How Inferences of Harm to Other Consumers Influence Perceptions of Price (Un)Fairness

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Abstract

Thirty years ago, psychologist Daniel Kahneman and economists Jack Knetsch, and Richard Thaler (1986a & b) showed that fairness matters in the marketplace. They presented evidence-based community rules of fairness that are encapsulated in the “principle of dual entitlement”; consumers are entitled to the reference transaction (e.g., price) and, similarly, the firm is entitled to its reference profit. Their findings suggest that it is perceived as unfair for a firm to “exploit an increase in its market power” to charge a higher price than the reference, but that it is fair for a firm to charge a higher price in order to maintain its profit, and additionally, that there is an asymmetry such that it is also fair for a firm to maintain a price that leads to increased profit due to decreased costs (KKT 1986a&b).

This research generated an interesting literature on perceptions of price fairness such that today we have established that perceptions of unfairness matter, i.e., they impact important marketplace outcomes (e.g., Campbell, 1999.) and have also identified a variety of factors that influence perceptions to price fairness. The majority of the research in this literature has focused on understanding factors that influence the extent to which consumers perceive an appropriate reference to have been violated. Research examines what references consumers use, focusing on the price setter (e.g., costs), time (e.g., temporal proximity), and other consumers.

Research that examines the role of other consumers proposes and demonstrates that higher prices paid relative to other consumers, often called relative disadvantage, will typically be perceived as unfair (Haws and Beardon 2006; Feinberg et al., 2003, etc.) and may even have a larger impact on perceptions of unfairness than other factors, such as the price setter’s costs (Haws and Beardon 2006; Xia and Monroe 2004).

However, much of the research since KKT (1986a&b) has focused on the perceptions of fairness of a consumer who has been charged a specific price. However, consumers often evaluate the fairness of prices charged to other consumers, as well as those charged to themselves. We extend the existing literature by proposing that an additional factor that influences consumers’ perceptions of price fairness is the extent to which a given price or price change is inferred to negatively impact consumers in addition to the focal consumer him or herself. More generally, we propose that questions of harm, both to consumers and to firms, are important to consumers’ perceptions of marketplace fairness.

There are five important contributions of this research. First, we provide evidence that inferences of consumer harm are an important influence on perceptions of price unfairness such that even an unchanged price can be perceived as unfair. Second, we show that consumer vulnerability and product necessity impact inferences of consumer harm and thus are important to understanding price unfairness. Third, we show that the influence of harm to consumers on PPF is balanced by the influence of harm to the price setter;
consumers’ perceptions of unfairness are a result of a balance between the impact on consumers and on the firm. Fourth, the role of inferred harm to consumers in PPF creates conditions under which relative disadvantage (i.e., being charged a higher price than other consumers) is perceived to be fair, counter to most existing research on comparison to other consumers. Fifth, the role of inferred harm creates conditions under which a price decrease can be perceived as unfair.