations, and cognitive mental processing is dominant in other situations (Shiv and Fedorikhin 1999; Rottenstreich, Sood, and Brenner 2007). In situations that cause an emotional (i.e., affective) response to a price change, the affective assessment is expected to be dominant in determining outcome PPF. When the affective assessment is triggered, the mental processing capacity may be dominated or occupied with this assessment, limiting capacity for cognitive assessment. When a seller uses a socially *unacceptable* practice, an emotional response may be triggered (e.g., “that’s not fair!”). In this situation, the affective assessment may dominate the cognitive assessment in determining outcome perceptions of price (un)fairness. In other words, when the affective assessment dominates the cognitive assessment, the impact of affective

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<sup>1</sup> Outcome price fairness perception (outcome PPF) is equivalent to the generally accepted measure of price fairness perceptions (i.e., fair–unfair) (Campbell 1999a, b; Urbany, Madden, and Dickson 1989).

assessment on outcome PPF is strengthened and the impact of cognitive assessment is lessened on outcome PPF. Thus,

H3: The impact of affective assessment on outcome PPF will be greater and the impact of cognitive assessment on outcome PPF will be less when a seller sets a price using a socially unacceptable price-setting practice (i.e., “breaking a rule”) than when a seller sets a price using a socially acceptable price-setting practice.

### **Effects of Negative Affective Assessment on Response Behaviors**

High negative affective assessments of PPF may influence consumer response to outcome PPF. Research has shown that dissatisfied customers who are emotionally charged or who believe they have been treated unfairly may seek to restore equality (Bougie, Pieters, and Zeelenberg 2003) or seek retribution for perceived injustice (Bechwati and Morrin 2003). In fact, Xia and Monroe (2005) found support for perceptions of price unfairness leading to increased intention to spread negative WOM (e.g., revenge-response behavior), as mediated by negative emotions. Negative affective assessment will influence some self-protection behaviors in response to an unfair price. The negative feelings about the price may motivate the consumer to ask for a refund or to complain to the manager. Negative affective assessment may bring about more self-protection behaviors and revenge-seeking behaviors, and fewer no-action behaviors.

Thus the hypothesis is proposed:

H4: Affective assessments of PPF will affect consumer response behaviors. Specifically, when affective assessment of PPF is negative, consumers will be more likely to engage in self-protection behaviors and revenge-seeking behaviors, and less likely to engage in no-action behaviors.



## **Effect of Negative Cognitive Assessment on Response Behaviors**

The mental processing involved in negative *affective* assessment may block consumers' capacity to entertain thoughts about the possible repercussions of revenge-seeking behavior, while the mental processing involved in negative *cognitive* assessment may allow consumers the capacity to think through their actions and decide to calculatively perform self-protection behaviors to seek restitution for the unfair price (i.e., self-protection behavior), or to refrain from responding to the unfair price (i.e., no-action behavior). Negative cognitive assessment of price unfairness may enable the consumer to think through the potential result of self-protection behaviors such as complaining or asking for a refund. If the consumer decides one of these self-protection behaviors may bring equality back to the transaction (e.g., the manager gives a refund), then the consumer may partake in the self-protection behavior. Additionally, as Urbany, Madden, and Dickson (1989) discovered in their study of ATM premiums, not all unfair prices result in active consumer response behavior. Consumers may think about the costs involved in switching retailers and decide the cost is too high. Consumers may also think that their voice is too small to be heard and decide to keep quiet about the unfair price. Therefore:

H5: Cognitive assessments of PPF will affect consumer response behaviors. Specifically, when cognitive assessment of PPF is negative, consumers will be more likely to engage in self-protection behaviors and no-action behaviors, and less likely to engage in revenge-seeking behaviors.

## **Covariate - PPF**

The objective knowledge a consumer brings to the marketplace transaction may influence outcome PPF. When consumers have higher levels of knowledge about market price-setting practices, they may be more likely to think that the seller has the power and opportunity to manipulate prices, or adversely, they may be more willing to judge the price as fair because they

better understand the processes the seller must follow in setting the price. When consumers have lower levels of knowledge about price-setting practices, they may not know about liberties that sellers have in setting prices, and may believe that the manufacturer, the economy, or some other outside force forced the seller to increase prices. However, low-knowledge consumers may judge a price as unfair because they do not understand the price-setting process and may fear that the seller is just out to make a higher profit. To determine whether consumer knowledge of price-setting practices produces differences in PPF, such knowledge is measured as a covariate.

The consumer familiarity of context in which the price-setting practice is used may influence outcome PPF. Those consumers who have low familiarity with the context may inflate their judgments of price unfairness because they are not familiar with prices or pricing in the marketplace.

### **Covariate - Response Behaviors**

Richins's (1983) research examined consumer assertion and aggression in consumer-seller interactions in the marketplace. She suggested that assertiveness and aggressiveness may influence consumer response behaviors, such as shoplifting, to unfavorable interactions with sellers. Consumer assertion and aggression may also influence consumer responses to price fairness. Specifically, consumers who are high in assertion may be more likely to partake in self-protection behaviors, and consumers who are high in aggression may be more likely to partake in revenge-seeking behaviors.

### **Summary**

The previous section described the research questions in response to the PPF literature's call for greater understanding of consumer beliefs about the marketplace and of how those

beliefs affect PPF. Specifically, the social acceptability of a price-setting practice is posited to be the combined effects of beliefs of overall procedural fairness of a price-setting practice and beliefs about the pervasiveness of a price-setting practice in a given context. A seller's decision to follow a socially unacceptable rule is hypothesized to bring about judgments of outcome price unfairness, to strengthen the affective component of PPF, and to weaken the cognitive component of PPF. Finally, consumer response behaviors to outcome judgments of price unfairness, such as self-protection, revenge-seeking, and no-action, are hypothesized to be influenced by negative affective and negative cognitive assessments of price unfairness.

The next chapter provides a discussion of the methods and results that tested the posited hypotheses. Two studies are described. The first study examined social acceptability of multiple price-setting practices, capturing overall procedural fairness and perceived pervasiveness within multiple contexts. The results of the first study provided treatments to test the model of the rules of fair pricing and outcome PPF in the second study. The second study employed an experiment to test effects of social unacceptability of a price-setting practice on outcome PPF, the multidimensionality of PPF, and subsequent consumer response behaviors.

## Chapter 3: Method and Results

The objectives of this research are, again, to extend prior research in the area of social norms associated with price-setting practices and to examine the relationship between the social (un)acceptability of a price-setting practice and perceived price fairness (PPF). These objectives are pursued within an extended PPF model that examines PPF as a multidimensional construct with both cognitive and affective aspects that may be differentially affected by given price-setting practices. Subsequently, these price-setting practices may bring about specific consumer-response behaviors (e.g., revenge-seeking, self-protection, and no-action). The extended model tested is presented in Figure 3.

To begin, we first must understand what makes a price-setting practice socially acceptable, and determine which price-setting practices are, in fact, socially acceptable (i.e., “the rules of fair pricing”). Assuming that consumers’ rules depend not only on the procedural fairness of the practice but are modified by their context, we examine the effects of “breaking the rules” by manipulating the price-setting practice and context to produce socially unacceptable price-setting responses. The hypothesized effects of socially unacceptable price-setting practices on cognitive and affective assessments of PPF, and subsequently on response behaviors, are then tested.

This chapter includes a description of the methods used to pursue these areas. Study 1 is first described, including the development of a list of price-setting practices, and the ratings of procedural fairness, perceived pervasiveness, and social acceptability for each practice. Study 2 is also described, including the experiment that manipulates procedural fairness and pervasiveness of a price-setting practice, derived from Study 1. This experiment is a 2 (i.e.,

procedurally fair practice/procedurally unfair practice) by 2 (i.e., pervasive practice/not pervasive practice).

## **Study 1: Determining the Rules of Fair Pricing**

### **Method**

Study 1 explores multiple price-setting practices in the marketplace today. For each, the question is whether consumers consider the price-setting practices to be procedurally fair overall and whether their acceptability as a price-setting practice is simply a function of that procedural fairness or is contextual (i.e., whether it is a function of the pervasiveness, or common practice, for a given product or service). As such, this work extends the studies of Maxwell (2002) and Dickson and Kalapurakal (1994) by assessing not just consumers' perceptions of fairness, but also the perceived pervasiveness of each price-setting practice across a more comprehensive set of price-setting practices and in several contexts beyond the airline industry and bulk-electricity market. The results of this initial study provide key information about the practices that may "break the rules" (i.e., may be socially unacceptable) and thus affect PPF and its consequences. Information about consumers' views of sellers' pricing behaviors includes the degree to which certain practices may be comparably viewed across contexts. It also provides insight into how to "promote" price-setting practices or price increases that may preclude negative consumer reaction.

Price-setting practices certainly vary across contexts (e.g., negotiable pricing for real estate, bundle pricing for communication products) and consumers may use the commonality of that practice, in part, to judge its acceptability. Determining the generalizability of price-setting practices requires assessment across an array of products/services within the marketplace. For example, the studies of Maxwell (2002) and Dickson and Kalapurakal (1994) took place in

highly regulated and competitive industries, and Dickson and Kalapurakal focused only on perceived fairness among industrial buyers. Thus, their research provided limited insight into consumer differences across contexts and across a broader range of price-setting practices. For example, in a traditional retail store, consumers generally expect set prices for merchandise with changes made to reflect sales, special promotions, coupons, or even stock clearances. They would probably not expect to negotiate prices as they might at an auction or at a swap meet. They would also probably not expect to see dynamic pricing strategies, such as yield management, though they may be aware that other products or services (e.g., hotels and airlines) set prices this way. Thus, as hypothesized, consumers would be expected to have beliefs about the procedural fairness of a general price-setting practice that would be mitigated by its context (i.e., pervasiveness of a given product or service).

*Development of Price-Setting Practices.* To generate a list of fair price-setting practices, a list of extant price-setting practices was first compiled. The starting point was to review the pricing and price fairness literature and select unique price-setting practices that met the following criteria. First, the price-setting practice could not be described as one in which the seller was obviously taking advantage of the consumer, because this selling practice would lead to predictable results. The practice must be about price-setting in general, not just price increases or decreases. The price-setting practice must be limited to only one pricing strategy. For example, Dickson and Kalapurakal's (1994) research examined the fairness of two pricing strategies with the dual entitlement principle, meaning respondents were asked to judge the fairness of both raising the price when the seller's costs increased (i.e., pricing strategy 1), and keeping the price constant as the seller's costs decreased (i.e., pricing strategy 2).

The starting set was derived from Hardesty, Bearden, and Carlson's (2007) seventeen-item pricing tactic persuasion knowledge scale, Dickson and Kalapurakal's (1994) price-setting practices including demand and supply pricing, and Maxwell's (2002) examples from the pricing literature of cost-plus pricing and yield management. Table 3 presents the possible price-setting practices, including descriptions, from multiple pricing and price fairness studies.

Consultations with marketing experts (i.e., marketing faculty at a southeastern university) helped to consolidate like-practices and eliminate duplicates for a unique set of price-setting practices, and to ensure that the descriptions correctly represented the price-setting practices identified from previous research. Each price-setting practice was revised to have similar wording (e.g., "sellers" and "buyers") and tone so as to keep wording structure uniform among the price-setting practices and to minimize framing effects.

*Pretest for Study 1.* The purpose of a pretest for Study 1 was to identify a final set of price-setting practices and contexts to be used for Study 1. The goal was a wide range of unique price-setting practices (i.e., that can be clearly differentiated), and a set of contexts (i.e., products and services) in which those price-setting practices may be more or less socially acceptable.

From the initial list of price-setting practices compiled in Table 3 and additional price-setting practices derived from consultations with marketing experts, a revised set of twenty-one price-setting practices was composed to be used for the pretest (see Appendix A). Using open-ended questions, consumers were asked to record which price-setting practices are used for which products or services.

Sixteen consumers participated in the pretest. Each consumer was asked to respond to a subset consisting of half the price-setting practices so as to reduce respondent fatigue. The resulting contexts suggested by the respondents were classified, and frequencies of context per

price-setting practice were calculated. The results of the pretest, consultation with marketing experts, and a list of additional criteria were used in selecting the ultimate list of price-setting practices and list of contexts (i.e., products/services).

The purpose of the criteria was to select a diverse set of price-setting practices and contexts to observe whether diversity brings about different judgments of social acceptability. First, price-setting practices that appeared to be difficult to understand or practices that were difficult to name as a context were eliminated from the final list. For example, more than half of respondents could not name a product or service that used absorption pricing; therefore, it was eliminated. If two price-setting practices appeared to be opposites, one was eliminated. For example, no-haggle pricing (i.e., pricing with no negotiating) and price discovery (i.e., pricing with negotiating) are opposites; therefore, no-haggle pricing was eliminated. Practices that seemed related to each other or resulted in similar contexts were either combined to create one modified practice, or the other similar practice was eliminated. Price discrimination (i.e., pricing based on demographic information) and credit risk pricing (i.e., pricing based on personal credit information) were combined to create a practice of price discrimination based on demographic or personal credit information.

Frequencies revealed both practices that are unique to a limited set of contexts, as well as practices that are common to many contexts. Both extremes (i.e., limited contexts and many contexts) were included in the final list. Also, price-setting practices representing different context venues were included because consumers may evaluate pricing differently for various venues (e.g., Internet versus bricks-and-mortar; Hardesty and Suter 2005). Consumers may evaluate price-setting practices differently for those typically perceived to price services as those



typically perceived to price products because of the intangibility of service offerings (Shostack 1977). Thus, price-setting practices for both products and services were included.

The final list of twelve price-setting practices are (1) price skimming, (2) penetration pricing, (3) price bundling, (4) random discounting, (5) captive pricing, (6) volume discounting, (7) price discrimination, (8) price matching, (9) cost plus, (10) price discovery, (11) demand pricing, and (12) inside-information supply pricing. The final set, including descriptions, is provided in Appendix B.

Attention to context type was important to achieve a diverse ultimate set of products and services. To begin, the products and services respondents suggested in the pretest were classified into groups such as electronics, apparel, insurance, cellular, travel, commodities, and entertainment. The frequencies of the classification of products and services per price-setting practice were then examined. Products and services that were frequently listed for multiple practices were highlighted. Electronic, computer, and automobile products were perceived to be priced by the greatest number of practices. For example, at least one person listed an electronic product for fourteen of the twenty-one price-setting practices. Therefore, a product characterized as electronic was included in the contexts (i.e., high definition television [HDTV]). There were also high frequencies of telecommunication and cellular products/services for a select number of practices, compared with other offering contexts. For example, telecommunication/cellular had the highest frequencies for both price bundling and volume discounting. Thus, cellular phones and services were included in the final set. On the other hand, contexts that had low frequencies or were not perceived to be priced by many practices were also highlighted. At least one person listed insurance for only three of the twenty-one practices. Therefore, insurance, specifically automobile insurance, was included.

Products and/or services that are at various price-points were included because prior research has indicated that fairness judgments about price may vary by high- (e.g., HDTV) and low-price points (e.g., bananas) (Vaidyanathan and Aggarwal 2003). Fairness judgments about pricing may also vary by necessity of product or service (Martins 1993); therefore, both luxury products/services (e.g., concert tickets) and necessity products/services (e.g., bananas) were included in the final set. Fairness judgments may vary on the durability of the offering. Athletic shoes were included in the final set of contexts because they are durable offerings, whereas concert tickets are transitory offerings.

A follow-up survey on context selection asked fifty-six study participants to rate the final set of six contexts on price (i.e., 1 = *low price* and 7 = *high price*), need (i.e., 1 = *necessity* and 7 = *luxury*), durability (1 = *not at all durable* and 7 = *very durable*), retail location purchase (i.e., 1 = *online*, 4 = *both*, and 7 = *bricks and mortar*), and type of offering (i.e., 1 = *strictly product*, 4 = *aspects of both products and services*, and 7 = *strictly service*). The context selection survey is found in Appendix C. The results of the survey found in Table 4 confirmed variation in the contexts, and the final set of six contexts were selected: (1) athletic shoes, (2) auto insurance, (3) bananas, (4) cell phone and service, (5) concert tickets, and (6) HDTV.

*Study 1.* In a survey, each price-setting practice was described and respondents were asked to provide ratings of (1) perceptions of overall procedural fairness of the price-setting practice, (2) perceptions of pervasiveness or commonness of the price-setting practice within a given context, and (3) perceptions of social acceptability of the price-setting practice within a given context. Dickson and Kalapurakal's (1994) single-item measures for overall fairness of the price-setting practice (i.e., "how would you rate the fairness of this behavior?") and perceived frequency of occurrence of the price-setting practice (i.e., "in your experience, how frequently

does this behavior occur?") were modified for the measures of overall fairness, pervasiveness, and social acceptability of the price-setting practices (p. 445). Other price fairness studies have used seven-point scales to capture fairness ratings; therefore, each of the three measures was on a seven-point scale (e.g., 1 = *extremely unfair*, 7 = *extremely fair*; 1 = *extremely uncommon*, 7 = *extremely common*; 1 = *extremely unacceptable*, 7 = *extremely acceptable*) (Dickson and Kalapurakal 1994; Campbell 1999a, b).

The questionnaire first included questions about the perceptions of procedural fairness of the price-setting practices. Asking these questions first prevented respondents from being influenced by the specific-context evaluations of social acceptability and pervasiveness. Following the procedural fairness, social acceptability, and pervasiveness ratings were questions to capture three covariates: consumer knowledge about price-setting practices, the extent to which consumers think—including the extent to which consumers think about how sellers set prices, and familiarity with each of the six contexts.

To measure consumer knowledge about price-setting practices, a modification of Hardesty, Bearden, and Carlson's (2007) pricing tactic persuasion knowledge (PTPK) scale was used. (For the modified subset of pricing tactic persuasion knowledge items, see Table 5). The mean index score for PTPK subset was 4.59 out of a possible 7.0. Pricing knowledge was not found to affect social acceptability of a price-setting practice ( $p > .05$ ). To measure consumer thinking about price-setting practices, Wood and Swait's (2002) need for cognition scale was adapted (Cronbach's alpha = .819). Additionally, one question asked how much the consumer likes to think about how prices are set. Neither the need for cognition scale nor the single question about pricing thinking significantly affected social acceptability (both  $p > .05$ ). Finally, consumers were asked to rate their familiarity with each of the six contexts on a scale of 1 to 5

where 1 is *very unfamiliar* and 5 is *very familiar*. Again, none of the familiarities with contexts was found to significantly influence social acceptability (all  $p > .05$ ). Appendix D presents the survey used in Study 1.

## Results

*Survey Instrument.* The survey was administered in an online format to an online panel. The online format allowed easy navigation for panelists who likely have experience with other online surveys. The online survey also allowed requests for evaluations of one price-setting practice at a specific time. For example, one price-setting practice was described on the screen along with its measures of procedural fairness, social acceptability, and pervasiveness. Having one price-setting practice displayed on the screen at a time was to help the respondent focus on the price-setting practice at hand, without direct comparison with other practices. The order of the price-setting practices was randomized to reduce the effects of order bias. (The complete survey is presented in Appendix D.)

Using twelve price-setting practices and six contexts required seventy-two (i.e.,  $12*6$ ) stimulus evaluations. To prevent respondent fatigue, each respondent first evaluated all twelve price-setting practices on procedural fairness. The twelve practices were randomly presented to each respondent. Then, each respondent evaluated a subset of two of the twelve price-setting practices on all six contexts. The subset of two practices was randomly assigned and randomly ordered for each respondent.

*Sample.* A total of 472 respondents participated in the study, eliciting 944 (i.e.,  $472*2$ ) price-setting practice evaluations. The online panel offered greater geographic and demographic reach than a student sample, and was more generalizable to the adult consumer population as a

whole. Of those who participated, 85% reported that they did half or more of the household shopping; 70% were female, and 86% were white/Caucasian. Of the respondents, 54% were between the ages of 35 and 54. Household incomes showed a wide range: 16% of respondents reported making between \$25,000 and \$34,999, 19% making between \$35,000 and \$49,999, and 13% making between \$75,000 and \$99,999. Geographic dispersion was wide: 28% were from the Midwest, 22% from the Southeast, and 19% from the Southwest.

Except for income, no statistical demographic or geographic differences existed between people answering questions regarding different practices. The median income (i.e., \$50,000 to \$74,999) for random discounting and inside information supply pricing was higher than the median income (i.e., \$35,000 to \$49,999) for people who rated the other ten practices. However, income showed no effect on social acceptability of a price-setting practice (i.e.,  $p > .05$ ).

*Validity and Consistency.* Bergkvist and Rossiter (2007) suggested that single-item measures can be as valid as multiple-item measures, especially if there is content validity (i.e., as decided by expert judges) and predictive validity, where the measure gets as close as possible to matching the true correlation between the predictor measure and the criterion. The single-item measures of pervasiveness, fairness, and social acceptability were chosen because of similarity to a previous study of pricing fairness and commonness. To assess consistency in prediction of the single-item measures, the correlations for perceived pervasiveness and procedural fairness with social acceptability were compared across the six contexts. The correlations for perceived pervasiveness–social acceptability were consistent (i.e., range = .156-.250), with the exception that the bananas’ correlation was slightly higher (i.e., .342). The correlations for procedural fairness–social acceptability were consistent (i.e., range = .537-.640). The correlations for these measures can be found in Table 6.

The analysis for Study 1 was designed to test the moderating effect of perceived pervasiveness on the procedural fairness–social acceptability relationship (Hypothesis 1). Six analyses were necessary to test the hypothesis for each of the six contexts (i.e., bananas, HDTVs, etc.). The survey design exposed the analysis to dependency issues because each respondent rated two of the twelve price-setting practices, creating a cluster for each respondent. Ratings for Practice A by a respondent could be influenced by ratings for Practice B. Therefore, a simple regression could not be performed.

First, to assess the amount of variance in social acceptability because of the differences within clusters (i.e., individual respondents), an intraclass correlation (ICC) was calculated for each context using a multilevel analysis with MPlus 5.1 software (Cohen, Cohen, West, and Aiken 2003). The ICC is the degree of nonindependence among a set of observations. If the nonindependence is ignored, alpha inflation, or the overestimating of significance, can occur (Cohen et al. 2003). Five of the six contexts of the ICCs were larger than the Cohen et al.'s (2003) suggested cutoff of .05 (i.e., range = .074 - .134), while the ICC for cell phone and service was acceptable at .038. The ICCs by context are presented in the left column in Table 7.

*Testing the Moderating Effect of Pervasiveness.* The elevated ICCs indicated dependency within the clusters (i.e., respondents) that could not be ignored in testing Hypothesis 1. MPlus was used to test Hypothesis 1 because MPlus offers a complex regression analysis that takes into account clustering effects. In complex analysis, standard errors are adjusted so that alpha inflation did not occur.

Following Baron and Kenny's (1986) example of testing for effects of moderation, the main effect terms of both procedural fairness and pervasiveness on social acceptability, as well as the interactive effect term (i.e., multiplication of procedural fairness by pervasiveness), was

included in six regression equations (i.e., one for each context), where the dependent variable was social acceptability by context. The predictors were mean-centered to reduce collinearity between the main effects and the product interaction terms (Cohen et al. 2003). The six regression equations tested included (i.e., SA = social acceptability):

$$\begin{aligned} \text{Bananas SA} &= \beta_0 + \beta_1 \text{Fairness} + \beta_2 \text{Pervasiveness} + \beta_3 \text{Fairness} * \text{Pervasiveness} + e \\ \text{HDTV SA} &= \beta_0 + \beta_1 \text{Fairness} + \beta_2 \text{Pervasiveness} + \beta_3 \text{Fairness} * \text{Pervasiveness} + e \\ \text{Athletic Shoes SA} &= \beta_0 + \beta_1 \text{Fairness} + \beta_2 \text{Pervasiveness} + \beta_3 \text{Fairness} * \text{Pervasiveness} + e \\ \text{Concert Tickets SA} &= \beta_0 + \beta_1 \text{Fairness} + \beta_2 \text{Pervasiveness} + \beta_3 \text{Fairness} * \text{Pervasiveness} + e \\ \text{Auto Insurance SA} &= \beta_0 + \beta_1 \text{Fairness} + \beta_2 \text{Pervasiveness} + \beta_3 \text{Fairness} * \text{Pervasiveness} + e \\ \text{Cell Phone \& Service SA} &= \beta_0 + \beta_1 \text{Fairness} + \beta_2 \text{Pervasiveness} + \beta_3 \text{Fairness} * \text{Pervasiveness} + e \end{aligned}$$

The results of the complex regression analysis can be found in Table 7. All six equation results indicated a significant positive main effect of procedural fairness on social acceptability ( $\beta_1$  range = .567 - .640,  $p < .01$ ) and a significant positive main effect of pervasiveness on social acceptability ( $\beta_2$  range = .159 - .278,  $p < .01$ ). The  $R^2$  ranged from .333 - .445. Four of the six regression results (i.e., bananas, HDTV, athletic shoes, and cell phone and service) provided some evidence for supporting Hypothesis 1, because the interaction terms were significant (i.e.,  $\beta_3$  range = .025 - .051,  $p < .05$ ). However, the regression results for concert tickets and auto insurance indicated no support for Hypothesis 1 because of nonsignificant interaction terms (i.e.,  $\beta_3$  range = .006 - .021,  $p > .05$ ).

Although four of the regression equations indicated a significant interaction between procedural fairness and pervasiveness, the hypothesis was not fully supported unless the evidence showed:

- a) When procedural fairness is low, pervasiveness has a direct positive effect on social acceptability, and b) When procedural fairness is high, pervasiveness has no effect on social acceptability.

To look for further evidence, social acceptability, procedural fairness, and pervasiveness were plotted in six charts, one for each context. Charts 1–6 display each of these measures by price-

setting practice. Looking at the trend of the charts, it appears that when procedural fairness was low, high pervasiveness had no effect on social acceptability, and social acceptability was highest when both procedural fairness and pervasiveness were high. Therefore, the significant interactions were evidence that pervasiveness moderated the procedural fairness–social acceptability relationship, but perhaps not as hypothesized.

Simple slopes of the six regression equations were calculated at high, mean, and low values of pervasiveness. The simple slopes are presented in Table 8. The simple slopes provided evidence that high pervasiveness strengthened the positive relationship between fairness and social acceptability for the bananas, HDTV, athletic shoes, and cell phone and service contexts.

*What are the Rules of Fair Pricing?* The results of Study 1 provided consumer ratings of twelve different price-setting practices used in the marketplace today. Table 9 presents perceived pervasiveness by context and procedural fairness ratings for the twelve price-setting practices. The most procedurally unfair practice was price discrimination (i.e., mean = 1.90), and the most procedurally fair practice was price matching (mean = 5.60).

Table 10 presents the lists of socially acceptable and socially unacceptable price-setting practices. Practices were classified as socially acceptable if the practice means were statistically greater than the midpoint (i.e.,  $>4.00$ ,  $p < .05$ ) and unacceptable if less than the midpoint (i.e.,  $<4.00$ ,  $p < .05$ ). Social acceptability of the twelve price-setting practices was context specific, with price matching being the only socially acceptable practice and discriminatory pricing, random discounting, inside information supply pricing, and demand pricing being the only socially unacceptable practices across all six contexts. There were more socially unacceptable practices (i.e., range = 4 – 8) than acceptable practices (i.e., range = 1 – 3).



Not only is the final list of price-setting practices by degree of social acceptability informative for insight into how consumers view price-setting practices in the marketplace, but the final list was used to select procedurally fair and unfair practices that were used to manipulate breaking the social norm in Study 2.

## **Study 2: Effects of Breaking a Socially Acceptable Pricing Rule on PPF**

### **Method**

This study included testing the effects of following/deviating from an acceptable pricing rule (i.e., price-setting practice) and perceptions of price fairness (PPF), demonstrating the differential effects on cognitive and affective components of PPF, and testing hypothesized differences in response behaviors based on the cognitive and affective dimensions of PPF.

*The Experiment.* The results of Study 1 provided practices that were seen as procedurally fair/unfair and practices that were perceived as pervasive/not pervasive within context, and ultimately, practices that were seen as more and less socially acceptable. Thus, the study identified the combinations of both procedural fairness and pervasiveness that determine social acceptability of a practice, and provided the ability to manipulate practices to test the hypothesized effects of violated social norms for price-setting practices in a 2x2 experiment.

To minimize confounds for the experiment, several criteria were considered in selecting the manipulations. First, two price-setting practices were required to manipulate fairness. Ideally, the two practices would have a large difference in procedural fairness means. (Review Table 9 for mean procedural fairness ratings and pervasiveness ratings by context from Study 1.) The two price-setting practice descriptions should also closely mirror each other. Random

discounting (i.e., mean = 2.50) and cost plus pricing (i.e., mean = 4.96) were chosen because they differ in procedural fairness perceptions by 2.46 scale points. Random discounting is defined as follows:

The seller considers its costs, then sets different prices on a random basis. Any increases or decreases in price occur completely at random. People pay different prices depending on when they buy.

Cost plus pricing is defined as follows:

The seller sets the price to its customers based on its total costs plus a “mark-up” to achieve its profit. The reason for the increases or decreases in price is because costs to the seller have increased or decreased. People pay different prices depending on whether costs have gone up or down for the seller.

Random discounting and cost plus pricing are closely mirrored because cost plus prices differ based on seller costs while random prices differ without being based on seller costs.

Study 1 measured consumer’s perceptions of pervasiveness of a price-setting practice. However, for Study 2, allowing respondents to give their opinion of pervasiveness was not ideal because consumers may have different views of whether a practice is pervasive, and it is unlikely that they are all correct about the actual pervasiveness of a practice. Charts 7–18 present the distribution of the question: “How common is this price-setting practice used to price HDTVs?” by each of the twelve price-setting practices (on a scale of 1 to 7, where 1 = *extremely uncommon* and 7 = *extremely common*). For many of the practices, consumer perceptions of pervasiveness were spread out over the length of the seven-point scale. With the exception of price skimming, cost plus pricing, and demand pricing, consumers did not agree on the pervasiveness of a practice in pricing HDTVs. Therefore, pervasiveness of the price-setting practice was manipulated by telling the respondent the practice was either highly pervasive or not highly pervasive, instead of relying on respondent perceptions.

The final criteria to minimize confounds was to couch all the scenarios of the experiment within a single context. High definition television (HDTV) was selected as the single context for the experiment because the mean social acceptability rating for random discounting was low (i.e., mean = 2.80) and the mean rating for cost plus pricing was high (i.e., mean = 4.76).

In summary, the 2x2 experiment consisted of a high procedural fairness practice, cost plus pricing, and a low procedural fairness practice, random discounting. For each practice, pervasiveness was manipulated by telling the respondent that the practice is very commonly used to price electronics or that the practice is not commonly used to price electronics. (See Appendix E for all manipulations.) These four combinations were set in scenarios in which each asked the respondent to imagine a situation in which they were shopping for an HDTV. A photo of an HDTV and a price (e.g., \$1,249.99) were displayed. The price was chosen from the median HDTV price range (i.e., \$1,000–\$1,499) for two large HDTV retailer chains. The photo and price remained constant over the four cells.

After the respondents read one of the four scenarios, each completed a questionnaire containing manipulation checks for each of the treatments, measures of social acceptability of the price-setting practice described, cognitive and affective assessments of price fairness, outcome PPF (i.e., fair–unfair), intentions for response behaviors, covariate measures, and demographic information for descriptive purposes. Descriptions of these measures are presented in the next section.

*Manipulation Checks and Social Acceptability.* The manipulation check for procedural fairness was similar to the measure from Study 1. The price-setting practice was described followed by a single fairness item (i.e., extremely unfair/extremely fair). The price-setting practice was further described within context (i.e., electronics) and the respondent was told

whether the practice is commonly used within that context. The manipulation check for pervasiveness (i.e., extremely uncommon/extremely common) and the single-item measure for social acceptability (i.e., extremely unacceptable/extremely acceptable) then followed the description.

After two failed manipulation check pretests, a short example was added to each price-setting practice. The manipulations were failing because respondents did not believe the manipulation that random discounting was a common way to price HDTVs. The example provided a tangible situation that helped make the manipulation of high pervasiveness successful, without jeopardizing the low pervasiveness scenario. The added examples can be found in Appendix E. The third manipulation check pretest was successful with low fairness  $n = 31$ , mean = 3.00, high fairness  $n = 21$ , mean = 5.52, (i.e.,  $t = 4.01$ ,  $p < .01$ ), and with low pervasiveness  $n = 22$ , mean = 2.45, high pervasiveness  $n = 30$ , mean = 5.77 (i.e.,  $t = 6.84$ ,  $p < .01$ ). There were no interaction manipulation effects (i.e., fairness  $F = .930$ ,  $p > .05$ , pervasiveness  $F = .366$ ,  $p > .05$ ).

*Multidimensionality of PPF.* The multidimensionality of price fairness has not previously been evaluated. To develop the set of items for both cognitive assessment and affective assessment of price fairness, examples from dual mental processing research and previous pricing research were considered.

In the dual mental processing study by Shiv and Fedorikhin (1999), the authors manipulated the dominant use of affective and cognitive mental processing of consumer choice between chocolate cake and fruit salad. Without nutritional information, the choice of the chocolate cake was found to be driven by affective mental processing, but when nutritional information was provided, the choice of the fruit salad was driven by cognitive mental

processing. To measure affective processing, items that tapped the respondents' emotional response were asked, such as "I could sense a desire to take it," and "The emotional side of me was aroused when I saw it." To measure cognitive processing, items were included that asked respondents to think about whether the dessert was "not good for health/good for health" and either "harmful/beneficial." The cognitive items encouraged the respondent to think beyond the immediate emotional or personal satisfaction and think about more long-term or calculated consequences of the dessert. The essences of these measures of affective (e.g., emotional) and cognitive (e.g., calculative) processing were exemplified in selecting items for the affective and cognitive assessments of PPF.

Van den Bos, Peters, Bobocel, and Ybema (2006) used a dual processing approach to examine evaluations of a price. In their study, the authors measured satisfaction with a price and fairness of a price in situations where the price was advantageous to the consumer, but the price was not equitable to prices other consumers had to pay. Satisfaction with the price was a personal, first-impression reaction to the price, described by the authors as "egoism-based preference" (2006, p. 274). On the other hand, fairness of the price was a deductive response to whether the price was equitable, fair, and just to all. The satisfaction measures contained some emotional items such as "very dissatisfied/very satisfied" and "very unhappy/very happy," while the fairness measures were more cognitive, such as "very unjust/very just."

While the Van den Bos et al. (2006) study did not measure a multidimensionality of price fairness, parallels can be made from the affective assessment of PPF to their price satisfaction (e.g., emotions) and from the cognitive assessment of PPF to their price fairness (e.g., deductive assessment). Therefore, "satisfaction" with the price and "happiness" with the price were selected as measures of affective assessment of PPF, and "the price is justified" was selected as a

measure of cognitive assessment of PPF. Many of the remaining items for both the cognitive and affective measures of PPF were selected and modified from the pricing literature, including the price being rated as “questionable,” “a rip-off,” and “honest” from Darke and Dahl (2003) and used in Haws and Bearden (2006).

*Content Validity – Multidimensionality of PPF.* In an item-selection survey,<sup>2</sup> five cognitive assessments and five affective assessments of PPF were presented along with descriptions of the two dimensions of PPF to sixteen marketing experts (i.e., faculty and doctoral students at a southeastern university). The respondents were asked to confirm or disconfirm the categorization of the items as cognitive or affective assessments of PPF and to suggest other items that may have been appropriate. The items that less than 50% of respondents agreed on were eliminated and additional items were added. From this combined list, the final set of items was selected based on high agreement of classification and uniqueness to the other items in the set. The results of the multidimensionality of PPF item selection survey can be found in Table 11. Factor analysis of the combined cognitive and affective assessments items in pretesting revealed two distinct dimensions of PPF (i.e.,  $n = 52$ ,  $\Lambda_1 = 5.99$ ,  $\Lambda_2 = 1.32$ ).

In addition to measuring the affective and cognitive assessments, an outcome measure of PPF was also measured. This is the more frequently used single-item semantic differential measure (e.g., fair/unfair) (Urbany, Madden, and Dickson, 1989; Campbell 1999a, 1999b).

Although the cognitive and affective assessments of PPF were conceptualized to lead to an outcome PPF, we did not interpret this to be a higher order model. Instead of requiring both cognitive assessments and affective assessments to be present for a higher order model, we predicted that either cognitive assessment or affective assessment would dominate impact on the

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<sup>2</sup> The affective/cognitive item selection survey can be found in Appendix F.

outcome measure of PPF (e.g., fair–unfair). Therefore, a higher order model to describe the multidimensionality of PPF would be inappropriate.

*Response Behaviors.* Response behaviors were measured by inquiring how the consumer would respond behaviorally to the presented scenario. To measure the intended response behaviors, Bearden and Teel’s (1983) Guttman scale for measuring consumer complaining behavior was considered. Their scale included items ranging from *low complaining intensity* (“warned family and friends”) to *high complaining intensity* (“took some legal action”).

Singh (1988) explored multidimensionality in consumer complaining behavior, which may include voicing responses (e.g., seek redress from seller), private responses (e.g., communicate problems by word-of-mouth), and third-party responses (e.g., take legal action). Exploratory analysis and confirmatory analysis confirmed the three distinct dimensions in his research. While his research was limited to complaining behavior and was in response to dissatisfaction, the current research response behaviors to price fairness were exemplified by his method of measuring each item separately as opposed to a single escalation scale. This way, factor analysis could also confirm dimensionality of response behaviors (i.e., revenge-seeking, self-protection, and no-action) that was first validated through content validity.

First, items varying in intensity were modified from Bearden and Teel (1983) and Singh (1988), including “make negative comments to friends and family,” “send a complaint to company headquarters,” and “express your disapproval to the store manager.” Additional items were added that reflected updated response options available to consumers, such as posting negative online reviews.

Positive response behavior, or “promotion” behavior, were also added to the three hypothesized negative response categories behaviors (i.e., see Hypotheses 4 and 5). Promotion

behavior included items such as, “express your approval to the store manager,” and “give positive recommendations to friends or family.” Positive ratings of practices and prices were anticipated, given that half of the scenarios featured a procedurally fair price-setting practice; therefore, the absence of positive response behavior may have confused respondents and may have led them to respond falsely to behavior intentions. While there were no hypotheses about promotion behavior, outcome PPF was expected to have a positive effect on promotion behavior intentions.

*Content Validity – Response Behaviors.* A response behavior item selection survey<sup>3</sup> was conducted to classify each of the proposed items as an indicator of one of the four response behaviors. Sixteen marketing experts (i.e., faculty and doctoral students) from a southeastern university were asked to indicate whether each item is a “revenge-seeking behavior,” “self-protection behavior,” “no-action behavior,” or “promotion behavior.” The results of this survey are presented in Table 12. Items were classified by the highest majority of respondent agreement. An additional item (i.e., “how would this [scenario] affect your future shopping with this retailer?”) was added to the final survey as an additional item for no-action behavior. Factor analysis of the combined response behavior items in pretesting revealed four distinct dimensions of response behavior (i.e.,  $n = 52$ ,  $\Lambda_1 = 4.372$ ,  $\Lambda_2 = 2.732$ ,  $\Lambda_3 = 1.539$ , and  $\Lambda_4 = 1.226$ ).

*Covariates.* To measure objective consumer knowledge of price-setting practices, a modification of a subset of the PTPK scale for measuring pricing tactic persuasion knowledge was employed (Hardesty, Bearden, and Carlson 2007). See Table 5 for the PTPK subset. The correct responses to each consumer’s knowledge scale were tallied to reveal an individual’s objective knowledge score (i.e., mean index score = 4.64 out of a possible 7). Respondents were asked to indicate their familiarity with HDTVs (i.e., the context for the scenarios) on a scale of 1

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<sup>3</sup> The response behavior item selection survey is found in Appendix F.



to 5, where 1 was *very unfamiliar* and 5 was *very familiar* (i.e., mean = 3.20). To measure consumer assertion and aggression, three items of each respective scale were modified from Richins (1983).

## Results

*Instrument.* The data collection method for this study was an online survey presented to an online panel for greater geographic and demographic reach than a student sample, and more generalizability to the adult consumer population. The survey, including all four scenarios, is presented in Appendix G.

*Sample.* Participating in the study were 267 respondents. Of those who participated, 92% reported doing half or more of the household shopping; 77% were female; 82% were white/Caucasian. Of the respondents, 72% were between the ages of 25 and 54. Household incomes ranged widely: 17% made \$25,000 to \$34,999; 20% made \$35,000 to \$49,999; 22% made \$50,000 to \$74,999. Respondents were also widely dispersed geographically: 27% were from the Southwest; 26% were from the Midwest; and 21% were from the Southeast.

The experimental cells contained 64, 66, 68, and 69 respondents. No statistical differences existed between respondents in different cells except for ethnicity: For the high procedural fairness x low pervasiveness condition, white/Caucasians showed a higher frequency (i.e., 86%). The other three cells had no such differences. However, ethnicity showed no effect regarding social acceptability of a price-setting practice, nor did ethnicity affect outcome PPF (i.e., both  $p > .05$ ).

*Manipulation Checks.* The manipulations were successful with low fairness  $n = 134$ , mean = 3.00, and high fairness  $n = 133$ , mean = 5.02, (i.e.,  $t = 10.42$ ,  $p < .01$ ), and with low

pervasiveness  $n = 137$ , mean = 2.68, and high pervasiveness  $n = 130$ , mean = 6.11 (i.e.,  $t = 16.79$ ,  $p < .01$ ). No interaction manipulation effects were seen (i.e., fairness  $F = 1.166$ ,  $p > .05$ , pervasiveness  $F = 1.904$ ,  $p > .05$ ).

*Validity and Reliabilities of Measures.* The items for the two proposed dimension of price fairness were subjected to an exploratory factor analysis. First, the negative scaled items were reverse coded. The results of the varimax-rotated factor analysis (i.e., found in Table 13) revealed two distinct dimensions of PPF, but the items did not behave as the item selection survey. The items with passive wording loaded on the same factor, indicating cognitive assessment (i.e., slow response, calculated), and the strongest negative wording loaded on the same factor, indicating affective assessment (i.e., fast response, emotional). Not used were the items that were inconsistent with content validity for cognitive (e.g., happy with price, satisfied with price, feels right, and pleasantly surprised) or for affective (e.g., value may *not* be worth price). The final items (i.e., Cronbach alpha = .818) used in the analysis for cognitive PPF were (1) price is justified, (2) price I would expect to pay, and (3) people would find this to be a reasonable price, and the final items (i.e., Cronbach alpha = .827) for affective PPF were (1) price is a rip-off, (2) price is dishonest, and (3) price is questionable.

The items for the four response behaviors were also subjected to an exploratory factor analysis. First the opposite scaled items were reverse coded. Table 14 presents the results of the varimax-rotated factor analysis. Unlike the pretest of these measures, which suggested the four anticipated response behavior dimensions, the revenge-seeking and self-protection items loaded on the same factor. However, the promotion items and two of the three no-action items loaded on their respective separate factors. The four promotion items (Cronbach alpha = .847) included in the analysis were (1) express approval to manager, (2) express approval to other customers, (3)

spread positive WOM, and (4) post positive online reviews. The two no-action items (Cronbach alpha = .653) included in the analysis were (1) no effect on future behavior and (2) shop about the same in the future.

The revenge-seeking and self-protection items were examined more closely. Using content validity achieved from the item selection survey, reliabilities, and inter-item correlations were analyzed for five revenge-seeking items and for two self-protection items. The revenge-seeking inter-item correlation for “take legal action” was mostly low (e.g., .218, .362, .439, and .619); therefore, it was removed. The four remaining revenge-seeking items (Cronbach alpha = .828) used in the analysis were (1) express disapproval to other customers, (2) spread negative WOM, (3) post negative online reviews, and (4) complain to the Better Business Bureau. The two self-protection items (Cronbach alpha = .803) used in the analysis were (1) express disapproval to the manager and (2) complain to headquarters. Confirmatory factor analysis would further assess discrimination between revenge-seeking and self-protection constructs.

To assess convergent and discriminant validity, a confirmatory factor analysis using MPlus was conducted that included all the measures of the model. The diagonal of the phi matrix was set to 1.0. The resulting model showed acceptable fit with  $\chi^2 = 103.66$ ,  $df = 63$ ,  $p < .01$ , CFI = .977 (i.e., within Hu and Bentler’s 1999 recommended cutoff of  $> .95$ ), SRMR = .049 (i.e., within the recommended cutoff of  $< .08$ ), and RMSEA = .034 (i.e., within the recommended cutoff of  $< .06$ ). Each of the indicator’s estimated pattern coefficient on its respective construct factor was significant (i.e.,  $p < .01$ ) confirming convergent validity (Anderson and Gerbing 1988). To assess discriminant validity, each pair of constructs was examined by constraining the estimated correlation parameter to 1 and comparing the  $\chi^2$  for the constrained and unconstrained models (Anderson and Gerbing 1988). Discriminant validity was confirmed for all of the model factors,

including the revenge-seeking construct and self-protection construct, because the  $\chi^2$ s for each of the constrained models were significantly higher than the unconstrained models (i.e., all  $p < .05$ , range  $\chi^2_{\text{difference}} = 5.74 - 225.67$ ,  $df_{\text{difference}} = 1$ ).

*Analysis of the Model.* The first objective of Study 2 was to assess the moderating effect of pervasiveness on the procedural fairness–social acceptability relationship (i.e., Hypothesis 1). First, individual responses in the data set were evaluated to ensure proper manipulation by the respondent. Those who were not at all manipulated were removed for testing Hypothesis 1. The criteria for being manipulated was to rate a fair price-setting practice as 3–7 or an unfair practice as 1–5 on the procedural fairness scale (i.e., where 1 = *extremely unfair* and 7 = *extremely fair*) and to rate a high pervasive practice as 3–7 or a low pervasive practice as 1–5 on the pervasiveness scale (i.e., where 1 = *extremely uncommon* and 7 = *extremely common*). For example, respondents in Cell 1 (i.e., high procedural fairness x high pervasiveness) who rated procedural fairness as extremely unfair (i.e., 1 or 2 on scale) or rated pervasiveness as extremely uncommon (i.e., 1 or 2 on scale) were not properly manipulated; therefore, they were removed for this analysis. In all, 33 respondents were removed, leaving 56, 58, 60 and 60 respondents per experimental cell.

*Hypothesis 1.* To test the hypothesis, regression analysis was performed using SPSS 15.0. Regression analysis was used over ANOVA because beta values were necessary to answer our hypothesized question. Contrast-coded dummy variables (i.e., -.5, +.5) were used to represent the procedural fairness manipulation and the pervasiveness manipulation. The contrast coding is useful in testing interactions with nominal variables because they are orthogonal and allow easier interpretation of the betas (Cohen et al. 2003).

The results of the regression analysis initially suggested support for Hypothesis 1. Both procedural fairness and pervasiveness had direct positive effects on social acceptability (i.e.,  $\beta_1 = .452, p < .01, \beta_2 = .215, p < .01$ ). The interaction term (i.e., procedural fairness \* pervasiveness) also had a significant positive effect on social acceptability (i.e.,  $R^2 = .279, \beta_3 = .152, p < .01$ ). The beta value for the interaction term was positive, suggesting that high pervasiveness strengthens the positive procedural fairness–social acceptability relationship, but did not reveal that when procedural fairness is low, high pervasiveness will bring about higher social acceptability. When the social acceptability scores were graphed for low/high procedural fairness and low/high pervasiveness (see Figure 5), little effect was seen of pervasiveness on social acceptability when procedural fairness was low. Therefore, Hypothesis 1 was not fully supported. However, social acceptability was highest when there was both high procedural fairness and high pervasiveness.

*Hypothesis 2.* To test Hypothesis 2, (i.e., the effect of using a socially acceptable practice on outcome PPF) and Hypothesis 3 (i.e., effect of using a socially unacceptable practice on the multidimensionality PPF), it was first necessary to establish the decision rule for what makes a practice socially acceptable. In Study 1, random discounting was found to be an unacceptable practice to price HDTVs (i.e., mean = 2.80) and cost plus pricing was found to be an acceptable practice to price HDTVs (i.e., mean = 4.76). However, Study 1 was based on *perceived* pervasiveness, while pervasiveness was *manipulated* for Study 2. The results from testing Hypothesis 1 suggested that social acceptability was determined by both fairness and pervasiveness, so it would be incorrect to simply name *random* as the unacceptable practice and *cost plus* as the acceptable practice in this experiment. Also, data would be lost if only the fair x

high pervasive cell was named the only socially acceptable practice, because some respondents in the other three cells rated their corresponding practice as acceptable.

The measure of social acceptability was then examined. A series of multigroup structural equation analyses at varying cutoff levels of social acceptability were conducted. The analyses were designed to look for clear jump-off in cognitive, affective, and outcome PPF parameter values. The most dramatic change in parameter values occurred when a socially unacceptable practice was rated 1–3 (i.e.,  $n = 111$ ), and when a socially acceptable practice was rated 4–7 (i.e.,  $n = 156$ ). Therefore, this became the decision rule as to which practices would be considered socially acceptable and socially unacceptable for the purpose of testing Hypotheses 2 and 3.

The dummy variable for social acceptability was transformed to contrast coding (i.e.,  $-0.5, +0.5$ ) to assess Hypothesis 2. The covariates pricing knowledge and familiarity with context were included with social acceptability as independent variables in a regression equation. Results of the regression analysis can be found in Table 15. The results showed support for Hypothesis 2; the use of a socially unacceptable price-setting practice brought greater perceptions of price unfairness than use of a socially acceptable practice (i.e., partial  $R^2 = .085$ ,  $F$  change = 14.143,  $\beta = .295$ ,  $p < .01$ ).

*Consumer Knowledge and Consumer Familiarity as Covariates.* Although consumer familiarity with the context (i.e., HDTV) was nonsignificant in affecting outcome PPF (i.e.,  $p > .05$ ), consumer knowledge had a significant partial relationship with outcome PPF (i.e., partial  $R^2 = .038$ ,  $F$  change = 5.708,  $\beta = -.207$ ,  $p < .01$ ). The greater objective pricing knowledge a consumer had, the more unfair they perceived outcome prices.

*Hypothesis 3.* Similar to the analysis used by MacKenzie and Spreng (1992), a multiple group structural equation model was used to detect differences in strength of relationship to

confirm or disconfirm effect of breaking the rules on PPF (i.e., using a socially acceptable price setting practice versus using a socially unacceptable price-setting practice). MacKenzie and Spreng (1992) used multigroup structural equation modeling to detect difference in central and peripheral mental processing by comparing the strength of relationships between kind of mental processing and attitudes. In a similar way, multigroup structural equation modeling with MPlus was used to confirm evidence of the multidimensionality of PPF. Figure 6 presents the two group model tested in this analysis. MPlus automatically specified the multigroup model by fixing one factor loading from each construct to 1, and construct intercepts were constrained to be equal across groups (Muthén and Muthén 2007).

The model demonstrated good fit within Hu and Bentler's (1999) suggested cut-offs (i.e.,  $\chi^2 = 30.234$ ,  $df = 32$ ,  $p = .55$ ,  $CFI = 1.0$ ,  $SRMR = .043$ ). Compared with a null model where factor variances and means were set to equal, the unconstrained model's  $\chi^2$  was significantly lower ( $\chi^2_{\text{difference}} = 161.82$ ,  $df_{\text{difference}} = 9$ ,  $p < .05$ ).

Table 16 reports the results of the analysis to assess the multidimensionality of PPF. In both groups, significant positive effects were seen of cognitive assessment and affective assessment on outcome PPF (i.e., both  $p < .01$ ). To test for change in strength of relationship (paths between cognitive and outcome PPF and between affective and outcome PPF), the model was re-estimated, this time constraining the beta estimates to be equal across groups. The significant change in  $\chi^2$  indicated differences in parameter strengths across the groups ( $\chi^2_{\text{difference}} = 13.0$ ,  $df_{\text{difference}} = 3$ ,  $p < .05$ ). This confirmed that use of a socially unacceptable price-setting practice (i.e., "breaking the rules") brought differences in cognitive and affective impact on outcome PPF. This finding suggested partial support for Hypothesis 3, but the changes in impact had to be evaluated first to fully support the hypothesis.

In the high social acceptability group, the cognitive PPF beta (i.e.,  $\beta_{3,1}$ ) was .615 and the affective PPF beta (i.e.,  $\beta_{3,2}$ ) was .473. Hypothesis 3 claimed that when a socially unacceptable practice is used, the impact of cognitive PPF on outcome PPF (i.e.,  $\beta_{3,1}$ ) should be reduced and the impact of affective PPF on outcome PPF (i.e.,  $\beta_{3,2}$ ) should be inflated. However, these results showed the opposite effect. In the low social acceptability group, the cognitive PPF beta was inflated to .840, while the affective PPF beta was reduced to .282. The impact of cognitive PPF was actually greater when a socially unacceptable practice was used. These results did not fully support Hypothesis 3; use of a socially unacceptable practice brought about differences in cognitive/affective PPF affects on outcome PPF, but the impact of cognitive PPF—not affective PPF as hypothesized—was greater when a socially unacceptable practice was used.

*Hypotheses 4 and 5.* Negative affective PPF was hypothesized to bring about more intentions for self-protection and revenge-seeking behaviors, and less intentions for no-action behavior (i.e., Hypothesis 4), and negative cognitive PPF was hypothesized to bring about more intentions for self-protection and no-action behaviors, and less intentions for revenge-seeking behavior (i.e., Hypothesis 5). Regression analyses were performed for each of the four response behaviors (i.e., no-action, self-protection, revenge-seeking, and promotion behaviors) for both affective PPF and cognitive PPF. Included in the regression models were the covariates, assertiveness and aggressiveness.

Results of the regression analyses to confirm or disconfirm Hypotheses 4 and 5 can be found in Table 17. Hypothesis 4 was partially supported. As hypothesized, a negative direct effect of affective PPF was seen on self-protection (i.e.,  $\beta = -.331, p < .01$ ) and revenge-seeking (i.e.,  $\beta = -.404, p < .01$ ) behaviors, but, unlike the hypothesis, a direct negative effect of affective PPF was also seen on no-action behavior (i.e.,  $\beta = -.152, p < .01$ ). Similarly, Hypothesis 5 was



partially supported. A negative direct effect of cognitive PPF was seen on self-protection (i.e.,  $\beta = -.333, p < .01$ ) and no-action behavior (i.e.,  $\beta = -.190, p < .01$ ), but, unlike the hypothesis, a direct negative effect of cognitive PPF was also seen on revenge-seeking behavior (i.e.,  $\beta = -.346, p < .01$ ). While not hypothesized, both affective PPF and cognitive PPF had significant positive effects on promotion behavior (i.e.,  $\beta = .372, p < .01$ , and  $\beta = .546, p < .01$ , respectively).

*Assertiveness and Aggressiveness as Covariates.* Assertiveness had a significant partial relationship with no-action, self-protection, and revenge-seeking behaviors in both affective PPF and cognitive PPF models. As assertiveness increased, intentions for self-protection and revenge-seeking behaviors increased and intentions for no-action behavior decreased. On the other hand, aggressiveness had only a significant partial relationship with self-protection and revenge-seeking behaviors in the affective PPF and cognitive PPF models. As aggressiveness increased, intentions for self-protection and revenge-seeking behaviors increased. Results for both assertiveness and aggressiveness can be found in Table 17.

## Summary

Study 1 examined consumer ratings of social acceptability, procedural fairness, and perceived pervasiveness for twelve price-setting practices across six contexts. The ratings of practices were used to preliminarily examine the first hypothesis, the moderating effect of pervasiveness on the procedural fairness–social acceptability relationship. Results of the complex regression analysis provided partial support for Hypothesis 1. Four contexts (i.e., bananas, HDTV, athletic shoes, and cell phone and service) resulted in positive interaction terms, but further examination of acceptability charts by practice suggested that the moderating effect of pervasiveness may only strengthen the positive impact of procedurally fairness on social

acceptability and not increase social acceptability ratings when procedural fairness is low as hypothesized.

Study 2 provided an experimental test of Hypothesis 1 to further confirm or disconfirm the moderating role of pervasiveness. Regression results revealed significant interaction between pervasiveness and procedural fairness, but the graphical representation of fairness x pervasiveness social acceptability ratings confirmed the findings of Study 1 that high pervasiveness does not increase social acceptability when procedural fairness is low. Therefore, Hypothesis 1 was partially supported.

Another regression analysis confirmed Hypothesis 2; using a socially unacceptable price-setting practice brings greater perceptions of price unfairness. Evidence was shown of the multidimensionality of PPF as established with a multigroup structural equation analysis; however, Hypothesis 3 was not fully supported. The impact of affective PPF on outcome PPF was less and the impact of cognitive PPF on outcome PPF was greater when a socially unacceptable practice was used. This finding countered what was posited in Hypothesis 3.

Finally, the response-behavior hypotheses were tested with a series of regression analyses. Hypotheses 4 and 5 were only partially supported. Hypothesis 4 posited greater intentions for revenge-seeking and self-protection behavior, which was supported in the results, and less intention for no-action behavior, which was not supported when high negative affective PPF was present. Hypothesis 5 posited greater intentions for self-protection and no-action behavior, which was supported in the results, and less intention for revenge-seeking behavior, which was not supported, when there was high negative cognitive PPF.

In the next chapter, implications for Study 1 and Study 2 results are discussed. Also in Chapter 4, limitations are addressed and future research directions are suggested.

## **Chapter 4: Implications, Limitations and Future Research**

In Chapter 3, the methods and results of two studies were described, examining effects of procedural fairness and pervasiveness on social acceptability and the effects of using socially unacceptable price-setting practices on perceptions of price fairness. In this chapter the theoretical and managerial implications from the findings in those two studies are presented. Limitations for both studies of this research are examined. Finally, these studies suggested more research questions, which are presented in the future research section of this chapter.

### **Theoretical Implications**

*The Role of Pervasiveness.* Hypothesis 1 examined the moderating role of pervasiveness in determining social acceptability of a price-setting practice. Although procedural fairness is the main driver of social acceptability, the combination of high procedural fairness and high pervasiveness was found to bring about the highest ratings of social acceptability. On the other hand, the hypothesized increase in social acceptability because of high pervasiveness, even when procedural fairness was low, did not materialize. For example, discriminatory pricing, a low procedural fairness practice, is very common in many contexts, including events requiring admission such as amusement parks and movies (e.g., seniors and students get discounts). Even when perceived pervasiveness of discrimination pricing is high, as with automobile insurance (i.e., mean = 5.66), the practice is still seen as socially unacceptable. Another example of high pervasiveness is seller's use of inside information supply pricing for concert tickets. Respondents rated this practice for concert tickets as the highest pervasive practice out of all the practices—

contexts (i.e., mean = 5.73). However, inside information supply pricing was rated as unacceptable for sellers to use to set prices for concert tickets. Pervasiveness alone cannot bring social acceptability to a procedurally unfair practice.

The greatest opportunity for high social acceptability of a practice occurs when both the practice is perceived to be fair and common for a given context. For example, cost plus pricing and penetration pricing, both procedurally fair practices, were also perceived to be commonly used to price bananas (i.e., mean = 5.20) and cell phones with service (i.e., mean = 4.76), respectively. The combination of the two variables brought high ratings of social acceptability for those two practices (i.e., mean = 4.82 and mean = 4.65, respectively).

*Differences in Contexts.* The purpose of Study 1 was to explore social acceptability over a wide range of practices and contexts as exemplified by Vaidyanathan and Aggarwal's (2003) research examining price fairness perceptions across two product categories (i.e., lettuce and refrigerators). Although examining effects of pervasiveness and fairness over a wide range of price-setting practices gave partial support of Hypothesis 1 across practices, examining Hypothesis 1 over six different contexts provided evidence that effects of pervasiveness and fairness on social acceptability may be context-specific only. The analyses of the six contexts revealed significant moderating effects of pervasiveness for four contexts. The other two contexts, automobile insurance and concert tickets, did not have significant moderating pervasiveness effects.

Substantial differences were seen between these two contexts and the other four that may suggest differences in how consumers view the acceptability of price-setting practices. First, these contexts are services, whereas the others have at least partial aspects of products. (The cell phone with service context may have been viewed mostly as a product.) There may be different

rules for social acceptability of practices used to price services than to price products. In fact, Bolton and Alba (2006) found that consumers perceive price fairness differently for goods and services in certain circumstances (e.g., when salient vendor costs are nonalignable).

Multiple levels exist within each service offering (i.e., automobile insurance and concert tickets), and each may be subject to a different price-setting practice. For example, consumers can buy more or less auto insurance coverage based on number of cars or number of drivers. Then they can choose supplemental insurance such as life insurance or home insurance and perhaps qualify for a volume discount. Also, deductible levels vary, depending on how much risk the consumer wants to take. Each service combination may be subject to a different practice, making it difficult to generalize social acceptability for the generic service offering.

Consumers may also feel that pricing services vary according to their personal needs. Concert ticket buyers may not be looking for the most economical ticket but rather the ticket that will maximize their enjoyment. Thus, consumers may be willing to pay top dollar, without considering a price cap, for front-row tickets and the experience of a lifetime. All rules about social acceptability of a practice may not apply in these situations.

*Consistency in Results from Study 1 and 2.* The advantage to testing the first hypothesis in both Study 1 with a survey and Study 2 with an experiment was the opportunity to see consistency in results. The same conclusions of the moderating effect of pervasiveness were drawn in Study 2 as in Study 1 for the four contexts with significant interactions (i.e., bananas, HDTV, athletic shoes, and cell phone and service). Not only did the two methods bring about the same results for these contexts, both actual *perceptions* of pervasiveness and *manipulated* pervasiveness brought the same effect on social acceptability. Whether consumers perceived

pervasiveness in the marketplace or they were told a practice is commonly used, pervasiveness moderated the procedural fairness–social acceptability relationship for these four contexts.

*The Dominating Effect of Cognitive PPF.* In examining the multidimensionality of PPF, the impact of the cognitive assessment of PPF–outcome PPF relationship dominated over the affective PPF–outcome PPF relationship when a socially unacceptable price-setting practice was used. This was counter to the hypothesized effect. Instead of being driven by a fast, negative emotional response to a socially unacceptable practice, outcome PPF was driven by the slow, deliberate, calculative negative evaluation of the price. An explanation for this may be that the use of an unacceptable practice puzzles consumers and causes them to devote more cognitive energy, a process that prolongs their evaluation of the price. Shiv and Fedorikhin’s (1999) research demonstrated that when individuals are confronted with thought-provoking information, they devote more cognitive effort, and the cognitive mental processing dominates their evaluation. In a similar way, the use of the practice may be unanticipated and, thus, the consumer devotes more cognitive effort to understanding the seller’s point of view, or to guessing the motive behind the use of the unacceptable practice, which causes cognitive PPF to drive outcome PPF.

The nature of the stimuli, the numerical value of the price, may also affect the dominating impact of cognitive PPF. Because the value is a number, consumers may need to devote additional cognition evaluating it, more than they do when they evaluate an object (e.g., cake or fruit) that can easily be evaluated by sensory input, such as sight, hearing, or smell. In fact, some consumers may prefer numerical information in their evaluation processes: Viswanathan (1993) called this characteristic “preference for numerical information.” Preference for numerical information may have been a factor in the dominating impact of cognitive PPF on outcome PPF.

On the other hand, the affective assessment impact on outcome PPF increased when a socially acceptable practice was used. The increasing impact of affective PPF may have been because the use of the practice was anticipated and the consumer found it to be cognitively easy to react quickly with a positive affective response. Also, the measures for affective PPF in this research used strong language (i.e., *rip-off*, *dishonest*) and participants may have quickly reacted to see that the prices were clearly neither a rip-off nor dishonest.

*Effects on Response Behaviors.* The results of Study 2 indicated that negative affective PPF and negative cognitive PPF both brought greater intentions for no-action, self-protection, and revenge-seeking behavior. The negative affective PPF–no-action behavior relationship and the negative cognitive PPF–revenge-seeking behavior both contradicted the hypothesized relationships in Hypotheses 4 and 5.

Negative affective PPF and assertiveness contributed nearly equal partial contributions in predicting no-action behavior in the regression analysis. Therefore, assertiveness may have played a large role in whether a consumer who had a negative affective PPF assessment engaged in no-action behavior. Assertive consumers stand up for their rights without undue anxiety (Richins 1983); therefore, nonassertive consumers may be less likely to take action, even when they have negative affective responses to price.

Consumers who have a negative cognitive PPF assessment may partake in revenge-seeking behavior, not because of a strong affective response such as outrage, but possibly because, after thinking about it, revenge-seeking may be the best way to get a strong message to the seller. However, the standardized regression coefficient for the affective PPF–revenge-seeking relationship (i.e.,  $\beta = -.404$ ) was stronger than the standardized regression coefficient for the cognitive PPF–revenge-seeking relationship (i.e.,  $\beta = -.346$ ). This may indicate that

consumers with negative affective PPF assessments are more likely to partake in revenge-seeking behavior than consumers with negative cognitive PPF assessments.

## **Managerial Implications**

*Reducing Unwanted Response Behaviors.* Revenge-seeking behaviors can be detrimental to sellers. Negative word-of-mouth and online reviews can damage firm reputation and drive away business. Self-protection behaviors can lead frustrated consumers to complain about a price or ask for a refund. Sellers can help reduce these behaviors by influencing the variables that cause them. Specifically, sellers can aim to reduce negative cognitive PPF and negative affective PPF by not using socially unacceptable price-setting practices.

The social acceptability of a price-setting practice is driven primarily by procedural fairness and then boosted by pervasiveness of the practice for a given context. Sellers can start by learning which practices are perceived as fair in the marketplace. If a fair practice is used, promote the use of it. For example, consumers may view consistency in pricing a product or service that is available both online and in-store as a procedurally fair price-setting practice. In a 2008 advertising campaign, Circuit City promoted its pervasive use of consistency, called the “one price promise,” in pricing all their products or services across multiple retail outlets, including online, in-store, or by phone (Circuit City Website 2008). Therefore, the promotion of the pervasiveness of this practice should increase the procedural fairness effect on the social acceptability of the practice. In other words, Circuit City’s use of consistency in price-setting should be perceived as even more socially acceptable because of their “one price” promotion.



Perceptions of pervasiveness, whether correct or incorrect, can impact social acceptability of a practice. If consumers think the seller is using an unfair practice or if consumers do not know the seller is using a fair practice, social acceptability could be lessened.

If, however, a price-setting practice is commonly used, but not procedurally fair to begin with, advertising the commonness of use of the practice will not improve the social acceptability of that practice. For example, demand pricing is perceived to be frequently used by sellers of athletic shoes, HDTVs, and concert tickets. “Supply and demand” is a common answer you might hear when asking a typical consumer how they think prices are determined. However, the results of this research indicate that demand pricing is a procedurally unfair practice to set prices. Therefore, demand pricing, regardless of how commonly it is used, is perceived to be a socially unacceptable price-setting practice.

In the early 2000s, sellers, including the car manufacturer Saturn, began using a price-setting practice called “no haggle pricing,” designed to reduce anxiety over having to negotiate prices and to reduce fears that dealers always get the better deals. However, the results of this survey indicated that price discovery, or the negotiating of prices, is a procedurally fair practice. This may explain the recent popularity of eBay and other new online auction sites such as Wigix, which uses a “bid-ask” pricing system with lower fees in efforts to pull customers away from eBay (Swartz and Saltzman 2008). Sellers such as Priceline have employed successful marketing campaigns that advertise the pervasiveness of their price-setting policy to boost social acceptability of their price-setting practice and, ultimately, to attract new customers.

Sellers who, for market-driven reasons, must use a socially unacceptable price-setting practice should be prepared for perceptions of price unfairness and subsequent revenge-seeking and self-protection behaviors. Additionally, assertive consumers are more likely to partake in

revenge-seeking and self-protection behaviors than nonassertive consumers. Sellers should have customer service policies and money-back guarantees available to help such consumers cope with unfair prices. Also, sellers may actually benefit from response behaviors as a first step in improving performance (Bougie, Pieters, and Zeelenberg 2003).

*Increasing Promotion Behavior.* Affective PPF and cognitive PPF both had significant main effects on promotion behavior (e.g., spreading positive word-of-mouth, writing positive online reviews). To influence positive affective PPF and positive cognitive PPF, sellers should strive to increase social acceptability of their price-setting practice.

Price matching was seen as the most procedurally fair and as the most socially acceptable price-setting practice. This held true across all the contexts—products as well as services. Thus, sellers who employ price-matching policies may find strong perceptions of price fairness among existing and future customers. For example, Circuit City promotes an “unbeatable price guarantee”; if a consumer finds a lower advertised price from another store, Circuit City will beat the competitor’s price by 10 percent of the difference (Circuit City Website 2008). Advertising this price-matching policy may help to promote the pervasiveness of this practice, increase social acceptability of the practice, and in turn increase PPF and consumer promoting behavior.

## **Limitations**

The unanticipated dominating effect of cognitive PPF on outcome PPF when a socially unacceptable price-setting practice is used may be linked to the amount of time consumers have to evaluate the price-setting practice. In other words, when confronted with a socially unacceptable price-setting practice, consumers may devote more time to interpreting the use of

the practice. The survey in this research that measured cognitive PPF and affective PPF allowed unlimited time to evaluate the practice before rating the fairness of the price. In their article about cognition, affect, and customer satisfaction, Homburg, Koschate, and Hoyer (2006) indicated that the affective response to stimuli are evoked immediately, certainly much more quickly than the cognitive response. It may be that when time is limited, affective PPF dominates outcome PPF as hypothesized, or at least that time plays a role in the multidimensionality of PPF. However, time to view the stimuli and time to enter evaluations were not collected with this survey.

The selection of price-setting practices and contexts to be examined in Study 1 were carefully considered. Consultations with marketing experts, open-ended surveys, and pretesting were done to get a unique and well-rounded set. However, some of the price-setting practices and contexts included may be considered limitations for this research. First, price discrimination combined discrimination by consumer physical characteristics (i.e., age, status), discrimination by risk characteristics such as credit scores, and discrimination by past purchase behavior such as membership in loyalty programs. Richer insight into how consumers perceive different types of price discrimination could have been gained if these levels of discrimination were broken down in the survey. Also, the choice for one of the contexts, cell phone with service, contained aspects of both product and service. Initially, the selection of cell phone and service having aspects of both product and service was by design, but given the differences in effects on social acceptability by context, it may have been more appropriate to test each context uniquely as product or service. It is not clear whether respondents rated the cell phone with service context while viewing it as a product, a service, or a combination of both.

The decision to split the social acceptability measure into high acceptability and low acceptability for hypothesis testing was justified by the task required. However, even though significant results were achieved, splitting the variable into two may have resulted in some lost data.

The multidimensionality of PPF has not been previously tested. Thus, measures inspired by dual mental processing research and extant price fairness items were developed. The measurement of affective PPF was driven by strong language (e.g., rip-off, dishonest), while more passive but emotional items appeared to be indicators of cognitive PPF through exploratory factor analysis. Is the affective dimension of PPF measured by strong negative and positive emotionally charged language, or is there another way to measure affective PPF and still discriminate from the cognitive PPF construct?

To reduce common methods bias in testing the first hypothesis, two methods were used: a survey (Study 1) and an experiment (Study 2) (Churchill 1979). Both methods yielded the same result (i.e., pervasiveness moderated the relationship between procedural fairness and social responsibility). Also, the question presentation order and selection of price-setting practices were randomized in Study 1. However, in Study 2, the measures for cognitive/affective PPF, outcome PPF, and response behaviors were collected via one method only (i.e., experiment), thereby possibly subjecting the results to common method bias. In efforts to reduce bias a priori, multiple pretests of these measures were conducted to refine and reshape the items (Churchill 1979).

## Future Research

The differences in effects on social acceptability by context call for further examination of the extent to which context plays a role in social acceptability of a price-setting practice. Specifically, the rules of fair pricing for services should be explored. Further testing of the moderating effects of pervasiveness should be done on additional contexts to see if it is the differences between products and services that are bringing about different effects, such as the effects observed by Bolton and Alba (2006), or if something else is driving the effect, such as prolonged relationship with the seller or availability of alternatives.

In Study 2, consumer pricing knowledge had a significant partial relationship with outcome PPF. The more pricing knowledge a consumer had, the more unfair they rated the price. Familiarity with context did not have a significant relationship with outcome PPF. Are there other personal characteristics or behaviors that affect outcome PPF? What role does frequent shopping behavior have on the acceptability of a seller's price? Are there differences in new or disloyal customers and loyal customers in social acceptability of a practice?

Interestingly, both perceived pervasiveness and manipulated pervasiveness brought about the same moderating effect of pervasiveness on social acceptability. However, Study 1 revealed that consumers' perceptions of pervasiveness were not consistent; instead they disagreed on whether practices are pervasive for a context, so marketers should more closely monitor how pervasive practices are in the marketplace. Research should be conducted to obtain accurate pervasive practices by context in the marketplace. In a similar way to Hardesty et al.'s (2007) PTPK research, objective and subjective knowledge of pervasiveness in the marketplace should be examined. It is likely that what consumers think they know about the commonness of a practice is probably different from what they actually know. On the other hand, customers in

B2B marketing may be more knowledgeable about price-setting practices in their respective marketplaces. It would be interesting to explore knowledge of pervasiveness and procedural fairness of B2B price-setting practices.

The U.S. retail gasoline industry was under much pressure in the summer of 2008 because average prices broke \$4.00/gallon. An Associated Press article commenting on gasoline prices compared U.S. prices with prices in countries around the world. For example, the price per gallon in the United Kingdom was \$8.46; in Mexico it was \$2.54, and in the Netherlands it was \$9.87 (Blackwell 2008). The purpose of the article was to reduce the animosity toward U.S. retailers by comparing the U.S. price with prices (i.e., mostly much higher prices) in other countries. Consumers may or may not realize the market forces at work and the difference in price-setting per country. In the same way, sellers expose competitors' prices to help make their prices look better by comparison, but can this reduce price unfairness? Or, in a similar vein, could exposing competitors' price-setting practices affect the fairness or acceptability of the seller's own practice?

The significant negative relationship between affective/cognitive PPF and no-action behavior sparks need for further investigation. Consumers have indicated that a price is unfair, but do not intend to respond accordingly. What are some of the consumer reasons for deciding not to participate in the various response behaviors? While high switching costs may deter some consumers from exiting the relationship (Urbany, Madden, and Dickson 1989), others may say that a price is unfair but think they have no other choice but to submit and pay the price. Consumers may think that they have no voice in price-setting or that their voice is not big enough. They might think, "Why should I say something or do something when it is *not* going to change the price?" They either pay the price or walk away. While these are just speculations,

future research should explore the reasons consumers do not respond to unfair prices. Consumer feelings of helplessness should also be explored as an antecedent to PPF, because these feelings may reduce perceptions of price unfairness.

Finally, the summer 2008 media coverage on the airline industry has brought consumer attention to increased prices in airfare, including new price-setting practices. Poor economic conditions and heightened oil prices put the U.S. airlines in the difficult position of raising prices in creative ways (Maynard 2008). Airlines began making previously included services separate costs. For example, Spirit Airlines began charging for a second, third, or more checked bag (Stoller 2008), and U.S. Airways began charging \$2 for a nonalcoholic beverage (Maynard 2008). Called “a la carte” pricing, this new price-setting practice was initiated to allow consumers the option to pay only for the services they needed (Maynard 2008).

A la carte pricing suggests some interesting topics for future research. How does this segregated form of price-setting compare with an integrated price-setting practice? For example, do consumers prefer to pay one sum and check unlimited bags, or do they prefer to pay per bag checked? Is it procedurally fair to use staggered pricing for checked luggage? Spirit Airlines charges \$25 for the second bag, then \$100 for each additional checked bag (Stoller 2008), but would it be fairer to have a uniform per-bag fee, such as \$50? Does being the first to use a price-setting practice affect perceptions of price fairness? For example, will U.S. Airlines receive more price unfairness perceptions simply because they were the first to charge for nonalcoholic beverages?

## Conclusion

Consumers evaluate market offerings, including pricing, based on available information in the marketplace. Previous research has examined consumer fairness judgments of an offered price (e.g., Kahneman, Knetsch, and Thaler 1986; Campbell 1999a, 1999b; Vaidyanathan and Aggarwal 2003), but little was known about fairness judgments of the process of setting prices. The current research investigates the effects of procedural justice (i.e., the fairness of the process of setting a price) on distributive justice (i.e., the fairness of an offered price) as suggested in *Marketing Science Institute Special Report* by Gebhardt (2008).

Two determinants of the social acceptability of a price-setting practice are examined in two empirical studies. Procedural fairness, or the fairness of the process of setting a price, and the pervasiveness of a price-setting practice are both found to bring about the social acceptability of a price-setting practice. A practice is most socially acceptable when the practice is perceived as being both procedurally fair and pervasive. Therefore, consumers will be most willing to accept a price-setting practice if the practice is perceived as fair and if the practice is perceived to be commonly used to price a given product or service. Interestingly, consumers can either perceive the practice to be common on their own, or the seller can convince consumers that the practice is commonly used. Either situation will bring about stronger social acceptability evaluations. Thus, sellers should choose a procedurally fair practice to set prices and advertise the use of the practice, such as the strategy of Circuit City's "one price promise."

The current research contributes to the pricing literature by gathering consumer evaluations of the fairness, perceived pervasiveness, and social acceptability of twelve price-setting practices within six different product or service contexts. Consumers may perceive that a seller is "breaking the rules" when the seller chooses to use a socially unacceptable practice to



set prices. Study 2 of this research reveals the consequences of breaking the rules. A seller's use of a socially unacceptable practice brings greater perceptions of price unfairness, including negative cognitive and affective assessments of price fairness, which, ultimately, leads to increased intentions of self-protection behaviors and revenge-seeking behaviors. When consumers negatively evaluate a price-setting practice they are likely not only to negatively evaluate the offered price, but they are also likely to complain, spread negative word-of-mouth criticisms, or post negative online reviews. On the other hand, when a seller uses a socially acceptable price-setting practice, consumers are more likely to positively evaluate an offered price and engage in promotion behavior, such as spreading positive word-of-mouth and posting positive online reviews. An interesting finding is that even though consumers may perceive a price to be unfair, they may not respond to the price at all. Future research may reveal that consumers may perceive that complaining or engaging in other self-protection or revenge-seeking behaviors may be not worth the cost or effort.

Previous price-fairness literature has suggested that perceptions of price fairness may not be unidimensional (Xia, Monroe, and Cox 2004). The current research has produced evidence that both a cognitive and an affective assessment of price fairness exists, and that use of price-setting practice can bring about changes in impact of cognitive and affective assessment on outcome price fairness perceptions. When a seller chooses to use an unacceptable price-setting practice, and when given unlimited time to evaluate a price, consumers' cognitive assessment will dominate the outcome of their price-fairness perceptions. In other words, for an unacceptable price-setting practice such as random pricing, consumers' cognitive evaluation of the price (e.g., that it is justified, expected, and reasonable) will be more important than affective

evaluation of the price (e.g., that it is dishonest, a rip-off, and questionable) in determining their price-fairness perceptions.

To conclude, sellers who break the rules in setting prices should expect that consumers may devote cognitive energy in evaluating a price, possibly have negative fairness perceptions of the price, and behave in ways that are harmful to the seller. Sellers who follow the rules by using an acceptable price-setting practice can likely expect perceptions of price fairness, which can lead to consumer behaviors that promote the seller.

## Tables

**Table 1: PPF Research: Determinants, Response Behaviors and Scales**

	<b>Determinants</b>	<b>Response Behaviors to PPF</b>	<b>PPF Scale</b>
Campbell (2007)	Source of price information; inferred motive; affect		3 items
Haws and Bearden (2006)	Dynamic pricing; pricing variances across consumers	Satisfaction with purchase	9 items
Bolton and Alba (2006)	Alignability of cost-price increase; service/goods		1 item
Maxwell (2005)	Complexity of choice	Likelihood of purchase	1 item
Homburg, Hoyer, and Koschate (2005)	Satisfaction; Negative Motive	Repurchase intentions	3 items (i.e., motive fairness)
Xia and Monroe (2005)	Transaction characteristics, source of comparison, seller's reaction to complaint	Negative emotions, purchase intention, desire to engage in negative WOM	6 items
Kukar-Kinney, Xia, and Monroe (2005)	Price-matching guarantees (e.g., policy fairness); motive	Consumer perceived value and shopping intentions	NA
Grewal, Hardesty, and Iyer (2004)	Price segmentation tactics: buyer identification, purchase timing on internet	Repurchase intentions	3 items
Bolton, Warlop, and Alba (2003)	Reference points; information about profit/cost of goods sold; cuing of costs		1 item

Babin, Hardesty, and Suter (2003)	Color and lights, price	Patronage intentions and purchase intentions	2 items
Vaidyanathan and Aggarwal (2003)	Locus of cause, controllability		3 items
Campbell (1999a)	Inferred motive	Shopping intentions	1 item
Campbell (1999b)	Inferred motive; inferred relative profit; reputation	Shopping intentions	1 item
Dickson and Kalapurakal (1994)	Cost-based increases		1 item
Frey and Pommerehne (1993)	Excess, scarce demand, allocation		1 item
Kalapurakal, Dickson, and Urbrany (1991)	Dual Entitlement; rules based on market vs cost prices; traders familiarity	Complaining, refuse to buy, continue business	1 item
Oliver and Swan (1989)	Buyer's inputs/outputs, seller's inputs/outputs	Satisfaction	3 items
Kahneman, Knetsch and Thaler (1986)	Cost-plus pricing		1 item
Huppertz, Arenson, and Evans (1978)	Level of price inequity, service inequity, shopping frequency and item cost		3 items (i.e., good/bad, nice-awful)

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**Table 2: Two Dimensions of PPF**

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	<b>PPF</b>	
	<u>Cognitive</u>	<u>Affective</u>
Assessment.....	Slow	Rapid
Speed of processing.....	Rules based	Feelings based
Basis of evaluation.....	Controlled	Automatic
Response.....	Deductive	Emotional
Process for conclusion.....	Deliberative	Reflexive
Control over assessment.....		

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**Table 3: Price-Setting Practice Descriptions**

Price-setting Practice	Description
1. Absorption Pricing	Keep prices constant even when costs increase or costs decrease (Dickson and Kalapurakal 1994)
2. Captive Pricing	Set price for initial product very low because seller knows consumer will eventually need to buy replacement parts at a higher price point (Hardesty, Bearden, and Carlson 2007)
3. Cost Plus	<p>a – When costs increase, seller increases price in the same ratio; when costs decrease, seller decreases price in the same ratio (Dickson and Kalapurakal 1994)</p> <p>b – Seller sets prices by taking into account costs to the seller, including COGS, labor costs, rent costs, etc, plus a designated mark-up (e.g., 5% mark-up) (Bolton, Warlop, and Alba 2003)</p>
4. Demand-based Pricing	Charging different prices, not based on different products/quality, but based on the demand for the product (e.g., lunch versus dinner time meals) (Kimes and Wirtz 2002)
5. Demand Price-setting	Setting price in anticipation of demand increases (Kahneman, Knetsch, and Thaler 1986)
6. No Hagggle Pricing	Prices are nonnegotiable (e.g., Saturn automobiles) (Hardesty, Bearden, and Carlson 2007)
7. Partitioned Pricing	Dividing a product’s price into two mandatory parts rather than charging a combined, all-inclusive price (Hardesty, Bearden, and Carlson 2007)
8. Penetration Pricing	For a new product, using low prices as a wedge to get into mass markets early (Hardesty, Bearden, and Carlson 2007)
9. Price Bundling	The sale of two or more separate products in a package at a discount, without any integration of the products (Hardesty, Bearden, and Carlson 2007)

10. Price Discovery Dynamic Pricing	Negotiated dynamic pricing where consumers have input into setting the final price; where prices vary over time, consumers, and/or circumstances (Haws and Bearden 2006, p. 305)
11. Price Discrimination	When a company sells a product or service at two or more prices that do not reflect a proportional difference in costs (Hardesty, Bearden, and Carlson 2007)
12. Price Matching	An offer to match the lowest price available in the market (Hardesty, Bearden, and Carlson 2007)
13. Price Skimming	The seller sets the price high for consumers who are willing to pay high prices for brand new products (Hardesty, Bearden, and Carlson 2007)
14. Quality Based Pricing	When there are different prices, based on quality, for products in the same product category (Bolton, Warlop, and Alba 2003, p. 480)
15. Random Discounting	To obtain sales from both consumers who carefully search for low prices and consumers who do not check prices carefully (Hardesty, Bearden, and Carlson 2007)
16. Risk Based Pricing	Setting prices higher for products that may be more risky to the marketer (Bolton, Warlop, and Alba 2003, p. 480)
17. Seasonal Pricing	Price reductions for merchandise or services out of season (Hardesty, Bearden, and Carlson 2007)
18. Shortage Price-setting	Setting price in anticipation of supply shortages (Kahneman, Knetsch, and Thaler 1986)
19. Volume Strategy	Charge a lower price, which results in increase in sales, with a lower margin per sale but higher volume in sales (Bolton, Warlop, and Alba 2003, p. 481)
20. Yield Management	To help the seller sell the right inventory unit to the right customer at the right time and for the right price; to allocate undifferentiated units of limited capacity to available demand in a way that maximizes profit (Kimes 2002, p. 22)

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**Table 4: Criteria for Product/Service Selection for Study 1**

	Low Priced	High Priced	Non-Durable	Durable	Necessity	Luxury	Sold Online	Sold Both Online & Bricks/Mortar	Sold at Bricks/Mortar	Strictly a Product	Aspects of Both Product & Service	Strictly a Service
Athletic Shoes		4.84*		5.40*		3.55			4.07*	1.74*		
Automobile Insurance		5.91*		3.98	1.39*			3.70				5.70*
Bananas	1.77*		2.54*		2.70*				6.49*	1.23*		
Cell Phone & Service		4.49*		4.26*	2.61*				4.21*			3.96*
Concert Tickets		5.07*	3.18			5.82*		3.35				4.54*
HDTV		5.63*		4.82*		5.69*			4.18*		3.25	

\* The mean is statistically different from the midpoint (i.e., 3.5) at  $p < .05$ .



**Table 5: Subset of PTPK for Consumer Price-Setting Knowledge**  
**(Hardesty, Bearden, and Carlson 2007)**  
**True/False/Don't Know**

Price-setting Practice	Item
1. Captive Pricing	“\$3.00 for a non-disposable, easy grip razor, and \$10.00 for a package of 8 replacement razor blades.” Captive pricing is used by marketers in order to take advantage of the fact that, eventually, consumers will need to purchase the high-priced replacement components if they want to continue using the product. TRUE
2. No Hagggle Pricing	“All automobiles for sale at the lowest price possible-no haggling!!” No hagggle pricing is used by marketers in order to convince buyers that negotiations will be fair. FALSE
3. Partitioned Pricing	“\$30.00 for a button-up, 100% cotton long-sleeve shirt, plus \$5.00 for shipping and handling.” Partitioned pricing is used by marketers to persuade consumers that the marketer is offering an attractive shipping and handling rate. FALSE
4. Penetration Pricing	“A four-pack of a new brand of AA batteries -- \$2.00.” Penetration pricing is used by marketers so that, by setting prices low, consumers will be encouraged to try the product. TRUE
5. Price Bundling	“Computer having a 1.1 GHz processor and 128 MB memory <u>and</u> laserjet printer for \$1100.” Price bundling is used by marketers in order to increase revenue over what would have been obtained had the products been priced separately. TRUE
6. Price Skimming	“Brand new product—videophone \$500.” Price skimming is used by marketers to appeal to consumers who are willing to pay a high price for a new product. TRUE
7. Random Discounting	“A brand of orange juice’s (64 oz or ½ gallon) price over a four-week time period was as follows: Week 1 \$2.50, Week 2 \$2.50, Week 3 \$1.50, Week 4 \$2.50.” Random discounting is used to obtain sales from both consumers who carefully search for low prices and consumers who do not check prices carefully. TRUE

**Table 6: Study 1 Correlations – Fairness, Pervasiveness and Social Acceptability**

<b><u>Correlations (r)</u></b>	<b>Procedural Fairness</b>	<b>P - Bananas</b>	<b>P - HDTV</b>	<b>P - Athletic Shoes</b>	<b>P - Concert Tickets</b>	<b>P - Auto Insurance</b>	<b>P - Cell Phone &amp; Service</b>
SA - Bananas	.570*	.342*					
SA - HDTV	.626*		.167*				
SA - Athletic Shoes	.613*			.250*			
SA - Concert Tickets	.556*				.156*		
SA - Auto Insurance	.537*					.176*	
SA - Cell Phone & Service	.640*						.216*

SA = Social Acceptability, P = Pervasiveness

\*Significant at  $p < .01$

**Table 7: Study 1 Results – Complex Regression Analysis Results**

			Fairness			Pervasiveness			Fairness x Pervasiveness					
	ICC	B <sub>0</sub>	β <sub>1</sub>	SE	p	β <sub>2</sub>	SE	p	β <sub>3</sub>	SE	p	R <sup>2</sup>	SE	p
SA - Bananas	.087	3.425	.582	.029	.000	.278	.028	.000	<u>.051*</u>	.012	.000	.420	.030	.000
SA - HDTV	.084	3.694	.648	.028	.000	.159	.028	.000	<u>.025*</u>	.012	.037	.419	.032	.000
SA - Athletic Shoes	.095	3.580	.614	.028	.000	.219	.028	.000	<u>.046*</u>	.011	.000	.436	.031	.000
SA - Concert Tickets	.134	3.730	.599	.031	.000	.178	.031	.000	.006	.013	.671	.341	.032	.000
SA - Auto Insurance	.074	3.340	.567	.029	.000	.212	.033	.000	.021	.014	.139	.333	.030	.000
SA - Cell Phone & Service	.038	3.689	.644	.027	.000	.188	.029	.000	<u>.030*</u>	.012	.012	.445	.031	.000

SA = Social Acceptability

\* Interaction term is significant (p<.05).

**Table 8: Study 1 Results – Simple Slopes for Regression Equations**

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**Bananas Regression Equation**

$$Y = 3.425 + .582\text{fair} + .278\text{perv} + .051(\text{fair}*\text{perv})$$

**Simple Slopes**

$$\text{Perv}_{\text{high}} = 3, \hat{Y} = .735\text{fair} + 4.259$$

$$\text{Perv}_{\text{mean}} = 0, \hat{Y} = .582\text{fair} + 3.425$$

$$\text{Perv}_{\text{low}} = -3, \hat{Y} = .429\text{fair} + 2.591$$

**HDTV Regression Equation**

$$Y = 3.694 + .648\text{fair} + .159\text{perv} + .025(\text{fair}*\text{perv})$$

**Simple Slopes**

$$\text{Perv}_{\text{high}} = 3, \hat{Y} = .723\text{fair} + 4.171$$

$$\text{Perv}_{\text{mean}} = 0, \hat{Y} = .648\text{fair} + 3.694$$

$$\text{Perv}_{\text{low}} = -3, \hat{Y} = .573\text{fair} + 3.217$$

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**Athletic Shoes Regression Equation**

$$Y = 3.580 + .614\text{fair} + .219\text{perv} + .046(\text{fair}*\text{perv})$$

**Simple Slopes**

$$\text{Perv}_{\text{high}} = 3, \hat{Y} = .752\text{fair} + 4.237$$

$$\text{Perv}_{\text{mean}} = 0, \hat{Y} = .614\text{fair} + 3.580$$

$$\text{Perv}_{\text{low}} = -3, \hat{Y} = .476\text{fair} + 2.923$$

**Concert Tickets Regression Equation**

$$Y = 3.730 + .599\text{fair} + .178\text{perv} + .006(\text{fair}*\text{perv})$$

**Simple Slopes**

$$\text{Perv}_{\text{high}} = 3, \hat{Y} = .617\text{fair} + 4.264$$

$$\text{Perv}_{\text{mean}} = 0, \hat{Y} = .599\text{fair} + 3.730$$

$$\text{Perv}_{\text{low}} = -3, \hat{Y} = .593\text{fair} + 3.196$$

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**Auto Insurance Regression Equation**

$$Y = 3.340 + .567\text{fair} + .212\text{perv} + .021(\text{fair}*\text{perv})$$

**Simple Slopes**

$$\text{Perv}_{\text{high}} = 3, \hat{Y} = .630\text{fair} + 3.976$$

$$\text{Perv}_{\text{mean}} = 0, \hat{Y} = .567\text{fair} + 3.340$$

$$\text{Perv}_{\text{low}} = -3, \hat{Y} = .504\text{fair} + 2.704$$

**Cell Phone and Service Regression Equation**

$$Y = 3.689 + .644\text{fair} + .188\text{perv} + .03(\text{fair}*\text{perv})$$

**Simple Slopes**

$$\text{Perv}_{\text{high}} = 3, \hat{Y} = .734\text{fair} + 4.253$$

$$\text{Perv}_{\text{mean}} = 0, \hat{Y} = .644\text{fair} + 3.689$$

$$\text{Perv}_{\text{low}} = -3, \hat{Y} = .554\text{fair} + 3.125$$

**Table 9: Study 1 Results – Pervasiveness and Procedural Fairness Means**

	Pervasiveness (1=Extremely Uncommon, 7=Extremely Common)						Fairness (1=Extremely Unfair, 7= Extremely Fair)
	Bananas	HDTV	Athletic Shoes	Concert Tickets	Auto Insurance	Cell Phone & Service	
Price Discrimination	2.21	3.27	2.66	3.16	5.66	4.45	1.90
Inside Info Supply Pricing	5.36	4.89	4.73	5.73	3.72	4.25	2.44
Random Discounting*	3.77	4.64	4.26	5.05	4.18	4.65	<b>2.50</b>
Demand Pricing	4.42	4.85	4.85	4.96	4.00	4.85	3.33
Price Skimming	2.93	5.90	5.15	5.24	3.84	5.28	3.40
Captive Pricing	2.41	3.55	3.01	2.95	3.54	4.55	4.53
Price Bundling	3.20	3.52	3.0	4.14	4.77	5.48	4.53
Volume Pricing	4.04	3.35	3.62	3.94	4.43	4.86	4.77
Price Discovery	3.08	3.46	2.99	4.13	3.55	3.57	4.77
Cost Plus Pricing*	5.20	5.53	5.62	5.00	4.77	5.14	<b>4.96</b>
Penetration Pricing	3.48	3.60	3.37	3.52	3.76	4.76	5.05
Price Matching	4.85	4.85	4.60	3.94	4.57	4.68	5.60

\*Selected for Study 2

**Table 10: Study 1 Results – Socially Acceptable and Unacceptable Price-Setting Practices**

(Social acceptability mean in parentheses, 1=Extremely Unacceptable, 7=Extremely Acceptable)

	<b>Bananas</b>	<b>HDTV</b>	<b>Athletic Shoes</b>	<b>Concert Tickets</b>	<b>Auto Insurance</b>	<b>Cell Phone &amp; Service</b>
<b>Socially Acceptable Practices*</b>	Matching (5.53)	Matching (5.76)	Matching (5.46)	Matching (5.40)	Matching (5.44)	Matching (5.50)
	Cost Plus (4.82)	Penetration (4.87)	Cost Plus (4.92)	Penetration (4.77)		Cost Plus (4.72)
	Penetration (4.62)	Cost Plus (4.76)	Penetration (4.81)	Cost Plus (4.68)		Penetration (4.65)
<b>Socially Unacceptable Practices**</b>	Discrimin (1.57)	Discrimin. (1.87)	Discrimin. (1.72)	Discrimin. (1.91)	Random (2.05)	Discrimin. (2.32)
	Skimming (2.49)	Random (2.80)	Random (2.71)	Random (2.89)	Inside Info (2.09)	Inside Info (2.44)
	Random (2.68)	Inside Info (2.99)	Inside Info (2.83)	Inside Info (3.12)	Skimming (2.38)	Random (2.52)
	Inside Info (2.74)	Demand (3.42)	Demand (3.27)	Demand (3.45)	Demand (2.52)	Demand (3.00)
	Demand (3.05)		Bundling (3.49)		Discrimin. (2.80)	Skimming (3.57)
	Discovery (3.30)		Captive (3.55)		Captive (3.35)	
	Bundling (3.48)		Discovery (3.55)			
	Captive (3.58)		Skimming (3.55)			
<b>Neither Socially Acceptable Nor Unacceptable Practices</b>	Volume (4.33)	Discovery (3.78)	Volume (3.83)	Bundling (3.84)	Penetration (4.37)	Bundling (4.23)
		Captive (3.77)		Captive (3.68)	Cost Plus (4.22)	Captive (4.02)
		Skimming (3.67)		Volume (3.68)	Discovery (3.77)	Volume (3.88)
		Bundling (3.63)		Skimming (3.63)	Bundling (3.68)	Discovery (3.77)
		Volume (3.61)		Discovery (3.45)	Volume (3.68)	

\*Socially acceptable practices were statistically greater than midpoint (i.e., >4.00, p<.05).

\*\*Socially unacceptable practices were statistically less than midpoint (i.e., <4.00, p<.05).

**Table 11: Multidimensionality of PPF Item Selection Survey Results**

<b>Cognitive Assessment of PPF</b>	<b>% Agreement of Classification</b>	<b>Affective Assessment of PPF</b>	<b>% Agreement of Classification</b>
1) All things considered, this price is justified.*	100%	1) This price is a rip-off.*	100%
2) This is the price that I would expect to pay.*	75%	2) I'd be happy with the price.*	88%
3) The value of the product may not be worth the price.*	88%	3) This price is an outrage.	88%
4) This is a reasonable price.	63%	4) I'd be completely satisfied with this price.*	63%
		5) This price is dishonest.*	69%
<b>Additional Suggested Items</b>		<b>Additional Suggested Items</b>	
5) This price is inline with other similar products.		6) I am pleasantly surprised by this price.*	
6) The price is reasonable considering what I am getting in return.		7) I'd feel good about paying this price.	
7) People who know the market would find this to be a reasonable price.*		8) This price just feels right.*	
8) The price is fair to all.		9) I couldn't believe the price.	
		10) I would feel bad if I had to pay this price.	
		11) I wouldn't think twice about a price like that.	
		12) This price is questionable.*	

\*Selected as items for Study 2.

**Table 12: Response Behaviors Item Selection Survey Results**

	% Agreement of Classification			
	Revenge- Seeking	Self- Protection	No Action	Promotion
1) Express your <u>disapproval</u> to other customers in the store?	<b>100%</b>			
2) Post <u>negative</u> online reviews?	<b>94%</b>	13%		
3) Make <u>negative</u> comments to friends or family?	<b>81%</b>	44%		
4) Call or write to the Better Business Bureau or other consumer organization so that as many people as possible would hear about my negative experience?	<b>69%</b>	38%		
5) Seek legal action against the seller, store, or company?	<b>63%</b>	50%		
6) Express your <u>disapproval</u> to the store manager?		<b>88%</b>	19%	
7) Send a complaint to company headquarters?	19%	<b>75%</b>		
8) In the future, based on this offer and what you know about the retailer, would you shop a lot less, a little less, about the same, a little more, or a lot more?	31%	81%	<b>94%</b>	88%
9) Buy the HDTV from this retailer?			<b>56%</b>	
10) Express your <u>approval</u> to the store manager?			25%	<b>75%</b>
11) Express your <u>approval</u> to other customers in the store?				<b>94%</b>
12) Give <u>positive</u> recommendations to friends or family?				<b>94%</b>
13) Post <u>positive</u> online reviews about the retailer?				<b>94%</b>

Bolded percents are the highest percent agreement of classification of item.



**Table 13: Study 2 Results – Varimax Rotated Factor Analysis  
Multidimensionality of PPF**

	<b>Factor 1</b>	<b>Factor 2</b>
Price is justified*	<u>.807</u>	.238
Price is expected*	<u>.798</u>	.252
Price is reasonable*	<u>.725</u>	.100
Happy with price	<u>.821</u>	.268
Satisfied with price	<u>.795</u>	.375
Price feels right	<u>.805</u>	.336
Pleasantly surprised by price	<u>.584</u>	.267
Price is questionable**	.303	<u>.773</u>
Price is rip-off**	.258	<u>.781</u>
Price is dishonest**	.211	<u>.812</u>
Product is <u>not</u> worth price	.227	<u>.765</u>
Eigenvalues	5.968	1.373

\*Used as items for cognitive assessment PPF (Cronbach alpha = .818).

\*\*Used as items for affective assessment PPF (Cronbach alpha = .827).

**Table 14: Study 2 Results – Varimax Rotated Factor Analysis Response Behaviors**

	<b>Factor 1</b>	<b>Factor2</b>	<b>Factor 3</b>
Disapproval to other customers*	<u>.765</u>	-.028	-.278
Negative WOM*	<u>.635</u>	-.351	-.101
Negative online reviews*	<u>.796</u>	-.021	-.013
Complain to BBB*	<u>.836</u>	.001	-.188
Take legal action	<u>.693</u>	.109	.037
Disapproval to manager**	<u>.765</u>	-.028	-.300
Complain to headquarters**	<u>.849</u>	-.015	-.160
Approval to manager***	.067	<u>.866</u>	-.027
Approval to other customers***	.063	<u>.883</u>	-.094
Positive WOM***	-.164	<u>.717</u>	.408
Positive online reviews***	.040	<u>.760</u>	.267
Not affect behavior****	-.331	.237	<u>.616</u>
Shop about the same****	-.109	.092	<u>.867</u>
No purchase intention	.321	-.621	-.399
Eigenvalues	5.218	3.092	1.032

\*Used as items for revenge-seeking behavior (Cronbach alpha = .828).

\*\*Used as items for self-protection behavior (Cronbach alpha = .803).

\*\*\*Used as items for promotion behavior (Cronbach alpha = .847).

\*\*\*\*Used as items for no-action behavior (Cronbach alpha = .653).

**Table 15: Study 2 Results – The Effect of a Socially Acceptable Price-Setting Practice**

	<b>Partial R<sup>2</sup></b>	<b>F Change</b>	<b>p</b>	<b>B</b>	<b>p</b>
<b>Use of a Socially Acceptable Price-Setting Practice</b>	<b>.085*</b>	<b>14.143</b>	<b>.000</b>	<b>.295*</b>	<b>.000</b>
Consumer Pricing Knowledge**	.038*	5.708	.018	-.207*	.008
Consumer Familiarity with Context**	.011	1.641	.202	.063	.425

\*Significant at  $p < .05$ .

\*\*Covariates included in regression model.

**Table 16: Study 2 Results – The Multidimensionality of PPF**

	<b>Parameter</b>	<b>Low Social Acceptability</b>		<b>High Social Acceptability</b>	<b>Conclusion</b>
Cognitive Assessment of PPF	B <sub>3,1</sub>	<b>.840*</b> (.124)	>	<b>.615*</b> (.121)	H3 Partially Supported
Affective Assessment of PPF	B <sub>3,2</sub>	<b>.282*</b> (.075)	<	<b>.473*</b> (.117)	

\* Parameter is significant at  $p < .05$ , standard errors are in parentheses.

**Table 17: Study 2 Results – Multidimensionality Effects on Response Behaviors**

<b>H4: Affective PPF Effects on Response Behaviors</b>										
	<b>Affective PPF Effects</b>				<b>Assertiveness**</b>			<b>Aggressiveness**</b>		
	<b>Partial R<sup>2</sup></b>	<b>F Change</b>	<b>β</b>	<b>H4 Support</b>	<b>Partial R<sup>2</sup></b>	<b>F Change</b>	<b>β</b>	<b>Partial R<sup>2</sup></b>	<b>F Change</b>	<b>β</b>
No-Action	.022	5.129*	-.152*	<u>No</u>	.019	4.428*	-.165*	.012	2.694	-.080
Self-Protection	.103	30.378*	-.331*	<u>Yes</u>	.070	18.297*	.251*	.069	16.731*	.094
Revenge-Seeking	.153	45.752*	-.404*	<u>Yes</u>	.059	14.735*	.218*	.045	10.518*	.633
Promotion	.130	33.473*	.372*		.008	1.744	.134*	.002	.492	-.013

<b>H5: Cognitive PPF Effects on Response Behaviors</b>										
	<b>Cognitive PPF Effects</b>				<b>Assertiveness**</b>			<b>Aggressiveness**</b>		
	<b>Partial R<sup>2</sup></b>	<b>F Change</b>	<b>β</b>	<b>H5 Support</b>	<b>Partial R<sup>2</sup></b>	<b>F Change</b>	<b>β</b>	<b>Partial R<sup>2</sup></b>	<b>F Change</b>	<b>β</b>
No-Action	.034	8.085*	-.190*	<u>Yes</u>	.017	4.009*	-.166*	.011	2.593	-.083
Self-Protection	.104	30.549*	-.333*	<u>Yes</u>	.059	15.238*	.217*	.073	17.834*	.115
Revenge-Seeking	.111	31.461*	-.346*	<u>No</u>	.051	12.639*	.194*	.047	11.022*	.064
Promotion	.278	86.972*	.546*		.006	1.407	.161*	.002	.480	.018

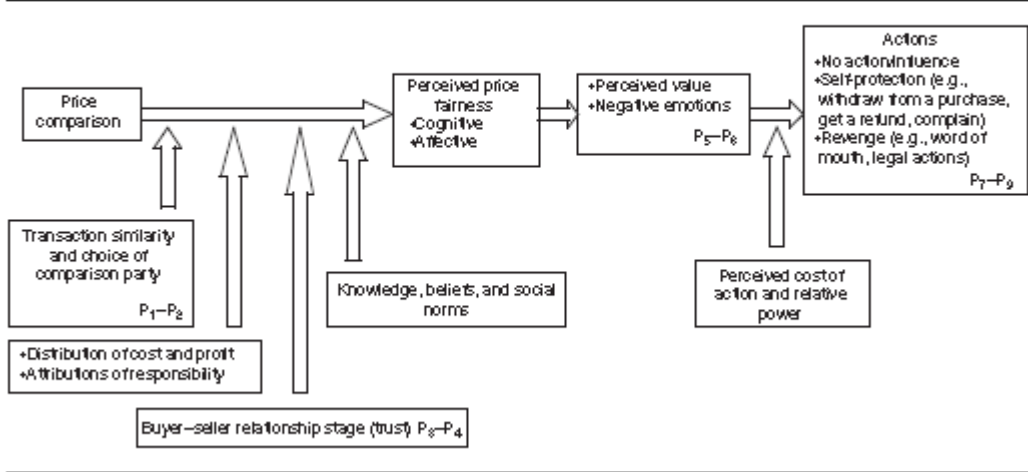
\*Significant terms, p<.05

\*\*Covariates included in the regression models.

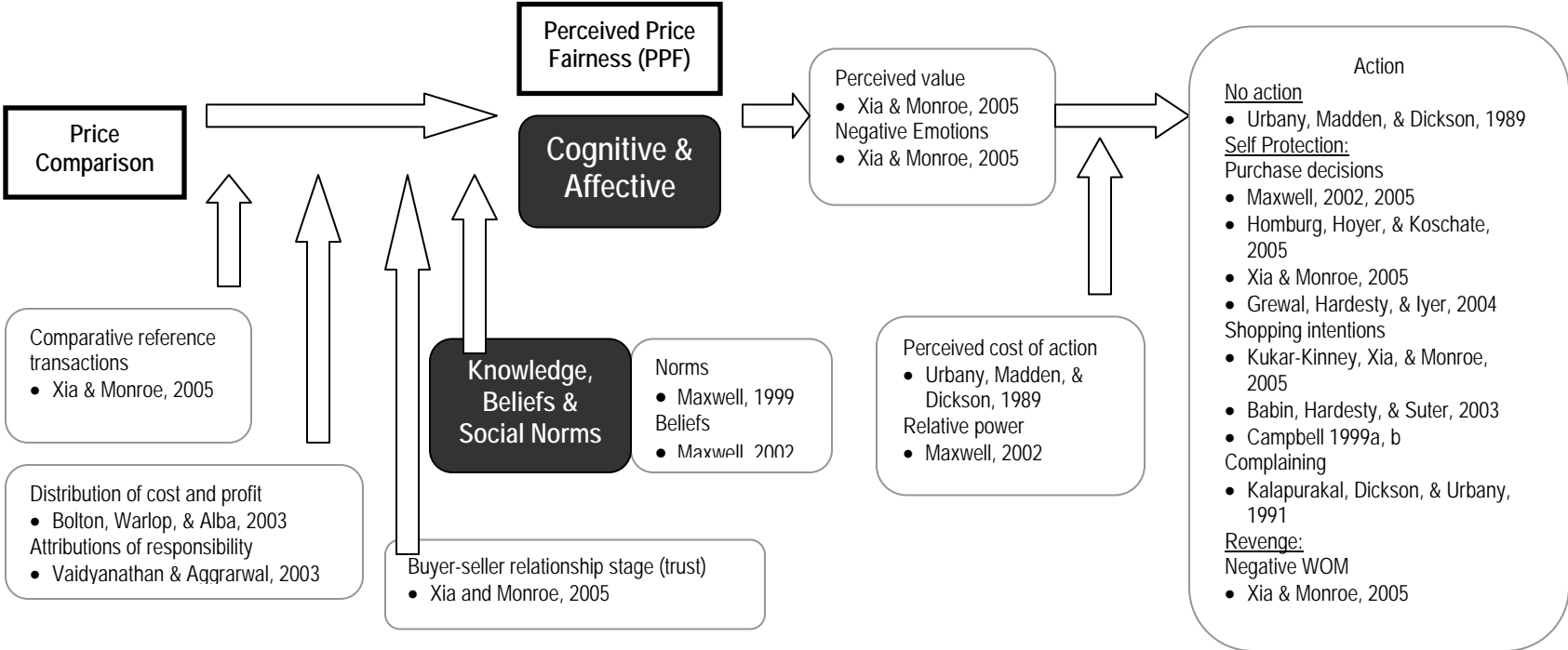
# Figures

**Figure 1: Xia, Monroe, and Cox's (2004) Conceptual Framework of PPF**

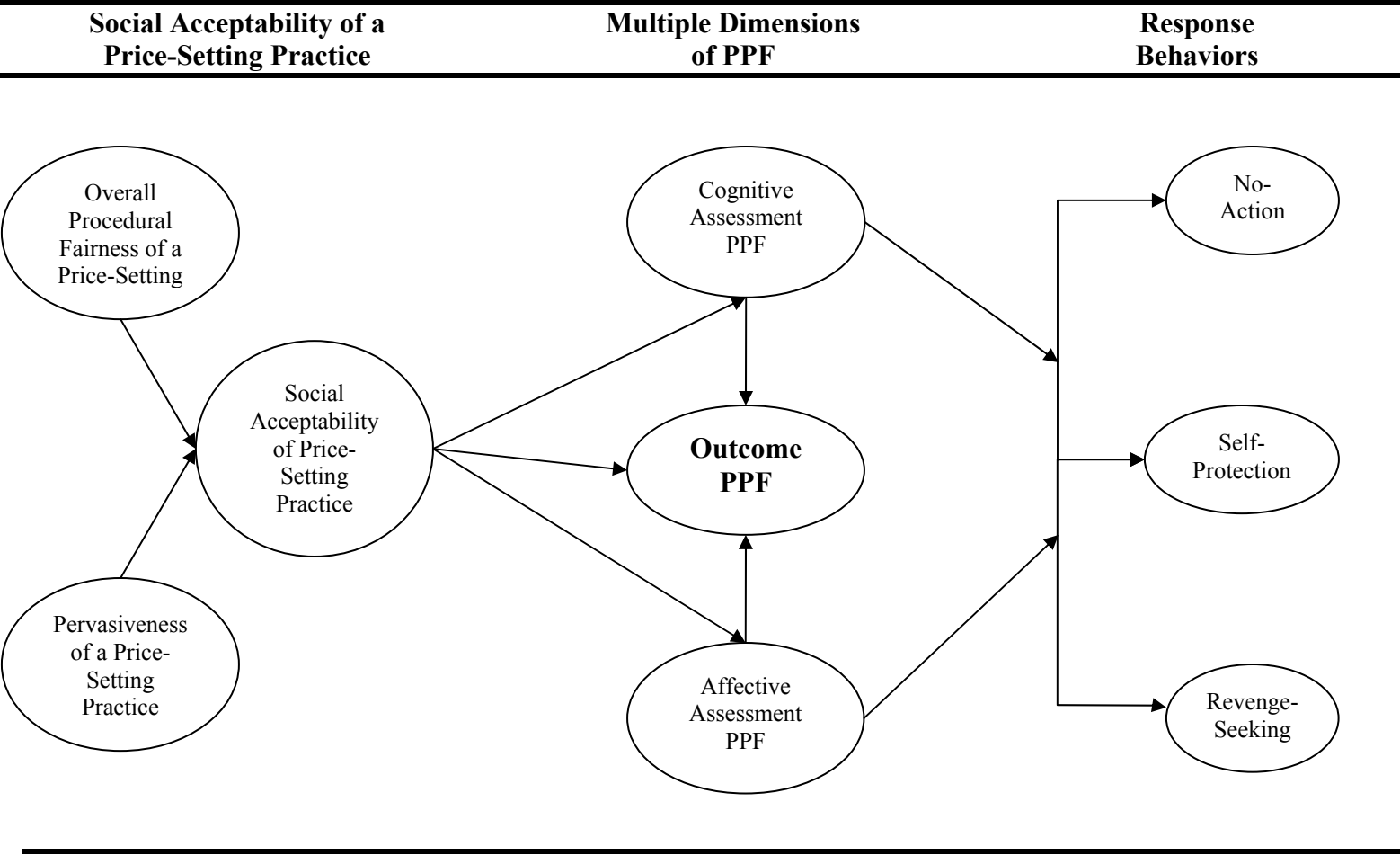
FIGURE 1  
A Conceptual Framework of Price Fairness



**Figure 2: Xia, Monroe, and Cox's (2004) Conceptual Framework of PPF--Updated**

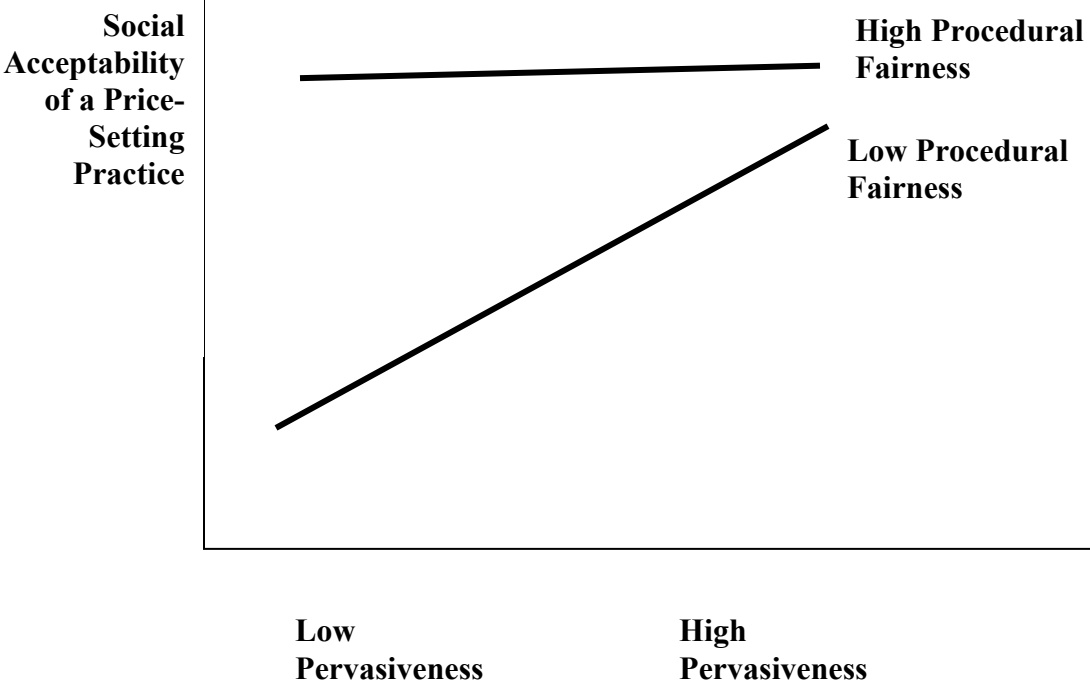


**Figure 3: A Conceptual Model of the Rules of Fair Pricing and PPF**

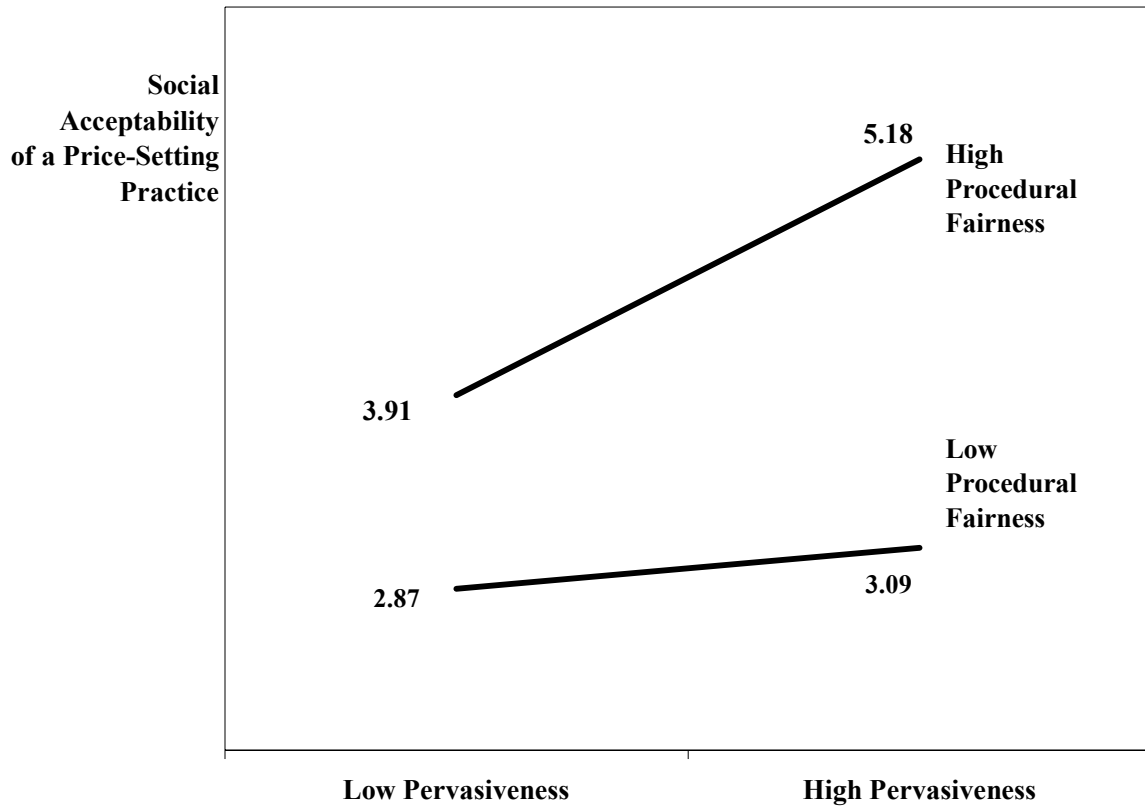




**Figure 4: The Hypothesized Moderating Effect of Perceived Pervasiveness**

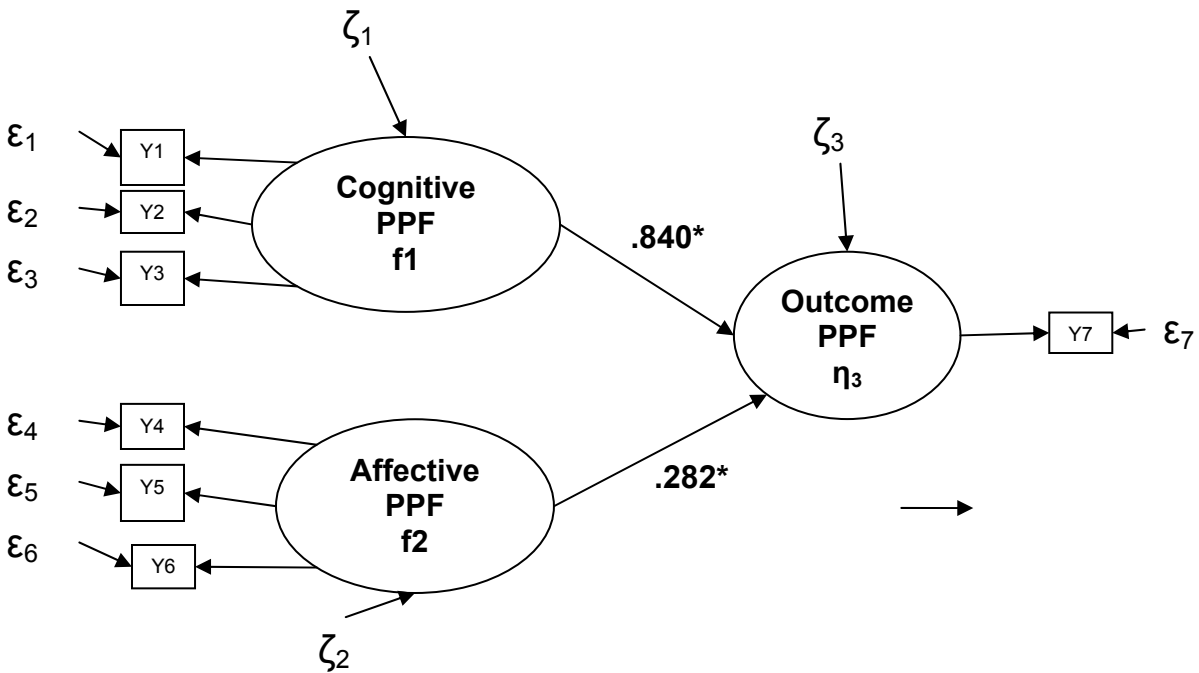


**Figure 5: Study 2 Results – Actual Effect of Pervasiveness**

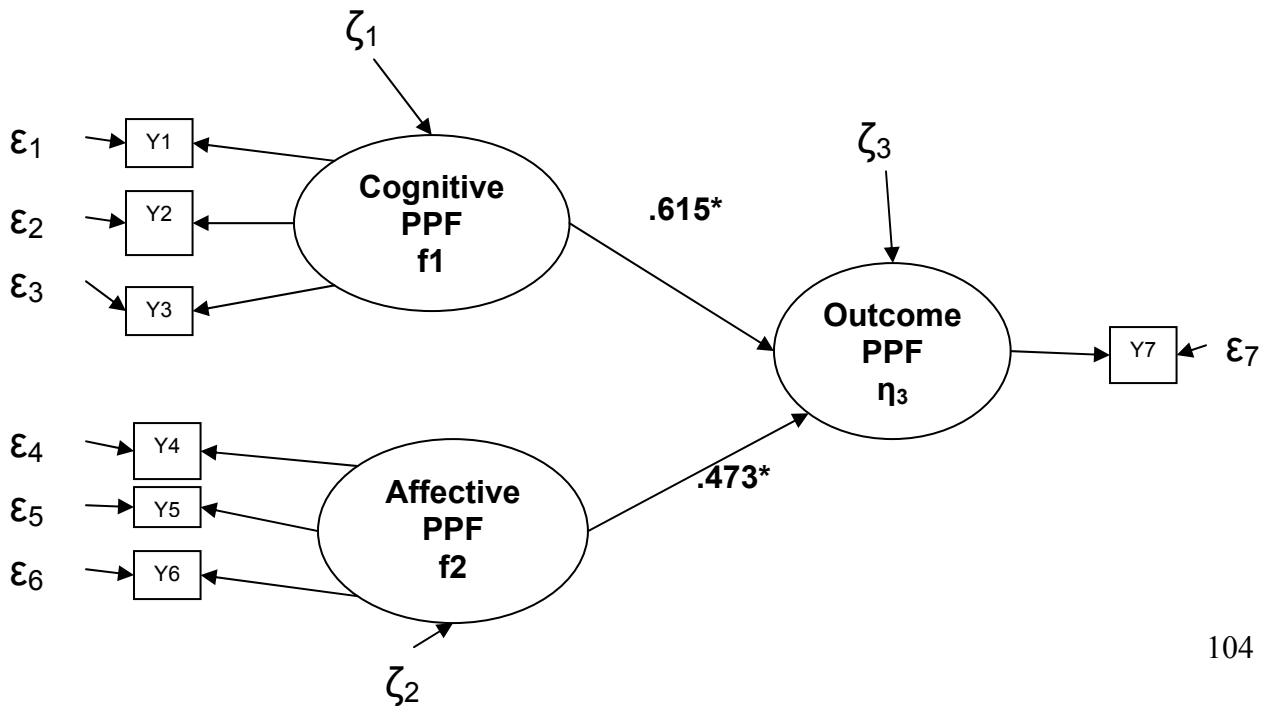


**Figure 6 Study 2 Results – Multi-group Analysis to Test Multidimensionality of PPF**

**Low Social Acceptability – “Breaking the Rules”**

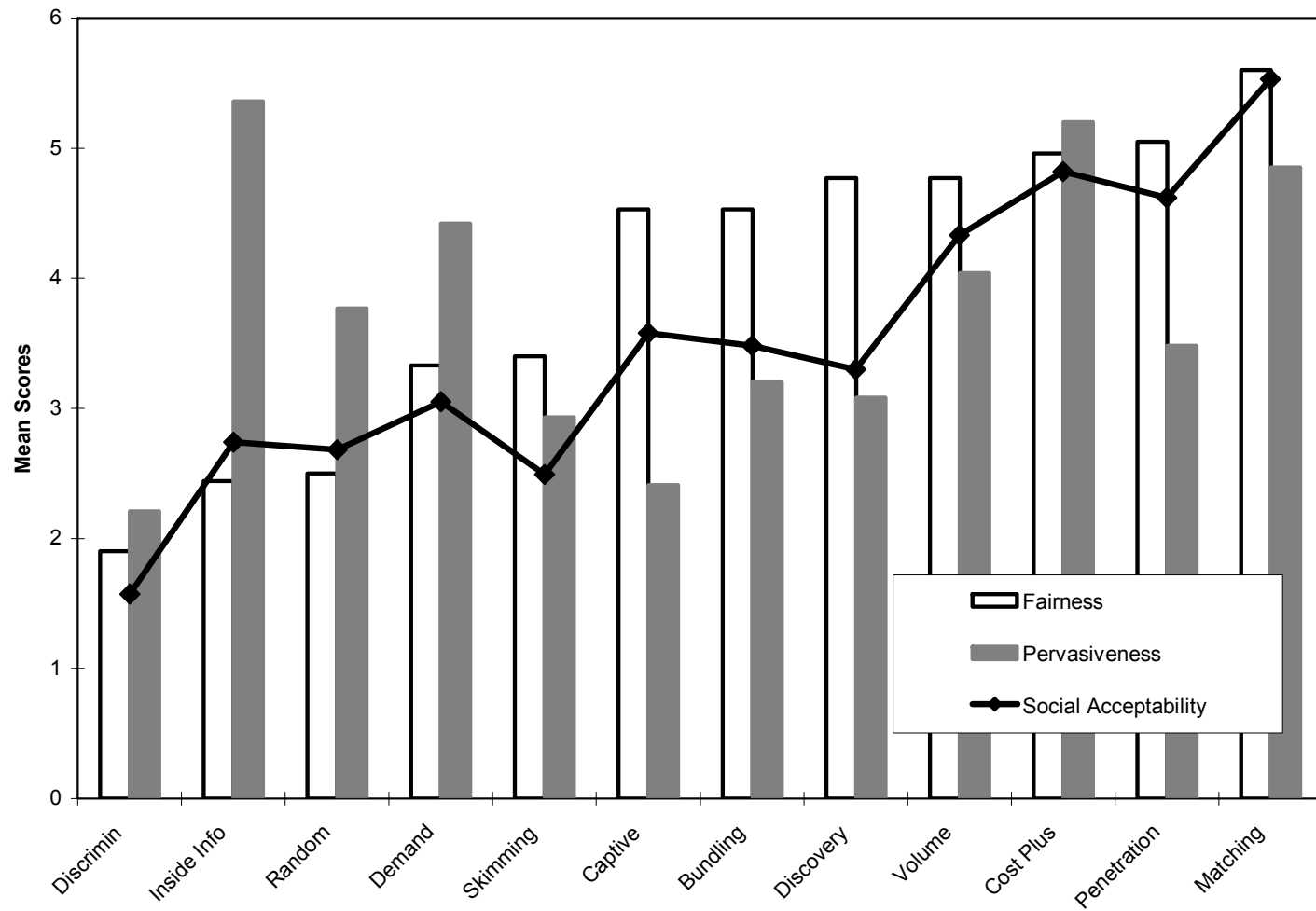


**High Social Acceptability**

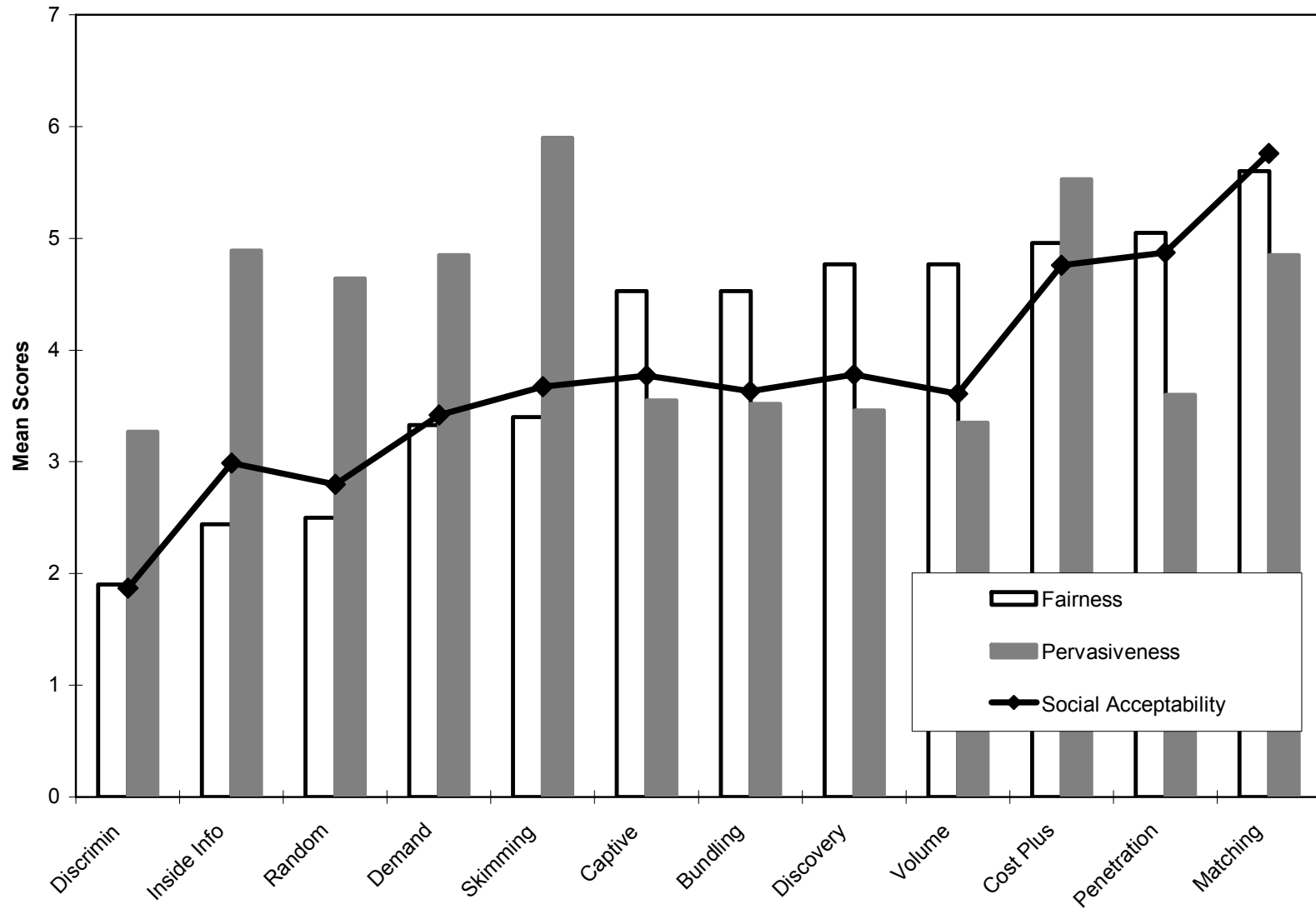


## Charts

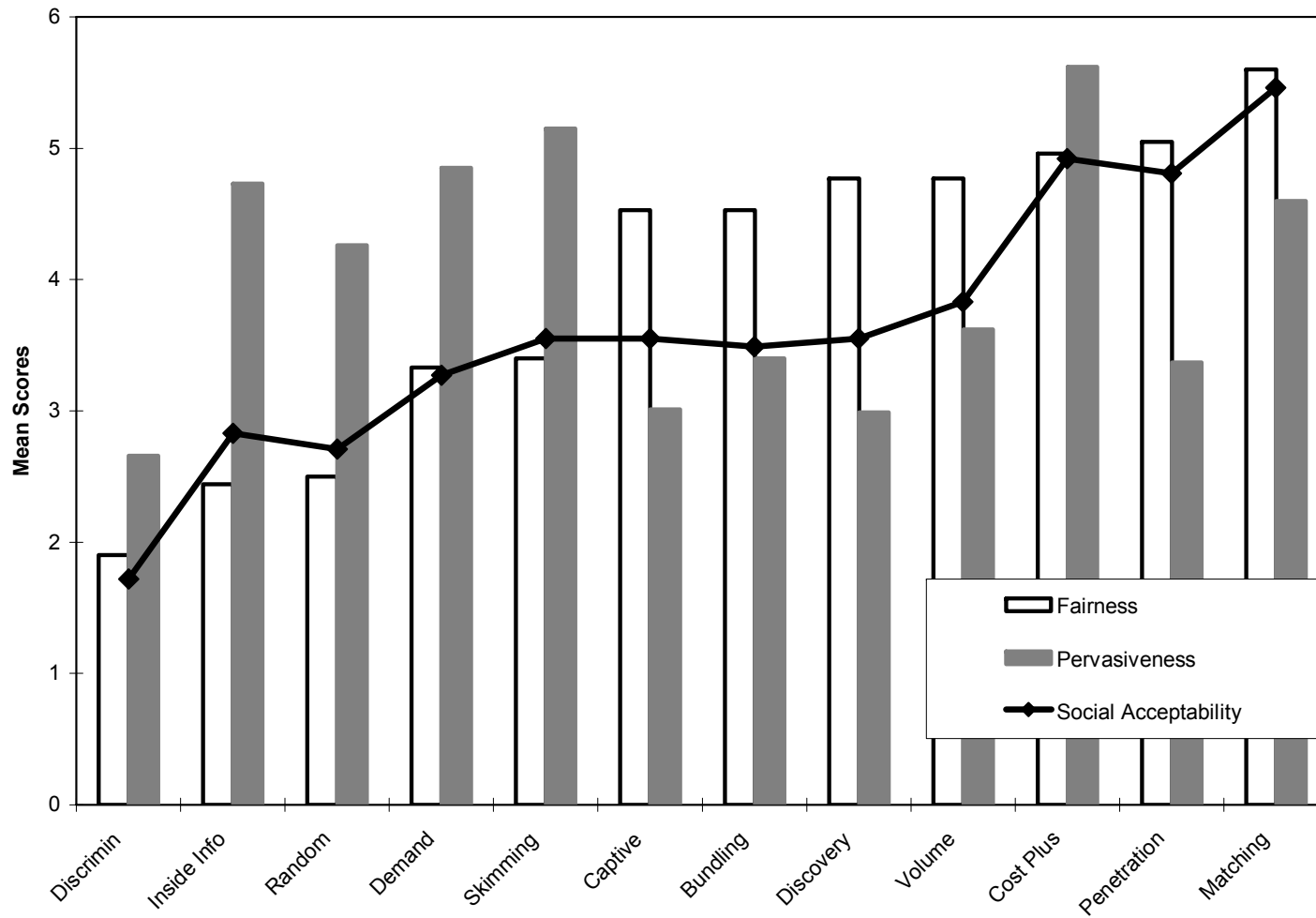
**Chart 1: Study 1 Results – Social Acceptability, Pervasiveness and Fairness Means for Bananas**



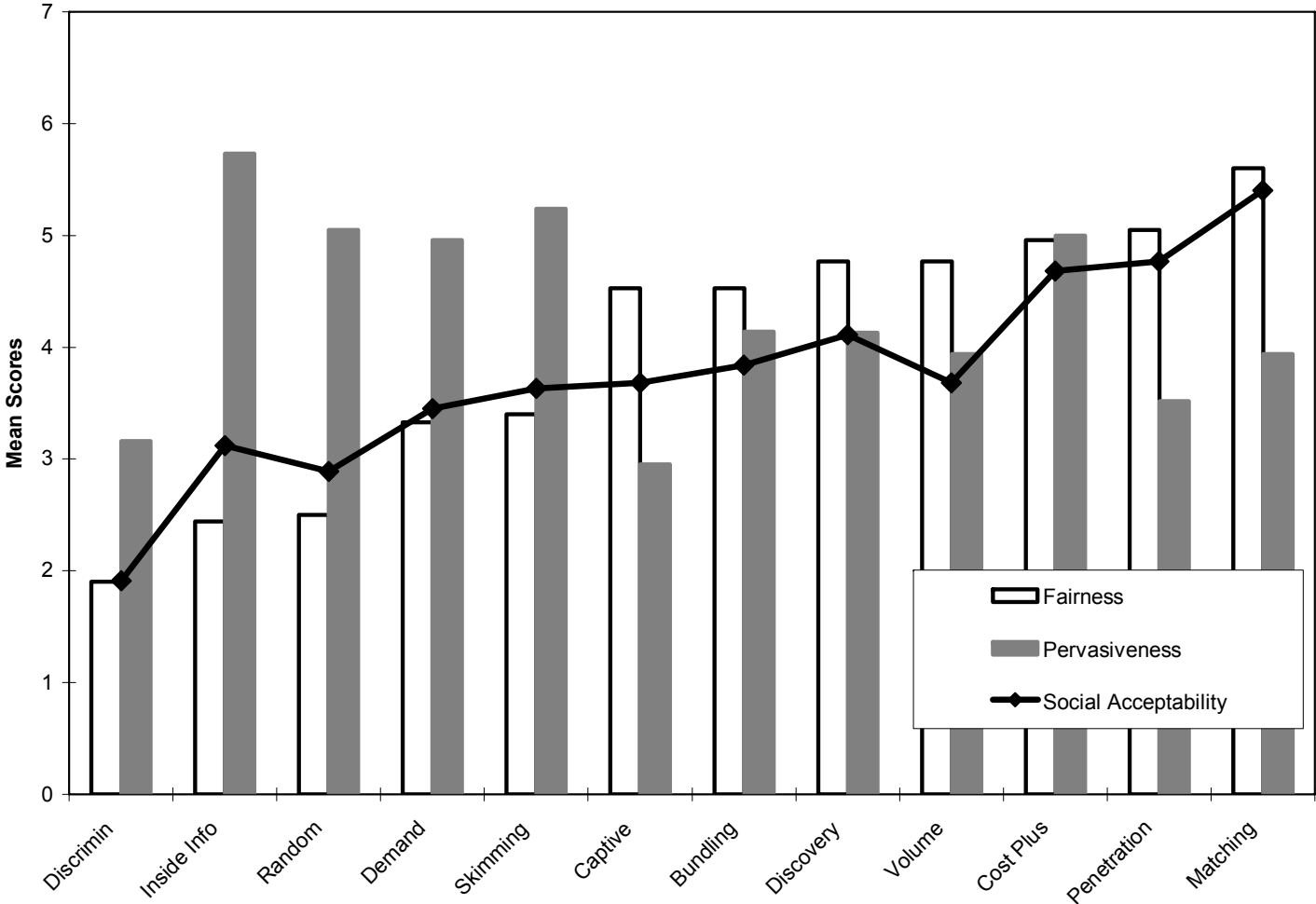
**Chart 2: Study 1 Results – Social Acceptability, Pervasiveness and Fairness Means for HDTV**



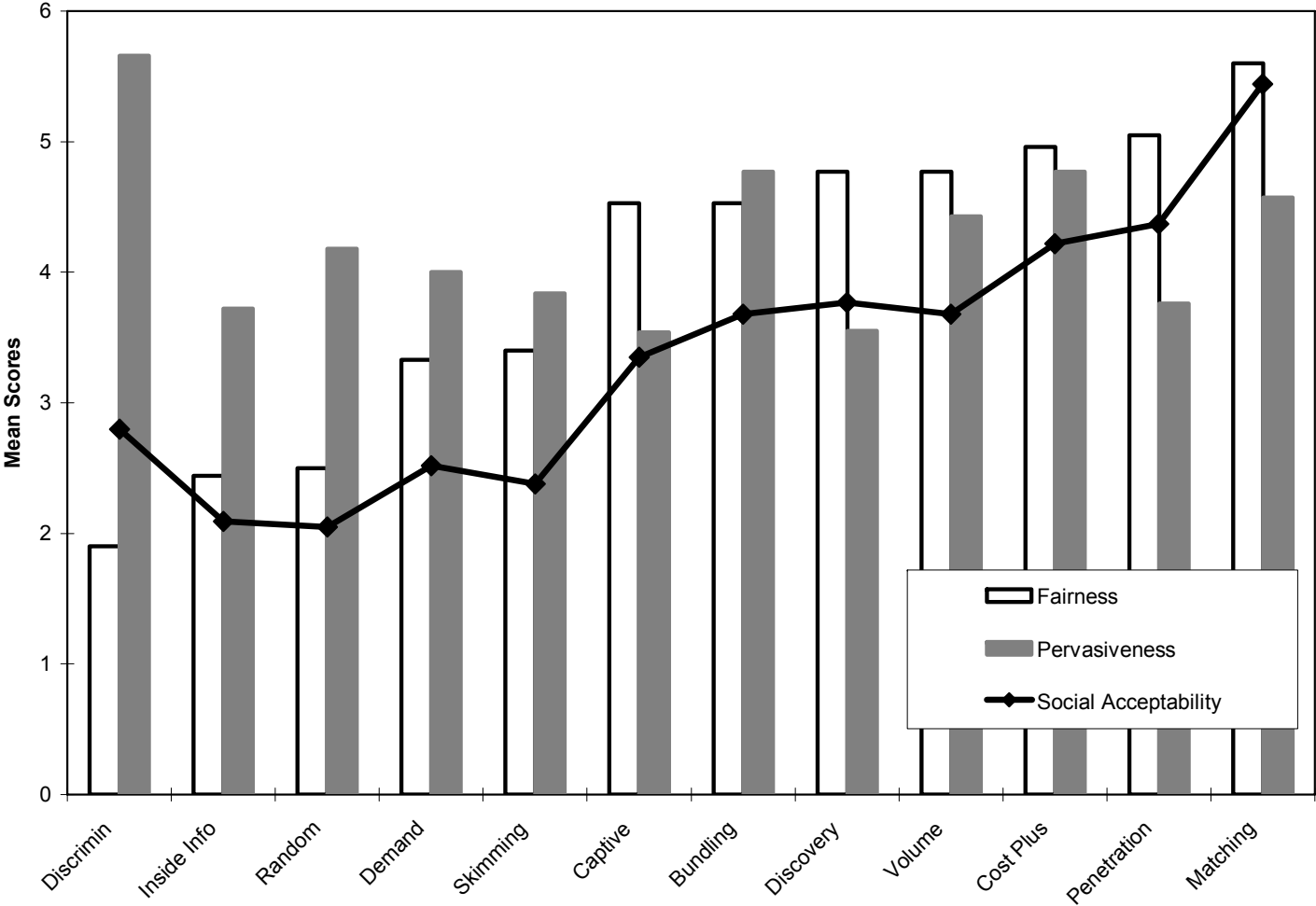
**Chart 3: Study 1 Results – Social Acceptability, Pervasiveness and Fairness Means for Athletic Shoes**



**Chart 4: Study 1 Results – Social Acceptability, Pervasiveness and Fairness Means for Concert Tickets**

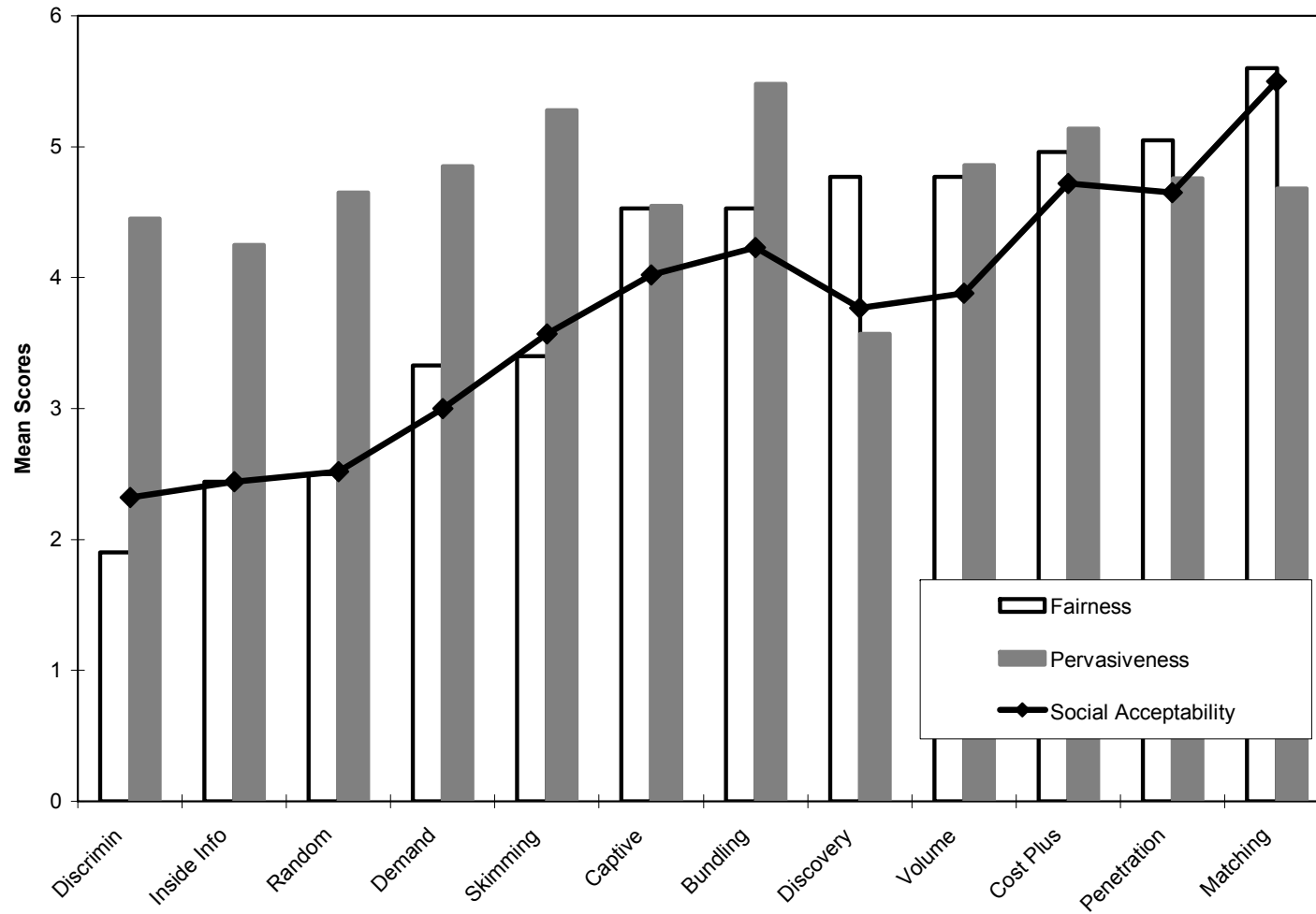


**Chart 5: Study 1 Results – Social Acceptability, Pervasiveness and Fairness Means for Auto Insurance**

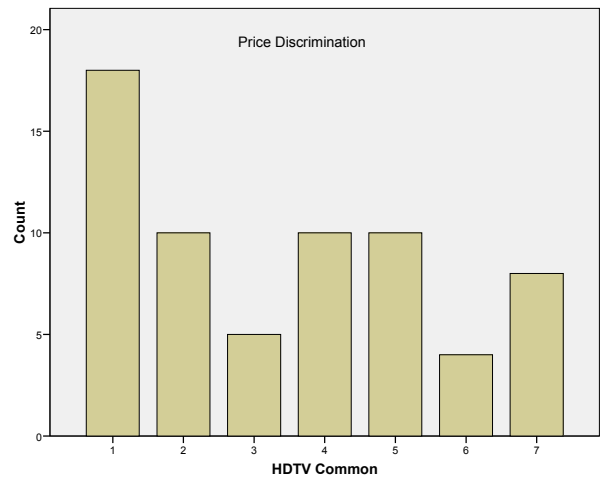
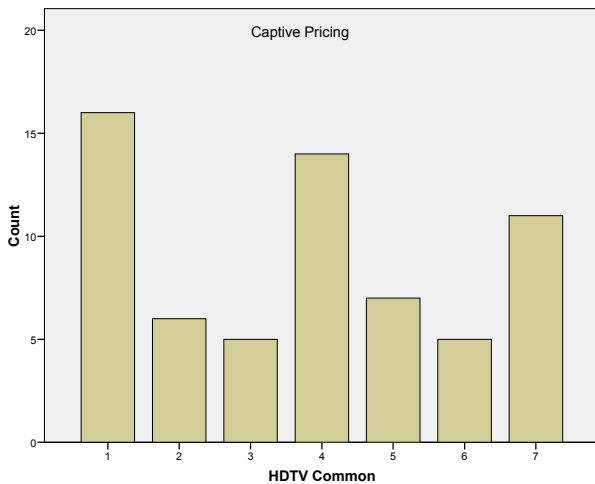
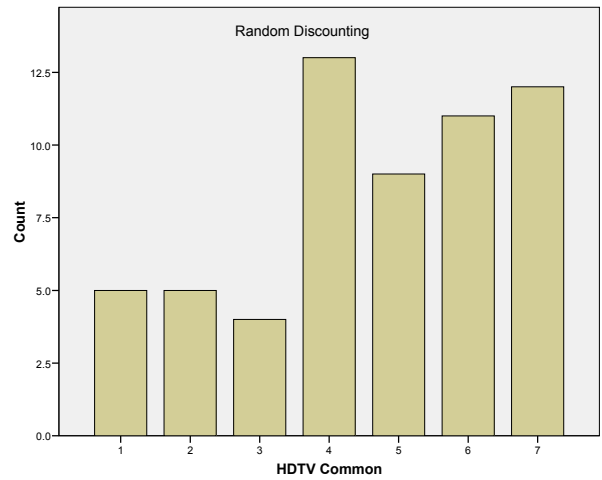
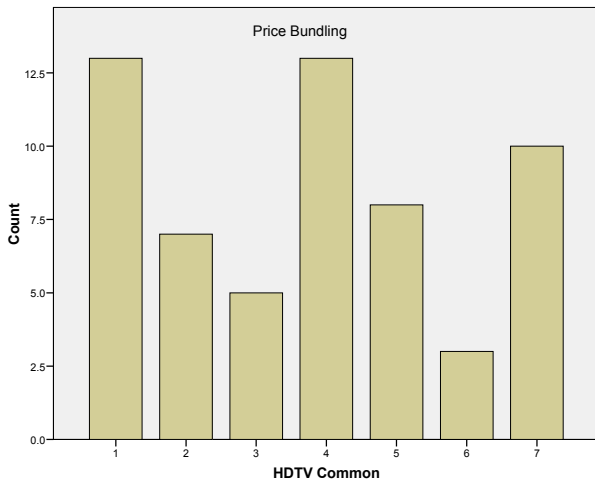
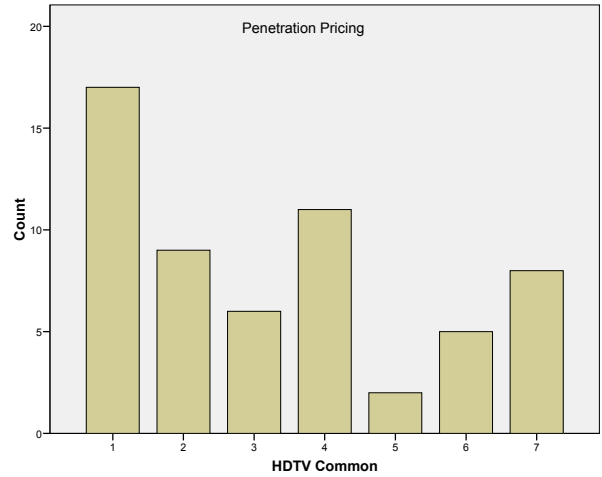
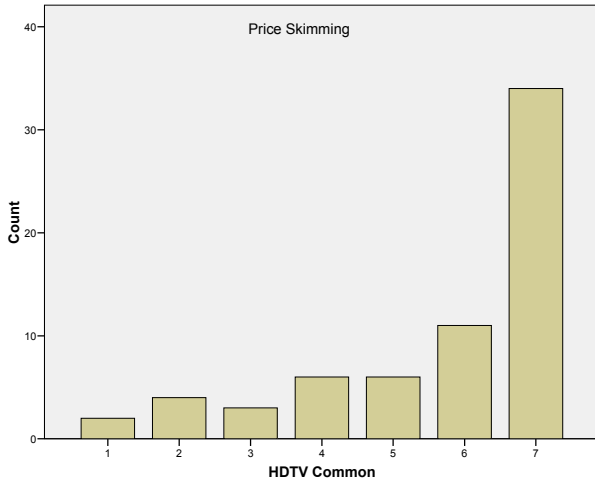




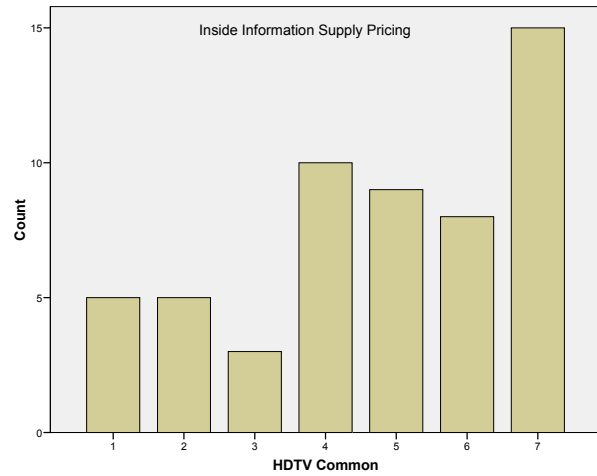
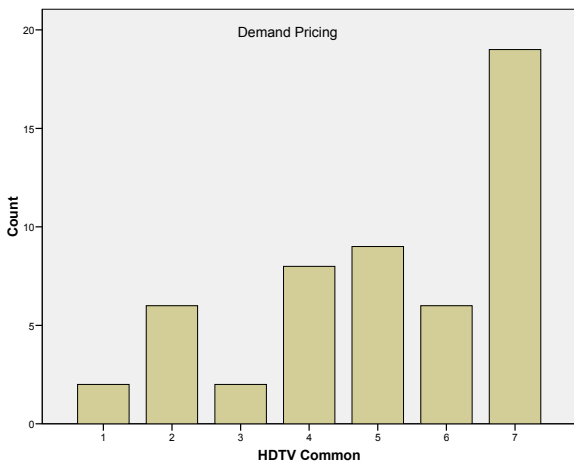
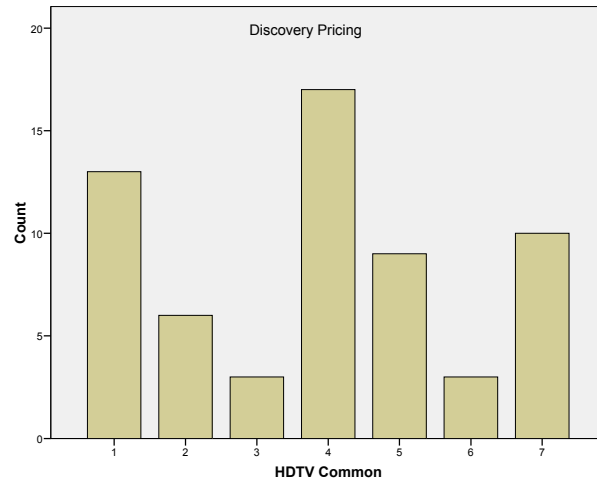
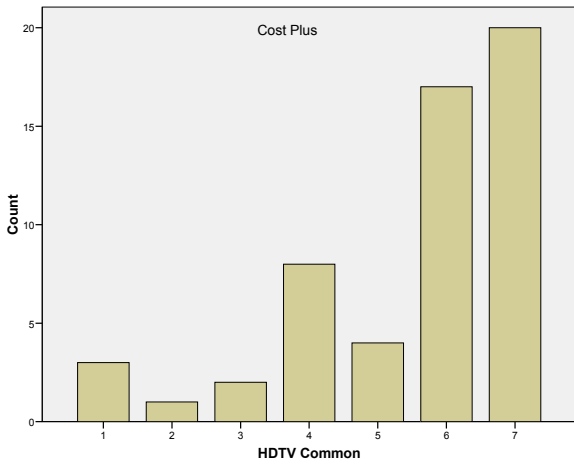
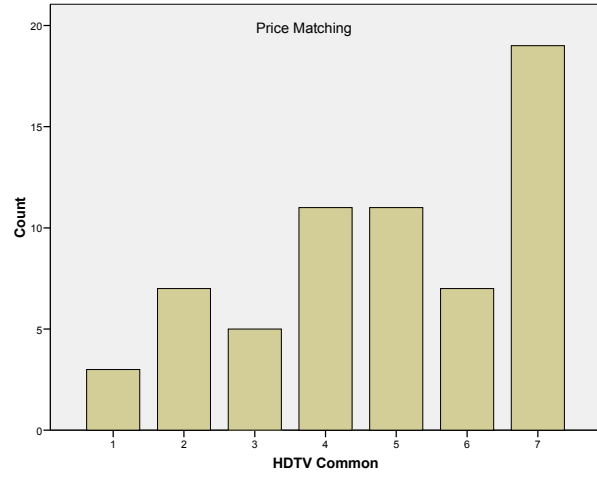
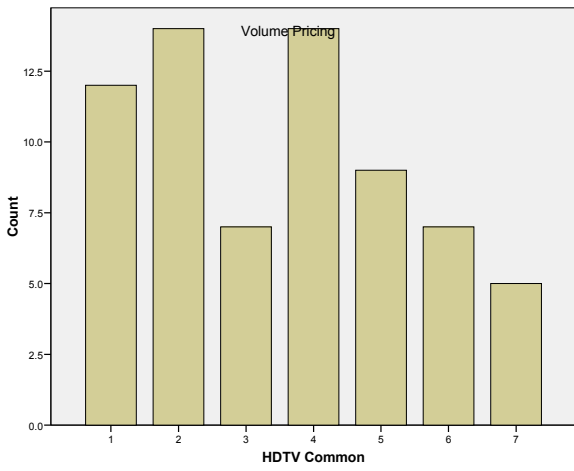
**Chart 6: Study 1 Results – Social Acceptability, Pervasiveness and Fairness Means for Cell Phone & Service**



## Charts 7-12: Study 1 Results – Distribution of Perceived Pervasiveness of Practice for HDTVs



## Charts 13-18: Study 1 Results – Distribution of Perceived Pervasiveness of Practice for HDTVs



## Appendices

### Appendix A: Pretest Study 1 Price-Setting Practices

1. When new products or services are first introduced to the market, the price is set higher for those people who want the product or service as soon as it is introduced into the marketplace. (**Price Skimming**)
2. When new products or services are first introduced to the market, the price is set lower to get lots of people to buy it. (**Penetration Pricing**)
3. If a person buys a package or a “bundle” of products or services, the seller has one price when they are purchased at the same time and a different price if the buyer were to buy the products or services separately. Whether purchased together or separately, the products or services still function the same. (**Price Bundling**)
4. Within a set price range, sellers offer the product or service at different prices on a random basis. Different people will pay different prices depending on when they buy. Those who are more aware of prices charged may be able to purchase at a lower price. (**Random Discounting**)
5. The seller sets what it considers an appropriate price and then sells only at the price to every buyer. The seller does not offer sales or negotiate the price and advertises this as a promise to buyers. (**No Hagggle Pricing**)
6. The seller sets the initial price of a product lower, knowing that consumers will need to buy refills, recharges, or replacement parts or services over time. (**Captive Pricing**)
7. Rather than quote a single total price, the seller quotes one price for the product or service and a separate price from the required shipping, delivery, and/or accessories. (**Partitioned Pricing**)
8. The seller sets different prices for different groups of customers based on customer characteristics, such as age. The different prices do not reflect any difference in cost to the seller. (**Price Discrimination**)
9. The seller sets different prices for different groups of customers depending upon how much they use. Higher volume users pay lower per unit costs. (**Volume Discounting**)
10. The seller sets its price to match the lowest price offering by its competitors in the market. (**Price Matching**)
11. The seller sets the price of a product or service by taking into account its total costs then adds a “markup” to achieve its desired profit. (**Cost Plus**)

12. The seller sets a price that allows it to maintain that price, regardless of fluctuations in its own costs. **(Absorption Pricing)**
13. The seller charges higher prices for better quality products or services and charges lower prices for lesser quality products or services. **(Quality Pricing)**
14. The seller sets the price higher for products or services that are more risky to stock because they have a limited shelf-life or are unique items that may be difficult to sell. The seller sets the price lower for products or services that are less risky for the seller to stock. **(Risk-based Pricing)**
15. The seller sets the exact price for a particular buyer based characteristics like the buyer's credit history. **(Credit Risk Pricing)**
16. A seller with a fixed quantity of product or service sets different prices depending on when customers buy with the goal of selling all available product or services. People using the exact same product or service at the same time may have paid different prices. **(Yield Management)**
17. The price of a product or service is negotiated between the seller and one or more buyers. Each offers the price they are willing to accept or pay until a final price is agreed upon. **(Price Discovery)**
18. The seller sets the price based on customer demand for the product or service. When the customer demand is high, the price is set higher. When the customer demand is low, the price is set lower. **(Demand Pricing)**
19. When there is an unexpected increase in customer demand for a product or service predicted, the seller sets the price of that product or service higher. **(Inside Information Demand Pricing)**
20. The seller sets the price based on the marketplace availability of a product or the capacity of a service. When there is lots of product or service capacity available in the marketplace, the price is set lower. When the product or service capacity is limited, the price is set higher. **(Supply Pricing)**
21. When there is an unexpected shortage of a product or service predicted, the seller sets the price of that product or service higher. **(Inside Information Supply Pricing)**

## Appendix B: Final List of Price-Setting Practices for Study 1

1. When a new product or service is first introduced, the price is set high for those people who want it as soon as it is available. **(Price Skimming)**
2. When a new product or service is first introduced, the price is set lower to get lots of people to buy it. **(Penetration Pricing)**
3. If a person buys a package or a “bundle” of products or services, the seller has one price when they are sold together and a different price if they are sold separately. Whether purchased together or separately, there is no difference in the products or services. **(Price Bundling)**
4. Within a set price range, the seller offers the product or service at different prices on a random basis. So different people will pay different prices depending on when they buy. **(Random Discounting)**
5. The seller sets the initial price lower, knowing that consumers will need to buy refills, recharges, or replacement parts over time. **(Captive Pricing)**
6. The seller sets different prices for different groups of customers based on customer characteristics, such as age or credit history. The different prices do not reflect any difference in costs to the seller. **(Price Discrimination)**
7. Depending upon how much people buy, the seller sets different prices. Those who buy more pay lower per unit costs. **(Volume Discounting)**
8. The seller sets its price to match the lowest average price offered by its competitors in their market. **(Price Matching)**
9. The seller determines its total cost, then adds a “mark-up” to achieve its profit. That determines the final price. **(Cost Plus)**
10. The price is negotiated between the seller and one or more buyers. Each offers the price they are willing to accept or pay until a final price is agreed upon. **(Price Discovery)**
11. The seller sets the price based on customer demand. When the customer demand is high, the price is set higher. When the customer demand is low, the price is set lower. **(Demand Pricing)**
12. When there is an unexpected shortage predicted, the seller sets the price of that product or service higher. **(Inside Information Supply Pricing)**

## **Appendix C: Study 1 Context Selection Survey**

Default Question Block

Welcome!

People often classify products or services in different ways. The purpose of this survey is to learn how people like you think about various products or services in the marketplace. Your participation in this survey is voluntary and you may stop the survey at any time.

You will be asked to think about several different products and/or services. For each, you will be asked to evaluate the product/service with several descriptive statements.

To begin the survey, click on the arrow below.

HDTV



Think about a high definition television (HDTV).

Below are a number of statements that could be used to describe an HDTV. For each pair of adjective phrases, please mark the space that best describes your opinion about HDTVs.

1.

Low Priced

High Priced

2.

NOT Very Durable

Very Durable

3.

A Necessity

A Luxury

4.

Sold Purely

Sold Purely in



Online

(Both)

Traditional Stores

5.

Purely a Product

(Both)

Purely a Service

### Concert Tickets



Think about Concert Tickets.

Below are a number of statements that could be used to describe concert tickets. For each pair of adjective phrases, please mark the space that best describes your opinion about concert tickets.

1.

Low Priced

High Priced

2.

NOT Very Durable

Very Durable

3.

A Necessity

A Luxury

4.

Sold Purely Online

(Both)

Sold Purely in Traditional Stores

5.

Purely a Product

(Both)

Purely a Service

### Cell Phone



Think about Cell Phones with Service.

Below are a number of statements that could be used to describe cell phones with service. For each pair of adjective phrases, please mark the space that best describes your opinion about cell phones with service.

1.

Low Priced

High Priced

2.

NOT Very Durable

Very Durable

3.

A Necessity

A Luxury

4.

Sold Purely Online

(Both)

Sold Purely in Traditional Stores

5.

Purely a Product

(Both)

Purely a Service

## Bananas



Think about Fresh Bananas.

Below are a number of statements that could be used to describe bananas. For each pair of adjective phrases, please mark the space that best describes your opinion about bananas.

1.

Low Priced

High Priced

2.

NOT Very Durable

Very Durable

3.

A Necessity

A Luxury

4.

Sold Purely Online

(Both)

Sold Purely in Traditional Stores

5.

Purely a Product

(Both)

Purely a Service

## Athletic Shoes



Think about a pair of athletic shoes.

Below are a number of statements that could be used to describe athletic shoes. For each pair of adjective phrases, please mark the space that best describes your opinion about athletic shoes.

1.

Low Priced

High Priced

2.

NOT Very Durable

Very Durable

3.

A Necessity

A Luxury

4.

Sold Purely Online

(Both)

Sold Purely in Traditional Stores

5.

Purely a Product

(Both)

Purely a Service

## Auto Insurance



Think about automobile insurance.

Below are a number of statements that could be used to describe automobile insurance. For each pair of adjective phrases, please mark the space that best describes your opinion about automobile insurance.

1.

Low Priced

High Priced

2.

NOT Very Durable

Very Durable

3.

A Necessity

A Luxury

4.

Sold Purely Online

(Both)

Sold Purely in Traditional Stores

5.

Purely a Product

(Both)

Purely a Service

## Demos

Please tell us a little about yourself. This information will be used for classification purposes and used only in aggregate form.

**Please select your gender.**

Male

Female

**Please select the age category that best describes you.**

- Under 25
- 25-34
- 35-44
- 45-54
- 55-64
- 65 or older

**The next two questions are necessary for you to get credit for participating in this survey. They will not be used to identify your answers.**

**What is your instructor's name?**

**Please type in your name.**

## **Appendix D: Study 1 Survey**



Welcome!

Your opinions are important to us! You are one of a small group of consumers asked to participate in this study.

We want to know what people like you think about how prices are set. It will help businesses be more attentive to customer opinions.

Participation is easy! You'll read about different ways that the selling price for various products and services might be set. Then we want your *honest* opinion about each.

- There are no right or wrong answers.
- Your answers are anonymous, meaning that your name will not be connected in any way to your answers.
- The survey should take less than 15 minutes to complete.
- There is no known risk to participating in this online survey beyond what you experience in your normal day of life.
- Your participation in this research study is completely voluntary and you may stop at any time without losing any benefits.

For your gift for participating, you'll get instructions from the online panel company on how to receive it.

To qualify, you must be 21 years of age or older and do at least some of the shopping for your household.

If you need more information, please contact Jodie Ferguson at [jferguson@gsu.edu](mailto:jferguson@gsu.edu) or (404)413-7650, or Susan Vogtner at (404)413-3513.

To begin, click on the arrow below.

---

## Fairness of Pricing Practices

**To set the price that customers will pay, businesses can use a variety of price-setting practices. A business may use only one practice or may use multiple ones.**



**Following are descriptions of different ways that businesses might set prices. We are interested in how fair you think each practice is.**

**Fairness**

*Suppose a business uses the following approach to set prices for their customers:*

When a new product or service is first introduced, the price is set high for those people who want it as soon as it is available.



*Suppose a business uses the following approach to set prices for their customers:*

When a new product or service is first introduced, the price is set lower to get lots of people to buy it.



*Suppose a business uses the following approach to set prices for their customers:*

If a person buys a package or a "bundle" of products or services, the seller has one price when they are sold together and a different price if they are sold separately. Whether purchased together or separately, there is no difference in the products or services.



*Suppose a business uses the following approach to set prices for their customers:*

Within a set price range, the seller offers the product or service at different prices on a random basis. So different people will pay different prices depending on when they buy.



*Suppose a business uses the following approach to set prices for their customers:*

The seller sets the initial price lower, knowing that consumers will need to buy refills, rechargers, or replacement parts over time.



Unfair

How fair is this practice of setting prices?



*Suppose a business uses the following approach to set prices for their customers:*

The seller sets different prices for different groups of customers based on customer characteristics, such as age or credit history. The different prices do not reflect any difference in costs to the seller.

Extremely  
Unfair

Extremely Fair

How fair is this practice of setting prices?



*Suppose a business uses the following approach to set prices for their customers:*

Depending upon how much people buy, the seller sets different prices. Those who buy more pay lower per unit costs.

Extremely  
Unfair

Extremely Fair

How fair is this practice of setting prices?



*Suppose a business uses the following approach to set prices for their customers:*

The seller sets its price to match the lowest average price offered by its competitors in their market.

Extremely  
Unfair

Extremely Fair

How fair is this practice of setting prices?



*Suppose a business uses the following approach to set prices for their customers:*

The seller determines its total cost, then adds a "markup" to achieve its profit. That determines the final price.

Extremely  
Unfair

Extremely Fair

How fair is this practice of setting prices?



*Suppose a business uses the following approach to set prices for their customers:*

The price is negotiated between the seller and one or more buyers. Each offers the price they are willing to accept or pay until a final price is agreed upon.

Extremely  
Unfair

Extremely Fair

How fair is this practice of setting prices?



*Suppose a business uses the following approach to set prices for their customers:*

The seller sets the price based on customer demand. When the customer demand is high, the price is set higher. When the customer demand is low, the price is set lower.

---

Extremely Unfair Extremely Fair

---

How fair is this practice of setting prices?

---

*Suppose a business uses the following approach to set prices for their customers:*

When there is an unexpected shortage predicted, the seller sets the price of that product or service higher.

---

Extremely Unfair Extremely Fair

---

How fair is this practice of setting prices?

---

### Acceptability and Pervasiveness

---

## Price-Setting for Products and Services

**We'll show you two of those pricing practices again. This time, we want your opinion about using these practices to price six specific products or services.**

---

### Price Skimming

---

*Think again about the following price-setting practice:*

When a new product or service is first introduced, the price is set higher for those people who want it as soon as it is available.

*(Please click on the arrow to continue.)*

---

*When a new product or service is first introduced, the price is set higher for those people who want it as soon as it is available.*

---

**For each type of purchase, how acceptable is it for businesses to set prices this way? That is, how acceptable is it to use this practice to set prices for American consumers?**

---

Extremely Unacceptable Extremely Acceptable

---



Bananas

○ ○ ○ ○ ○ ○ ○ ○



Automobile Insurance

○ ○ ○ ○ ○ ○ ○ ○



High Definition TV (HDTV)

○ ○ ○ ○ ○ ○ ○ ○

Extremely Unacceptable

Extremely Acceptable



Concert Tickets

○ ○ ○ ○ ○ ○ ○ ○



Cell Phone with Service

○ ○ ○ ○ ○ ○ ○ ○



Athletic Shoes

○ ○ ○ ○ ○ ○ ○ ○

*When a new product or service is first introduced, the price is set higher for those people who want it as soon as it is available.*

**In your opinion, how common is this price-setting practice used to price the following:**

Extremely Uncommon

Extremely Common

○ ○ ○ ○ ○ ○ ○ ○



High Definition TV (HDTV)



Bananas



Automobile Insurance

Extremely  
Uncommon

Extremely  
Common



Cell Phone with Service



Athletic Shoes



Concert Tickets

**Penetration Pricing**


*Think again about the following price-setting practice:*


When a new product or service is first introduced, the price is set lower to get lots of people to buy it.


*(Please click on the arrow to continue.)*


*When a new product or service is first introduced, the price is set lower to get lots of people to buy it.*

**For each type of purchase, how acceptable is it for businesses to set prices this way? That is, how acceptable is it to use this practice to set prices for American consumers?**


	Extremely Unacceptable							Extremely Acceptable
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Concert Tickets								

	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
High Definition TV (HDTV)								

	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cell Phone with Service								


	Extremely Unacceptable							Extremely Acceptable
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Athletic Shoes								

	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bananas								

	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Automobile Insurance								

*When a new product or service is first introduced, the price is set lower to get lots of people to buy it.*

In your opinion, how common is this price-setting practice used to price the following:

	Extremely Uncommon							Extremely Common
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>


Cell Phone with Service

	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
---	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------


High Definition TV (HDTV)

	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
---	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------

Concert Tickets

	Extremely Uncommon							Extremely Common
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Automobile Insurance

	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
---	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------

Bananas

	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
---	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------

Athletic Shoes

**Price Bundling**

*Think again about the following price-setting practice:*

If a person buys a package or a "bundle" of products or







Automobile Insurance

○ ○ ○ ○ ○ ○ ○ ○



Concert Tickets

*If a person buys a package or a "bundle" of products or services, the seller has one price when they are sold together and a different price if they are sold separately. Whether purchased together or separately, there is no difference in the products or services.*

**In your opinion, how common is this price-setting practice used to price the following:**

Extremely Uncommon

Extremely Common



High Definition TV (HDTV)

○ ○ ○ ○ ○ ○ ○ ○



Cell Phone with Service

○ ○ ○ ○ ○ ○ ○ ○



Automobile Insurance

○ ○ ○ ○ ○ ○ ○ ○

Extremely Uncommon

Extremely Common



Athletic Shoes

○ ○ ○ ○ ○ ○ ○ ○



Concert Tickets

○ ○ ○ ○ ○ ○ ○ ○



Bananas

○ ○ ○ ○ ○ ○ ○ ○

**Random Discounting**

*Think again about the following price-setting practice:*

Within a set price range, the seller offers the product or service at different prices on a random basis. So different people will pay different prices depending on when they buy.

*(Please click on the arrow to continue.)*

*Within a set price range, the seller offers the product or service at different prices on a random basis. So different people will pay different prices depending on when they buy.*

**For each type of purchase, how acceptable is it for businesses to set prices this way? That is, how acceptable is it to use this practice to set prices for American consumers?**

Extremely Unacceptable

Extremely Acceptable



Automobile Insurance

○ ○ ○ ○ ○ ○ ○ ○



Bananas

○ ○ ○ ○ ○ ○ ○ ○



Concert Tickets

○ ○ ○ ○ ○ ○ ○ ○

Extremely Unacceptable

Extremely Acceptable



High Definition TV (HDTV)

○ ○ ○ ○ ○ ○ ○ ○



Cell Phone with Service

○ ○ ○ ○ ○ ○ ○ ○



Athletic Shoes

○ ○ ○ ○ ○ ○ ○ ○

*Within a set price range, the seller offers the product or service at different prices on a random basis. So different people will pay different prices depending on when they buy.*

**In your opinion, how common is this price-setting practice used to price the following:**

Extremely Uncommon

Extremely Common



High Definition TV (HDTV)

○ ○ ○ ○ ○ ○ ○ ○



Bananas

○ ○ ○ ○ ○ ○ ○ ○



Automobile Insurance

○ ○ ○ ○ ○ ○ ○ ○

Extremely Uncommon

Extremely Common



Cell Phone with Service

○ ○ ○ ○ ○ ○ ○ ○



Athletic Shoes

○ ○ ○ ○ ○ ○ ○ ○



Concert Tickets

○ ○ ○ ○ ○ ○ ○ ○

**Captive Pricing**

*Think again about the following price-setting practice:*

The seller sets the initial price lower, knowing that consumers will need to buy refills, rechargers, or replacement parts over time.

*(Please click on the arrow to continue.)*

*The seller sets the initial price lower, knowing that consumers will need to buy refills, rechargers, or replacement parts over time.*

**For each type of purchase, how acceptable is it for businesses to set prices this way? That is, how acceptable is it to use this practice to set prices for American consumers?**

Extremely

Extremely

Unacceptable

Acceptable



Bananas

○ ○ ○ ○ ○ ○ ○ ○



Automobile Insurance

○ ○ ○ ○ ○ ○ ○ ○



Athletic Shoes

○ ○ ○ ○ ○ ○ ○ ○

Extremely Unacceptable

Extremely Acceptable



High Definition TV (HDTV)

○ ○ ○ ○ ○ ○ ○ ○



Cell Phone with Service

○ ○ ○ ○ ○ ○ ○ ○



Concert Tickets

○ ○ ○ ○ ○ ○ ○ ○

*The seller sets the initial price lower, knowing that consumers will need to buy refills, rechargers, or replacement parts over time.*

**In your opinion, how common is this price-setting practice used to price the following:**

Extremely Uncommon

Extremely Common



Athletic Shoes



Bananas



Concert Tickets

Extremely  
Uncommon

Extremely  
Common



Automobile Insurance



Cell Phone with Service



High Definition TV (HDTV)

**Price Discrimination**

*Think again about the following price-setting practice:*

The seller sets different prices for different groups of customers based on customer characteristics, such as age or credit history. The different prices do not reflect any difference in costs to the seller.

(Please click on the arrow to continue.)

The seller sets different prices for different groups of customers based on customer characteristics, such as age or credit history. The different prices do not reflect any difference in costs to the seller.

For each type of purchase, how acceptable is it for businesses to set prices this way? That is, how acceptable is it to use this practice to set prices for American consumers?

Extremely Unacceptable Extremely Acceptable



High Definition TV (HDTV)

○ ○ ○ ○ ○ ○ ○ ○



Cell Phone with Service

○ ○ ○ ○ ○ ○ ○ ○



Automobile Insurance

○ ○ ○ ○ ○ ○ ○ ○

Extremely Unacceptable Extremely Acceptable



Bananas

○ ○ ○ ○ ○ ○ ○ ○



Athletic Shoes

○ ○ ○ ○ ○ ○ ○ ○




Concert Tickets

○ ○ ○ ○ ○ ○ ○ ○

*The seller sets different prices for different groups of customers based on customer characteristics, such as age or credit history. The different prices do not reflect any difference in costs to the seller.*

In your opinion, how common is this price-setting practice used to price the following:

	Extremely Uncommon							Extremely Common
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>


Cell Phone with Service

	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
---	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------

Concert Tickets

	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
---	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------

Bananas

	Extremely Uncommon							Extremely Common
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

High Definition TV (HDTV)

	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
---	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------

Automobile Insurance

	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
---	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------	-----------------------

Athletic Shoes







Bananas



Athletic Shoes

○ ○ ○ ○ ○ ○ ○ ○

*Depending upon how much people buy, the seller sets different prices. Those who buy more pay lower per unit costs.*

**In your opinion, how common is this price-setting practice used to price the following:**

Extremely Uncommon

Extremely Common



Concert Tickets

○ ○ ○ ○ ○ ○ ○ ○



Athletic Shoes

○ ○ ○ ○ ○ ○ ○ ○



Bananas

Extremely Uncommon

Extremely Common

○ ○ ○ ○ ○ ○ ○ ○



High Definition TV (HDTV)

○ ○ ○ ○ ○ ○ ○ ○

○ ○ ○ ○ ○ ○ ○ ○



Cell Phone with Service



Automobile Insurance

○ ○ ○ ○ ○ ○ ○ ○

**Price Matching**

*Think again about the following price-setting practice:*

The seller sets its price to match the lowest average price offered by its competitors in their market.

*(Please click on the arrow to continue.)*

*The seller sets its price to match the lowest average price offered by its competitors in their market.*

**For each type of purchase, how acceptable is it for businesses to set prices this way? That is, how acceptable is it to use this practice to set prices for American consumers?**

Extremely Unacceptable

Extremely Acceptable



Bananas

○ ○ ○ ○ ○ ○ ○ ○



Automobile Insurance

○ ○ ○ ○ ○ ○ ○ ○



Cell Phone with Service

○ ○ ○ ○ ○ ○ ○ ○

Extremely Unacceptable

Extremely Acceptable



High Definition TV (HDTV)

○ ○ ○ ○ ○ ○ ○ ○



Athletic Shoes

○ ○ ○ ○ ○ ○ ○ ○



Concert Tickets

○ ○ ○ ○ ○ ○ ○ ○

*The seller sets its price to match the lowest average price offered by its competitors in their market.*

**In your opinion, how common is this price-setting practice used to price the following:**

Extremely Uncommon

Extremely Common



High Definition TV (HDTV)

○ ○ ○ ○ ○ ○ ○ ○



Concert Tickets

○ ○ ○ ○ ○ ○ ○ ○



○ ○ ○ ○ ○ ○ ○ ○



Concert Tickets



Bananas



High Definition TV (HDTV)

Extremely  
Unacceptable

Extremely  
Acceptable



Cell Phone with Service



Automobile Insurance



Athletic Shoes

*The seller determines its total cost, then adds a "markup" to achieve its profit. That determines the final price.*

**In your opinion, how common is this price-setting practice used to price the following:**

Extremely  
Uncommon

Extremely  
Common



Athletic Shoes



Concert Tickets

○ ○ ○ ○ ○ ○ ○ ○



Bananas

○ ○ ○ ○ ○ ○ ○ ○

Extremely Uncommon

Extremely Common



Automobile Insurance

○ ○ ○ ○ ○ ○ ○ ○



Cell Phone with Service

○ ○ ○ ○ ○ ○ ○ ○



High Definition TV (HDTV)

○ ○ ○ ○ ○ ○ ○ ○

**Price Discovery**

*Think again about the following price-setting practice:*

The price is negotiated between the seller and one or more buyers. Each offers the price they are willing to accept or pay until a final price is agreed upon.

*(Please click on the arrow to continue.)*

*The price is negotiated between the seller and one or more buyers. Each offers the price they are willing to accept or pay until a final price is agreed upon.*

For each type of purchase, how acceptable is it for businesses to set prices this way? That is, how acceptable is it to use this practice to set prices for American consumers?

Extremely  
Unacceptable

Extremely  
Acceptable



High Definition TV (HDTV)

○ ○ ○ ○ ○ ○ ○ ○



Athletic Shoes

○ ○ ○ ○ ○ ○ ○ ○



Concert Tickets

○ ○ ○ ○ ○ ○ ○ ○

Extremely  
Unacceptable

Extremely  
Acceptable



Automobile Insurance

○ ○ ○ ○ ○ ○ ○ ○



Bananas

○ ○ ○ ○ ○ ○ ○ ○



Cell Phone with Service

○ ○ ○ ○ ○ ○ ○ ○

*The price is negotiated between the seller and one or more buyers. Each offers the price they are willing to accept or pay until a final price is agreed upon.*

In your opinion, how common is this price-setting practice used to price the following:



Extremely Uncommon Extremely Common



Automobile Insurance



Concert Tickets



High Definition TV (HDTV)

Extremely Uncommon Extremely Common



Athletic Shoes



Cell Phone with Service



Bananas

**Demand Pricing**

*Think again about the following price-setting practice:*

The seller sets the price based on customer demand. When the customer demand is high, the price is set higher. When the customer demand is low, the price is









Bananas



Cell Phone with Service

○ ○ ○ ○ ○ ○ ○ ○



Concert Tickets

○ ○ ○ ○ ○ ○ ○ ○

*When there is an unexpected shortage predicted, the seller sets the price of that product or service higher.*

**In your opinion, how common is this price-setting practice used to price the following:**

Extremely Uncommon

Extremely Common



High Definition TV (HDTV)

○ ○ ○ ○ ○ ○ ○ ○



Cell Phone with Service

○ ○ ○ ○ ○ ○ ○ ○



Concert Tickets

○ ○ ○ ○ ○ ○ ○ ○

Extremely Uncommon

Extremely Common

○ ○ ○ ○ ○ ○ ○ ○



Automobile Insurance



Bananas



Athletic Shoes

○ ○ ○ ○ ○ ○ ○ ○

○ ○ ○ ○ ○ ○ ○ ○

NFC

The next section asks general questions about thinking.

Please respond to the following questions by indicating your level of agreement with each statement.

	Strongly Disagree			Neither Agree nor Disagree			Strongly Agree
1. I would rather do something that requires little thought than something that is sure to challenge my thinking abilities.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. I try to anticipate and avoid situations where there is a likely chance I'll have to think in depth about something.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. I only think as hard as I have to.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. The notion of thinking abstractly is not appealing to me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5. I don't like to have to do a lot of thinking about how prices are set by businesses.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Pricing Knowledge

### Why Businesses Use Certain Practices

Following are a list of formal names for different methods of setting prices. With each is an example and an explanation of why a business might use that approach.

For each, we want to know whether the explanation is True, False, or you don't know.

- Click TRUE if this is why a business might price this way.
- Click FALSE if you think it is not the reason.
- Click DK if you don't know.

*Captive Pricing* - "\$3.00 for a non-disposable, easy grip razor, and \$10.00 for a package of 8 replacement razor blades." Captive pricing is used by marketers knowing that, eventually, consumers will need to purchase the high-priced replacement components if they want to continue using the product.

TRUE

FALSE

DK

*No Hagggle Pricing* - "All automobiles for sale at the lowest price possible - no haggling!" No haggle pricing is used by marketers in order to prove to buyers that negotiations will be fair.

TRUE

FALSE

DK

*Partitioned Pricing* - "\$30.00 for a button-up, 100% cotton, long-sleeve shirt, plus \$5.00 for shipping and handling." Partitioned pricing is used by marketers to show consumers that the marketer is offering attractive shipping and handling rates.

TRUE

FALSE

DK

*Penetration Pricing* - "A four-pack of a new brand of AA batteries -- \$2.00." Penetration pricing is used by marketers so that, by setting prices low, consumers will be encouraged to try the product.

TRUE

FALSE

DK

*Price Bundling* - "Computer having a 1.1 GHz processor and 128 MB memory and laserjet printer for \$1100." Price bundling is used by marketers in order to increase revenue over what would have been obtained had the products been priced separately.

TRUE

FALSE

DK

*Price Skimming* - "Brand new product - videophone \$500." Price skimming is used by marketers to appeal to consumers who are willing to pay a high price for a new product.

TRUE

FALSE

DK

*Random Discounting* - "A brand of orange juice's (64 oz or 1/2 gallon) price over a four-week time period was as follows: Week 1 \$2.50, Week 2 \$2.50, Week 3 \$1.50, Week 4 \$2.50." Random discounting is used to obtain sales from both consumers who carefully search for low prices and consumers who do not check prices carefully.

TRUE

FALSE

DK

---

### Demographics

---

**For the final set of questions, please tell us a little about yourself. This information will be used for classification purposes and used only in aggregate form.**

---

#### 1. Are you...

Male

Female

#### 2. Which of the following best describes your ethnic or racial background:

Asian or Asian American

Black or African American

Hispanic or Latino

Native American

White/Caucasian

Other

#### 3. Please select the age category that best describes you:

Under 21

21-24

25-34

35-44

45-54

55-64

65-74

75+

#### 4. For your household, how much of the grocery shopping do YOU personally do?

Little or none

Some, but less than half

Half or more

#### 5. How familiar are you with each of the following products or services?

NOT at All Familiar

Very Familiar

Athletic Shoes

Automobile Insurance



	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Bananas	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cell Phone and Service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Concert Tickets	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
High Definition TV (HDTV)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**6. Please select the category that best describes your total annual household income:**

- Under \$25,000
- \$25,000-\$34,999
- \$35,000-\$49,999
- \$50,000-\$74,999
- \$75,000-\$99,999
- \$100,000-\$149,999
- \$150,000-\$199,999
- \$200,000+

**7. Please indicate your geographic region (select only one):**

- Midwest (IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI)
- Mid Atlantic (DE, MD, NJ, PA, VA, WV, DC)
- Southeast (AL, AR, FL, GA, KY, LA, MS, NC, SC, TN)
- Northeast (CT, ME, MA, NH, NY, RI, VT)
- Northwest (AK, ID, MT, OR, WA, WY)
- Southwest (AZ, CA, CO, HA, NV, NM, OK, TX, UT)

## Appendix E: Experiment Manipulations

### **1) High Procedural Fairness (Cost Plus Pricing)**

- The seller sets the price to its customers based on its total costs plus a “mark-up” to achieve its profit.
- The reason for increases or decreases in price is because the costs to the seller have increased or decreased.
- People pay different prices depending on whether costs have gone up or down for the seller.

EXAMPLE:

- Seller’s costs = \$85
- Mark-up = \$15
- Price to customers = \$100

#### a) High Pervasiveness

This cost-plus pricing happens **all the time** with electronics.

**Many, if not all**, electronics sellers use this price-setting practice to price products. In other words, it is ***very common*** for electronics retailers to set the price for products based on their total costs plus a "mark-up" to achieve its profit.

#### b) Low Pervasiveness

This cost-plus pricing almost **never** happens with electronics.

**Few, if any**, electronics sellers use this price-setting practice to price products. In other words, it is **not very common** for electronics retailers to set the price for products based on their total costs plus a "mark-up" to achieve its profit.

### **2) Low Procedural Fairness (Random Discounting)**

- The seller considers its costs, then sets different prices on a random basis.
- Any increases or decreases in price occur completely at random.
- People pay different prices depending on when they buy.

EXAMPLE: Over three separate Sundays, the seller’s advertised price might be:

- Week 1 \$100
- Week 2 \$90
- Week 3 \$115

#### a) High Pervasiveness

This random pricing happens **all the time** with electronics.

**Many, if not all**, electronics sellers use this price-setting practice to price products. In other words, it is ***very common*** for electronics retailers to set different prices on a random basis.

b) Low Pervasiveness

This random pricing almost **never** happens with electronics.

**Few, if any**, electronics sellers use this price-setting practice to price products. In other words, it is **not very common** for electronics retailers to set different prices on a random basis.

## **Appendix F: Study 2 Item Selection Survey**

Default Question Block

Welcome!

This survey is designed to help fine tune my measurement instruments for a dissertation study on price fairness. Thank you for your help.

I have two different measurement instruments that will be presented to you in this survey. The first deals with my hypothesized two dimensions of price fairness, while the second involves consumer response behavior to a fair/unfair price.

My research proposes that when a consumer is presented with a price, s/he has two assessments of the fairness of that price: (1) a cognitive assessment and (2) an affective assessment. The affective assessment is a personal, emotional, first reaction to the price, whereas the cognitive assessment is a deductive judgment of whether the price is equitable, fair and just to all. The following table presents the differences between the two assessments.

Two Dimensions of Price Fairness

<b>Cognitive Assessment</b>	<b>Affective Assessment</b>
Slow	Rapid
Rules-based	Feelings-based
Controlled	Automatic
Deductive	Emotional
Deliberative	Reflexive

COGNITIVE ASSESSMENT OF PRICE FAIRNESS

The following are items from the pricing literature that suggest cognitive assessment of price fairness.

Please indicate whether you agree or disagree that the item is a measure of cognitive assessment of price fairness.

	Agree	Disagree
This is the price that I would expect to pay.	<input type="radio"/>	<input type="radio"/>
This is a reasonable price.	<input type="radio"/>	<input type="radio"/>
This price is questionable.	<input type="radio"/>	<input type="radio"/>
All things considered, this price is justified.	<input type="radio"/>	<input type="radio"/>
The value of the product may not be worth the price.	<input type="radio"/>	<input type="radio"/>

Can you think of other items that may measure cognitive assessment of price fairness? If so, please type them in this space.

AFFECTIVE ASSESSMENT OF PRICE FAIRNESS

The following are items from the pricing literature that suggest affective assessment of price fairness.

Please indicate whether you agree or disagree that the item is a measure of affective assessment of price fairness.

	Agree	Disagree
I'd be happy with this price.	<input type="radio"/>	<input type="radio"/>
This price is honest.	<input type="radio"/>	<input type="radio"/>
I'd be completely satisfied with this price.	<input type="radio"/>	<input type="radio"/>
This price is a rip-off.	<input type="radio"/>	<input type="radio"/>
This price is an outrage.	<input type="radio"/>	<input type="radio"/>

Can you think of other items that may measure affective assessment of price fairness? If so, please type them in this space.

Consumer response behaviors are the actions or inactions taken by the consumer in response to the price. There are four categorizations of response behavior to a fair/unfair price: (1) Promotion, (2) No Action, (3) Self-Protection, and (4) Revenge-Seeking.

Promotion occurs when the consumer goes out of his/her way to support the seller or to give positive endorsements about the seller.

No action describes the situation when the consumer does not plan to take action to bring equality back to the transaction, or does not intend to change plans for future transactions with the seller, even if the price is perceived as unfair.

Self-protection behaviors include responses (e.g., shopping or purchase intentions) that the consumer partakes in to restore equality to the transaction, or to protect him/herself or loved ones in future transactions with the seller.

Revenge-seeking behaviors (e.g., tarnishing the seller's reputation) are intended to purposefully damage the seller in efforts to "get even" or "get back at" the seller.

The following list was generated to capture each of the four categorizations of consumer response behavior (i.e., promotion, no action, self-protection, and revenge-seeking). Please check the box of the categorization that you feel the item best reflects. If you feel there is more than one category the item fits into, you may check more than one box.

The first set of items are behavioral responses that may occur while at the retailer, and the second set of items are behavioral responses that may occur in the future.

#### BEHAVIOR "WHILE AT THE RETAILER" ITEMS

	Promotion	No Action	Self-Protection	Revenge-Seeking
Buy the product from this retailer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Express your <u>approval</u> to the store manager?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Express your <u>approval</u> to other customers in the store?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Express your <u>disapproval</u> to the store manager?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Express your <u>disapproval</u> to other customers in the store?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## FUTURE BEHAVIOR ITEMS

	Promotion	No Action	Self-Protection	Revenge-Seeking
Shop <u>more</u> with this retailer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Shop <u>less</u> with this retailer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Shop about the same?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Give <u>positive</u> recommendations to friends and family?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Make <u>negative</u> comments to friends and family?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Post <u>positive</u> online reviews about the retailer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Post <u>negative</u> online reviews about the retailer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Send a complaint to company headquarters?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Call or write to the Better Business Bureau or other consumer organization so that as many people as possible would hear about my negative experience?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Seek legal action against the seller, store, or company?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

You have completed the survey. Thank you for your help.

Please click on the arrow to submit your answers.

## **Appendix G: Study 2 Survey**





**Welcome!**

Your opinions are important to us! You are one of a small group of consumers asked to participate in this study.

We want to know what people like you think about how prices are set by the seller. It will help businesses be more attentive to customer opinions.

Participation is easy! You'll read about different ways that the selling price for various products and services might be set by the seller. Then we want your *honest* opinion about each.

- There are no right or wrong answers.
- Your answers are anonymous, meaning that your name will not be connected in any way to your answers.
- The survey should take less than 15 minutes to complete.
- In this survey, you will be asked to read a business situation. Different people taking the survey may see different situations. At the conclusion of the survey, we will provide more information about the situations.
- There is no known risk to participating in this online survey beyond what you experience in your normal day of life.
- Your participation in this research study is completely voluntary and you may stop at any time without losing any benefits.

If you need more information, please contact Jodie Ferguson at [jferguson@gsu.edu](mailto:jferguson@gsu.edu) or (404)413-7650, or Susan Vogtner at (404)413-3513.

To begin, click on the arrow below.

---

4. Please select the age category that best describes you:

Under 21

21-24

25-34

35-44

45-54

55-64

65-74

75+

1. For your household, how much of the grocery shopping do YOU personally do?

Little or none

Some, but less than half

Half or more

### Part I

When a business makes a product available for customers to purchase, the business must determine what price to ask the customer to pay.

Businesses can use different price-setting practices to determine the asking price.

### Cell 3

Suppose a business uses the following approach to set prices for their customers:

- The seller considers its costs, then sets different prices on a random basis.
- Any increases or decreases in price occur completely at random.
- People pay different prices depending on when they buy.
- EXAMPLE: Over three separate Sundays, the seller's advertised price might be:
  - Week 1 \$100
  - Week 2 \$90
  - Week 3 \$115

	Extremely Unfair							Extremely Fair
1. How fair is this practice of setting prices?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

This random pricing happens **all the time** with electronics.

**Many, if not all**, electronics sellers use this price-setting practice to price products. In other words, it is **very common** for electronics retailers to set different prices on a random basis.

	Extremely Uncommon							Extremely Common
2. How common is this price-setting practice used to price electronics?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Extremely Unacceptable							Extremely Acceptable
3. How acceptable is it for businesses to set prices this way? That is, how acceptable is it to use this practice to set prices for American consumers?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Imagine a situation where you are shopping for a high definition television (HDTV).

Not at all Familiar

Very Familiar

4. How familiar are you personally with HDTVs?

○ ○ ○ ○ ○

You have the money for an HDTV and are ready to buy. You go to a local retailer. Imagine the following:

- They have an HDTV with exactly the features you were looking for.
- It is one of the brands you wanted to buy.
- It is available today from a retailer with a good customer service record.



**HDTV Price: \$1,249.99**

(Other similar size HDTVs you've looked at are priced between \$1,000-\$1,500.)

**The retailer that is offering this HDTV set the price (\$1249.99) using the following practice: *The seller sets different prices on a random basis.***

5. Think about how much you agree or disagree with each statement below:

	Strongly Disagree						Strongly Agree
This price just feels right.	○	○	○	○	○	○	○
This is the price that I would expect to pay.	○	○	○	○	○	○	○
I'd be happy with the price.	○	○	○	○	○	○	○
People who know the market would find this to be a reasonable price.	○	○	○	○	○	○	○
I'd be completely satisfied with this price.	○	○	○	○	○	○	○
This price is questionable.	○	○	○	○	○	○	○
I am pleasantly surprised with the price.	○	○	○	○	○	○	○
The value of the product may <u>not</u> be worth the price.	○	○	○	○	○	○	○
All things considered, this price is justified.	○	○	○	○	○	○	○
This price is dishonest.	○	○	○	○	○	○	○
This price is a rip-off.	○	○	○	○	○	○	○

Very Unfair

Very Fair

6. How would you rate the fairness of the price?

○ ○ ○ ○ ○ ○ ○

Cell 4

Suppose a business uses the following approach to set prices for their customers:

- The seller considers its costs, then sets different prices on a random basis.
- Any increases or decreases in price occur completely at random.
- People pay different prices depending on when they buy.

EXAMPLE: Over three separate Sundays, the seller's advertised price might be:

- Week 1 \$100
- Week 2 \$90
- Week 3 \$115

	Extremely Unfair						Extremely Fair
1. How fair is this practice of setting prices?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

This random pricing almost **never** happens with electronics.

**Few, if any,** electronics sellers use this price-setting practice to price products. In other words, it is **not very common** for electronics retailers to set different prices to its customers on a random basis.

	Extremely Uncommon						Extremely Common
2. How common is this price-setting practice used to price electronics?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Extremely Unacceptable						Extremely Acceptable
3. How acceptable is it for businesses to set prices this way? That is, how acceptable is it to use this practice to set prices for American consumers?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Imagine a situation where you are shopping for a high definition television (HDTV).

	Not at all Familiar						Very Familiar
4. How familiar are you personally with HDTVs?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

You have the money for an HDTV and are ready to buy. You go to a local retailer. Imagine the following:

- They have an HDTV with exactly the features you were looking for.
- It is one of the brands you wanted to buy.
- It is available today from a retailer with a good customer service record.



**HDTV Price: \$1,249.99**

(Other similar size HDTVs you've looked at are priced between \$1,000-\$1,500.)

The retailer that is offering this HDTV set the price (\$1249.99) using the following practice: *The seller sets different prices on a random basis.*

5. Think about how much you agree or disagree with each statement below:

	Strongly Disagree						Strongly Agree
This price is dishonest.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I'd be happy with the price.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I'd be completely satisfied with this price.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This is the price that I would expect to pay.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I am pleasantly surprised with the price.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This price is questionable.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The value of the product may <u>not</u> be worth the price.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This price is a rip-off.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This price just feels right.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
All things considered, this price is justified.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
People who know the market would find this to be a reasonable price.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Very Unfair						Very Fair
6. How would you rate the fairness of the price?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Cell 1

Suppose a business uses the following approach to set prices for their customers:

- The seller sets the price to its customers based on its total costs plus a "mark-up" to achieve its profit.
- The reason for increases or decreases in price is because the costs to the seller have increased or decreased.
- People pay difference prices depending on whether costs have gone up or down for the seller.

EXAMPLE:

- Seller's costs = \$85
- Mark-up = \$15
- Price to customers = \$100

	Extremely Unfair						Extremely Fair
1. How fair is this practice of setting prices?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

This cost-plus pricing happens **all the time** with electronics.

**Many, if not all**, electronics sellers use this price-setting practice to price products. In other words, it is **very common** for electronics retailers to set the price for products based on their total costs plus a "mark-up" to achieve its profit.



All things considered, this price is justified.

Very Unfair

Very Fair

6. How would you rate the fairness of the price?

### Cell 2

Suppose a business uses the following approach to set prices for their customers:

- The seller sets the price to its customers based on its total costs plus a “mark-up” to achieve its profit.
- The reason for increases or decreases in price is because the costs to the seller have increased or decreased.
- People pay difference prices depending on whether costs have gone up or down for the seller.

EXAMPLE:

- Seller's costs = \$85
- Mark-up = \$15
- Price to customers = \$100

Extremely Unfair

Extremely Fair

1. How fair is this practice of setting prices?

This cost-plus pricing almost **never** happens with electronics.

**Few, if any**, electronics sellers use this price-setting practice to price products. In other words, it is **not very common** for electronics retailers to set the price for products based on their total costs plus a "mark-up" to achieve its profit.

Extremely Uncommon

Extremely Common

2. How common is this price-setting practice used to price electronics?

Extremely Unacceptable

Extremely Acceptable

3. How acceptable is it for businesses to set prices this way? That is, how acceptable is it to use this practice to set prices for American consumers?

Imagine a situation where you are shopping for a high definition television (HDTV).

Not at all Familiar

Very Familiar

4. How familiar are you personally with HDTVs?

You have the money for an HDTV and are ready to buy. You go to a local retailer. Imagine the following:

- They have an HDTV with exactly the features you were looking for.
- It is one of the brands you wanted to buy.
- It is available today from a retailer with a good customer service record.



## HDTV Price: \$1,249.99

(Other similar size HDTVs you've looked at are priced between \$1,000-\$1,500.)

**The retailer that is offering this HDTV set the price (\$1249.99) using the following practice: *The seller set the price based on its total costs plus a "mark-up" to achieve its profit.***

5. Think about how much you agree or disagree with each statement below:

	Strongly Disagree						Strongly Agree
People who know the market would find this to be a reasonable price.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The value of the product may <u>not</u> be worth the price.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This price is dishonest.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This price is a rip-off.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I'd be completely satisfied with this price.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This price just feels right.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This is the price that I would expect to pay.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
This price is questionable.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I'd be happy with the price.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
All things considered, this price is justified.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I am pleasantly surprised with the price.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Very Unfair						Very Fair
6. How would you rate the fairness of the price?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

### Response Behaviors

	Definitely Would Have No Effect	Probably Would Have No Effect	Probably Would Have Some Effect	Definitely Would Have Some Effect
7. Based upon what you know about how this retailer prices electronics, how would this affect your future shopping with this retailer?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please think about what you might actually do in this situation.

Would you...

	Definitely Would Not	Probably Would Not	Probably Would	Definitely Would
8. Buy the HDTV from this retailer?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



	Definitely Would <u>Not</u>	Probably Would <u>Not</u>	Probably Would	Definitely Would
9. Express your <u>approval</u> to the store manager?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10. Express your <u>approval</u> to other customers in the store?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Definitely Would <u>Not</u>	Probably Would <u>Not</u>	Probably Would	Definitely Would
11. Express your <u>disapproval</u> to the store manager?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
12. Express your <u>disapproval</u> to other customers in the store?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

In the future, based on this offer and what you know about the retailer, would you...

	Shop a <u>Lot Less</u>	Shop a Little Less	Shop about the Same	Shop a Little More	Shop a <u>Lot More</u>
13.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Would you...

	Definitely Would <u>Not</u>	Probably Would <u>Not</u>	Probably Would	Definitely Would
14. Give <u>positive</u> recommendations to friends or family?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
15. Make <u>negative</u> comments to friends or family?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Definitely Would <u>Not</u>	Probably Would <u>Not</u>	Probably Would	Definitely Would
16. Post <u>positive</u> online reviews about the retailer?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
17. Post <u>negative</u> online reviews?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	Definitely Would <u>Not</u>	Probably Would <u>Not</u>	Probably Would	Definitely Would
18. Send a complaint to company headquarters?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
19. Call or write to the Better Business Bureau or other consumer organization so that as many people as possible would hear about my negative experience?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
20. Seek legal action against the seller, store, or company?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

### Pricing Knowledge

## Part II

Businesses may use different methods for setting their prices to customers. The following questions are about WHY you think a business may or may not use a specific price-setting practice.

For each of the following there is an example along with a possible explanation for why the company would use that method of setting price. We want your opinion as to whether these explanations are TRUE reasons for using a price-setting practice or FALSE reasons. If you don't know, select Don't Know.

- "\$3.00 for a non-disposable, easy grip razor, and \$10.00 for a package of 8 replacement razor blades." Called *captive pricing*, this method is used by marketers knowing that, eventually, consumers will need to

purchase the high-priced replacement components if they want to continue using the product.

TRUE - this is why a business would price this way

FALSE - this is not why

Don't Know

2. "All automobiles for sale at the lowest price possible - no haggling!" Called *no haggle pricing*, this method is used by marketers in order to prove to buyers that negotiations will be fair.

TRUE - this is why a business would price this way

FALSE - this is not why

Don't Know

3. "\$30.00 for a button-up, 100% cotton, long-sleeve shirt, plus \$5.00 for shipping and handling." Called *partitioned pricing*, this method is used by marketers to show consumers that the marketer is offering attractive shipping and handling rates.

TRUE - this is why a business would price this way

FALSE - this is not why

Don't Know

4. "A four-pack of a new brand of AA batteries -- \$2.00." Called *penetration pricing*, this method is used by marketers so that, by setting prices low, consumers will be encouraged to try the product.

TRUE - this is why a business would price this way

FALSE - this is not why

Don't Know

5. "Computer having a 1.1 GHz processor and 128 MB memory, AND a laserjet printer for \$1100." Called *price bundling*, this method is used by marketers in order to increase revenue over what would have been obtained had the products been priced separately.

TRUE - this is why a business would price this way

FALSE - this is not why

Don't Know

6. "Brand new product - videophone \$500." Called *price skimming*, this method is used by marketers to appeal to consumers who are willing to pay a high price for a new product.

TRUE - this is why a business would price this way

FALSE - this is not why

Don't Know

7. "A brand of orange juice's (64 oz or 1/2 gallon) price over a four-week time period was as follows: Week 1 \$2.50, Week 2 \$2.50, Week 3 \$1.50, Week 4 \$2.50." Called *random discounting*, this method is used to obtain sales from both consumers who carefully search for low prices and consumers who do not check prices carefully.

TRUE - this is why a business would price this way

FALSE - this is not why

Don't Know

### Assertiveness and Aggressiveness

### Part III

This section asks about your general shopping behavior. Please respond to the following statements by indicating your level of agreement with each statement.

	Strongly Disagree						Strongly Agree
1. If an inexpensive product turns out to be defective, I usually keep it or throw it away rather than put up a fuss or complain.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. Compared to most people I know, I am probably more likely to return an unsatisfactory product.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. I would attempt to notify store management if I thought service in a store was particularly bad.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. If I am having difficulty getting a problem taken care of, on occasion, I have caused a stir that attracts the attention of other customers.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5. I get a certain amount of satisfaction from putting a discourteous salesperson in his or her place.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6. Salespeople need to be told off when they are rude.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

### Demographics

### Final Section

For the final set of questions, please tell us a little about yourself. This information will be used for classification purposes and used only in aggregate form.

2. Are you...

Male?

Female?

3. Which of the following best describes your ethnic or racial background (*select all that apply*)?

Asian or Asian American

Black or African American

Hispanic or Latino

Native American

White/Caucasian

Other

5. Please select the category that best describes your total annual household income:

Under \$25,000

\$25,000-\$34,999

---

\$35,000-\$49,999

---

\$50,000-\$74,999

---

\$75,000-\$99,999

---

\$100,000-\$149,999

---

\$150,000-\$199,999

---

\$200,000+

---

6. Please indicate your geographic region (*select only one*):

Midwest (IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI)

---

Mid Atlantic (DE, MD, NJ, PA, VA, WV, DC)

---

Southeast (AL, AR, FL, GA, KY, LA, MS, NC, SC, TN)

---

Northeast (CT, ME, MA, NH, NY, RI, VT)

---

Northwest (AK, ID, MT, OR, WA, WY)

---

Southwest (AZ, CA, CO, HI, NV, NM, OK, TX, UT)

---

Puerto Rico

---

Outside the United States

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In this study, you were asked to imagine buying an HDTV based on how the retailer priced it. Different people were shown different price-setting practices and asked their opinion of the practice and how that would affect their behavior.

As you may be aware, sellers of electronics may use many different methods to set prices. For example, electronic products might reflect the cost to the retailer plus some markup for their profit. They may also offer price to match or beat other retailers, regardless of their actual cost. Some may offer different prices on a seemingly random basis. Electronics may be auctioned through sites such as Ebay. These are only some of the possibilities. We wanted to know how people like you felt about different pricing practices.

Because pricing practices vary, some methods may be more or less commonly used in different industries. In this study, pricing practices were described as more or less common although no evidence was used in this study to support that one method is more commonly used than another. We wanted to understand how that commonness affected your opinions about the pricing practices.

At this time you have completed this survey. Please click on the arrow below to submit your answers.

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