

Feeling ripped off? How dynamic pricing affects perceptions of fairness

Dynamic pricing, in which sellers make frequent adjustments to their prices, has become more feasible as internet buying increases. In the first study to examine how such pricing strategies affect perceptions of fairness, researchers from the University of South Carolina found that fairness judgments about fluctuating prices depend heavily on time and whether the buyer is involved in setting the price.

"Although fairness is a difficult concept to define, the perception of price fairness is part of a broader judgment of the overall merits of a deal," explain Kelly L. Haws and William O. Bearden.

In a paper appearing in the December issue of the *Journal of Consumer Research*, the researchers distinguish between "price-posted mechanisms," in which the price is set by the seller, and "price-discovery mechanisms," such as eBay or Priceline, in which prices are negotiated. In a series of three studies, they find that consumers will consider a price unfair if it differs from the price paid by other consumers and if they are not involved in the price-setting process.

"Consumers have higher fairness perceptions and satisfaction regardless of the price level when they play a role in the price setting process rather than when prices are set by the retailer," the researchers explain. Additionally, "consumers view price changes within very short time periods as more unfair than changes over a more extended time period."

The researchers point out that the effects of dynamic pricing explained in their study may be even more pronounced when varying prices are encountered in realistic shopping environments.

Citation: Kelly L. Haws and William O. Bearden, "Dynamic Pricing and Consumer Fairness Perceptions." *Journal of Consumer Research*: Dec. 2006.

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