2 TOWARDS A GENERAL THEORY OF PERCEPTION OF PRICE (UN)FAIRNESS

The objective of this chapter is to propose a general theory of Perception of Price (Un)Fairness by reviewing and synthesizing extant research in the focal area. We commence by proposing the simple model (Figure -1, page 5) that most studies evidently are using and conclude the chapter by proposing a comprehensive yet parsimonious model (Figure- 2, page 34). The pages between these two models are utilized for extensively analyzing the focal construct for its conceptual meanings, definitions, theories that help explain the formation of the construct, the antecedents (predictors and moderators) that influence and the consequents that emanate. The main rationale for proposing a comprehensive yet parsimonious general theory of PPU/F is that the simple model (Figure-1, page 5) no more matches up to the various developments over the years.

Various researches have maintained that actual price is the salient cue for consumer decision making (e.g. Monroe and Lee, 1999, Berning and Jacoby, 1974), so much so that it dominates1 (Huppertz, Arenson and Evans, 1978) and if the actual price is perceived as unfair, such perception has more capacity than perceptions about other variables, such as those of quality, in determining switching intentions (Anton, Camarero and Carrero, 2007). The actual price is compared to an Internal Reference Price (IRP) and / or what prices the other consumers received for important evaluations such as “acceptable / unacceptable,” “fair / unfair,” “expensive / inexpensive” etc. This comparison has implications for various stages of the consumer decision making process (Matzler, Wuertele and Renzl, 2006). Consequent to this price comparison, the Perception of Price Fairness (PPF), may lead to a positive consumer behavior, such as continued patronage, or the Perception of Price Unfairness (PPU) may lead to a negative behavior, such as litigation. This straightforward model, eminent in extant literature, is depicted in Figure 1 (page 5).

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1 Wells W.D. and LoSciuto L.A. (1966) provide some evidence that price is not always a determining variable in the purchase decision. We investigate this issue in detail in Chapter-4
Further, the IRP or the characteristics of the other consumer is a part of a Reference Transaction; a Reference Transaction is a norm or a standard that is evoked from the memory for evaluation. Just as the IRP, there are several other characteristics of a Reference Transaction, such as reference product, reference consumer etc., that may be used for comparison and evaluation of PPU/F.

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**Figure 1: A Simple Model of Antecedents and Consequents of Perception of Price (Un)Fairness.**

We extend and elaborate the conceptual framework of Xia, Monroe and Cox (2004) in several ways. For instance, we show that affect or emotions are distinct from cognition or perceptions and they have their own say in the process. Further, several researches reveal that perceptions of price unfairness may lead to negative consequences to the seller; however, a few others also reveal that consumers do not punish sellers as hypothesized. Similarly, a price increase may be deemed fair and yet unacceptable. While reasons for such divergent possibilities in consumer behavior will be discussed in detail later, clearly, prediction of behavior from PPU/F is not straight forward anymore. Hence this attempt toward a general theory of PPU/F.

The chapter is organized as follows: first, we examine the importance of the PPU construct, simultaneously laying down the behavioral consequences for not paying importance to perceptions of price fairness. Second, we review the literature with a view to understand the concept called PPU. Third, we examine the antecedents to PPU using the framework that lists the characteristics of a reference transaction. Fourth, we examine the psychological variables that intervene between PPU/F and negative/positive behavior. Lastly, while we synthesize the extant research into a general theory, we also lay foundations for further research.
2.1 Importance of understanding or Consequences of PPU

Understanding the perceptions of price (un)fairness may be quite important for sellers for it may result in many a behavior from a customer that is (un)favored to the seller.

2.1.1 Behavioral Consequences of Perceptions of Fairness

Fair perceptions may cause consumers to continue patronage, become the firm’s advocate by spreading positive word-of-mouth, to try new products introduced by the firm and to be, in general, more tolerant to firm’s temporary deficiencies in product or service. Fair perceptions among consumers result in consumer goodwill / loyalty (Akerlof, 1970). In negotiations, consumers primed to consider fairness demonstrated more cooperative behavior, making greater concessions that led to faster agreement (Maxwell, Nye and Maxwell, 1999). A concern for society (as opposed to self-interest, implying fair behavior\(^2\)) reduces conflict between the partners and facilitates cooperation process (Bagozzi, 1995).

The perception of fairness provides the firm an ability to differentiate even if the product is a commodity (Arrow, 1973). Clearly, fair behavior is instrumental to the maximization of long run profits (KKT, 1986a).

2.1.2 Behavioral Consequence of Perception of Unfairness

On the one hand, under a general rubric of unfair treatment by sellers, of which offering unfair price is one, sellers face negative consequences, such as, buyers’ switching, reducing or discontinuing patronage or relationship (Kamen and Toman, 1970; Huppertz, Arenson and Evans, 1978; Anderson and Simester, 2005); avoiding the seller (KKT, 1986a); starting search for alternatives (Okun, 1981), such as shifting to private label purchase because of perceived price unfairness of national brands (Sinha and Batra, 1999); complaining to sources that they think may provide redress, including attempting to change public policy (Zazac, 1978; Rotemberg, 2007); taking legal action (Kaufmann, Ortmeyer and Smith, 1991); indulging in negative word-of-

\(^2\) Matter in parenthesis is our inference; not in the text quoted.
mouth (Campbell, 1999), avoiding the seller at a cost to themselves (KKT, 1986b), and indeed going as far as stealing, at times with an intent to punish the seller\(^3\).

PPU is likely to damage the reputation, goodwill, brand franchise, the sellers’ ability to maximize profit in the long run (Urbany, Madden and Dickson, 1989), lower overall profit (Kachelmeier, Limberg, and Schadewald, 1991; Shor and Oliver, 2006; Anderson and Simester, 2005) and result in a significant erosion of consumer base (Piron and Fernandez, 1995). The primary reason for ‘Price Stickiness’ in the economy is due to sellers’ reluctance to antagonize customers by raising prices frequently (Blinder, Canetti, Lebow and Rudd, 1998).

It is not just the fear of expected negative behavior of buyers alone that may impel sellers to be fair; but it may as well be the sellers’ belief in trust and reciprocation: if sellers treat buyers fairly, they trust they will be reciprocated with a fair treatment\(^4\) by the buyers (Franciosi, Kujal, Michelitsch, Smith and Deng, 1995).

2.1.3 Would PPU always result in negative behavior of consumers?

The discussion in the previous section provides an impression that the PPU has a rather unidirectional impact or single-minded response that of buyers’ negative action / emotions against the seller. Perceptions of inequity do cause distress; however, management of distress can be through other cognitive, attitudinal or behavioral responses. There are eight lines of reasoning as to why consumer behavior may not always be so negative.

The first line of reasoning is that once faced with an unfair situation, after initial negative emotions subside, the consumer may question the initial perceptions of unfairness and search for or seek justifications or explanations for differences between compared prices, i.e. the actual price and the IRP or what another consumer got. If there is adequate justification for the price difference, such as genuine cost increases

\(^3\) We are enlightened by a few lawyers of case laws indicating individuals accused of stealing bread being let-off without any penalties. Most times, the intention to steal may not be for punishing the seller; it may just be to protect basic needs such as food that may be considered rightfully theirs.

\(^4\) For e.g., by accepting higher prices over the long run. When faced with a market opportunity to raise prices, for e.g. due to a sudden shortage, the popular belief is that firms do not raise prices fearing consumer backlash. However, Franciosi et al, (1995), firmly believe that since sellers do not have any utility for being fair, whether in the short or the long-run, they do what comes naturally to them, i.e. raise prices. They appear not to raise prices immediately, expecting much larger gains at a later stage and has nothing to do with being fair in the short-run.
for the seller that has been passed to the consumer through price increase or the price the other customer got was due to a privileged status (e.g. loyal consumer, old-aged etc.), the consumer may adjust her/his (un)fairness judgment accordingly. A purely deliberate cognitive process might let one consumer (re)consider the situation, in the light of the evidence, as fair. However, such adjustments are necessarily insufficient (Eply and Gilovich, 2004) and still may leave traces of negative affect.

Secondly, consumers may not relate perceived price unfairness with negative preference. In some sense, we may equate fairness as a preference (Loewenstein, Thompson and Bazerman, 1989), i.e. consider to prefer only what is fair. However, they may be conceptually different: preference (what one wants) and fairness (what one believes just) are distinct constructs (Messick and Sentis, 1982); for instance, we may consider autorickshaw fares to be unfair, yet prefer autorickshaw to a chaotic public bus system - for, the alternative is unattractive (Anton, Camarero and Carrero, 2007).

Thirdly, consumers may not relate perceived price unfairness with unacceptability. In some sense, we may equate unfairness with unacceptability (KKT, 1986a). But it is fair (sic) to argue that while consumers may maintain certain price increase to be unfair, yet they may find it acceptable (Franciosi, Kujal, Michelitsch, Smith and Deng 1995). Two researches provide examples of why these two seeming strangers, i.e. unfairness and acceptability, may actually be good bed-fellows. The first example is in the research of Pillutla and Murnighan (1996): while investigating responses to ultimatum games they contend that few people will refuse huge sums of money, even if the offerer makes them angry or if they feel the offer is unfair. The idea that money or good-value can overcome negative feelings is not new. The extension to this argument in a marketing scenario is easy. We see consumers flocking to and shopping in an appalling environment at the Public Distribution System, ostensibly hiding the attractiveness of the deal behind the veil of individual right. The second example is in an early study that provides weak evidence that presence of high switching costs may

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5 As a corollary, it is possible that a price increase is seen fair, yet since the revised price is unacceptable, consumers may switch.

6 I have strong evidence in my wife’s experience. She visits Fair Price Shops of Public Distribution System for buying sugar at subsidized rates, traveling in all 8 kms (to & fro), even though her economic status, by a good measure, does not mandate purchases at such outlets and at such prices, especially when the alternative – a grocer – is just few minutes away from home. Of course, she is irritated, vexed and angry at the poor, arbitrary and insulting customer service at the fair price shop.
make consumers proceed with purchase even though price was perceived unfair (Urbany Madden and Dickson, 1989). Consumers may punish unfair firms only when the costs of retaliation are minimal to the consumer (Piron and Fernandez, 1995; Zwick and Chen, 1999). In fact, fair-beliefs appear to predict behavior only when such beliefs are aligned with self-interest (Buchan, Croson and Johnson, 2004).

Fourthly, consumers switch only when they have an alternative (Anton, Camarero and Carrero, 2007).

Fifthly, consumers do adapt to unfair prices and accept them to be fair over the long run (KKT, 1986a); for instance, consumers consider approx Rs. 9-10/- per km as fair auto fares in Chennai, even though the government stipulated fare is much lower. Indeed if only there were one autorickshaw ply that went by government stipulates fares – one may consider to have had a windfall gain.

Sixthly, even if there arose a situation of perceived price unfairness, the seller can mediate the negative behavior of buyers through compensations strategies. For instance, consumers who were compensated both financially and emotionally were more likely to retain patronage (Xia, Monroe and Cox, 2004).

Seventhly, a line of reasoning is that prices perceived as high or price increases perceived as high alone need not result in PPU. Even high price decreases or very low prices, cases fit to be described as advantageous inequity when compared to the seller, can lead to perception of high price unfairness (Ordonez, Connolly and Coughlan, 2000) albeit usually lower in magnitude, accompanied with a sense of guilt, and differing in judgment (Anderson, Berger, Zelditch and Cohen, 1969). Consumers are reluctant to take advantage of excessively low prices (Winer, 1986). However, there is contradictory evidence too: consumers would prefer to get more value from an exchange even though they may consider it unfair (Messick and Sentis, 1979); such advantageous inequity is most satisfying (Loewenstein, Thompson and Bazerman, 1989); and there is little evidence supporting the fact that feelings of guilt that accompanies such advantageous inequity is motivation enough to restore equity (Deutsch, 1985). In fact, whether external reference price was cued or not, transaction utility is higher for a heavily discounted price (50%) than a moderately discounted price (25%), without diminishing the perceived trust worthiness of the retailer
(Bobinski, Cox and Cox, 1996). Similar evidence was also found by Campbell (2007), where a price drop of 25% was considered fair. There is no clear evidence from extant research as what level of ‘low’ or price drop would lead to a PPU even though the outcome was positive.

Lastly, extant literature maintains that PPU ought to be high in markets such as airlines and hotels that practice dynamic pricing or revenue management (e.g. KKT, 1986a). However, we observe that many firms in such markets are successfully practicing dynamic pricing. We investigate this issue in Chapter 4.

As we can see, perception of perceived price unfairness has important negative repercussions; however, it is not a simple negative straight forward impact. There are conditions in which PPU may have little or no impact on consequent purchase. We now elaborate on the concept of price (un)fairness before we move to the antecedents and consequents of this construct with respect to consumer behavior.

2.2 The Concept of Price (Un)Fairness

We commence this section by briefly explaining the process of how PPU/F is formed with a brief introduction of the theoretical underpinnings for such formation. Later we shall move to the conceptual clarity of the term PPU/F and the detailed exposition of the theories that help explain the formation of the construct.

Consumers may compare an actual price, at some instance, with an expected fair price or with the price another consumer has received. Once the price difference is negative, the outcome may be coded as a loss by the consumer. In general when there is a perception of loss, the consequences are an effortlessly and intuitively formed state of negative emotions (Kahneman, 2003), such as anger, frustration, annoyance, sadness (Steven and Heise, 1993) and a deliberate and rationally formed perception of unfairness. It is also likely that such emotions initiate and amplify the negative perceptions and behavior (Kahneman, 2003). Thus, exposure to a price stimulus results in both cognitive and affective reactions (Campbell, 2007; Xia, Monroe and Cox, 2004). It has to be mentioned here that the extant literature is silent as whether a consumer will proceed with such evaluations irrespective of the magnitude of such price differences. We investigate this issue in Chapter 3.
When investigating how people arrive at moral judgments, Haidt (2001) proposes an interesting ‘competition’ between deliberate, cognitive and rational process on the one hand and intuitive emotion based process on the other hand. He contends that most times the results of rational / cognitive processes succeed the results of or follow the intuitive emotion based processes. That is, cognitions confirm what intuition infers first. There is no clarity from extant literature on what predominates judgments, whether cognition or affect.

On the other hand, Ortony, Clore and Collins (1990) contend that anger is an other-directed feeling that follows the perception of an unexpected, unavoidably negative outcome that some one else is responsible, thereby suggesting that emotions succeed cognitions. Of course, when consumers can punish unfair sellers without suffering losses themselves, they may do so without getting angry. But if punishing unfair behavior requires that they lose something themselves, they may decline to do so or respond with considerable anger.

It has to be mentioned here that almost all of the researches, save except two (Campbell, 2007 and Lee-Wingate and Corfman, 2006), use the cognitive model and ignore the affect component. Indeed, explanations using affect is a recent trend.

Primarily, four theories are predominant and evident in extant research, under the cognitive modeling route, in explaining the effect of price differences on PPU/F:

1. One stream of research concentrates on the outcomes of any exchange and its fairness to parties in such an exchange. It uses equity theory or principles of distributive justice, essence of which is two parties in an exchange are entitled to rewards in proportion to their inputs or efforts (Adams, 1965; Homans, 1961).

2. The second stream of research concentrates on the Principle of Dual Entitlement (KKT, 1986a) which governs community standards of fairness: Transactors have an entitlement to the terms of the reference transaction and firms are entitled to their reference profit. A firm is not allowed to increase its profits by arbitrarily violating the entitlement of its transactors to the reference price, rent or wage. When a reference profit of a firm is threatened, however, it may set new terms that protect its profit at transactor’s expense. The
underlying principles of Prospect Theory (Kahneman and Tversky, 1979) are evident in the DE Principle.

3. The third stream of research uses procedural justice theories that in essence focus on the fairness of underlying procedures or processes (Thibaut and Walker, 1975). For instance, fairness of pricing policies.

4. The fourth stream of research uses attribution theory. People attempt to make causal inferences about observed actions and these causal inferences influence their responses.

There is little evidence of use of psychophysics especially that of Weber’s Law, for explaining formation of PPU. For instance, application of Weber’s Law in a price change situation would imply that a negative price change may not be considered as unfair if the new price falls within the range of acceptable prices. We investigate this in detail in Chapter 3.

Now, we examine the concept of what is fair or unfair and examine the concept of price (un)fairness; later we move to examine the theories that help understand the formation of this construct.

2.2.1 Defining ‘Fair’ and ‘Fairness’

Fair is what is just and equitable, in accordance with rules. Fairness is widely regarded as a motive (Konow, 2003). It has justice as a goal and honesty and impartiality as means. Fairness predicts the deviations from pure self-interest (Guth and Tietz, 1990). Fairness is a community standard, or norms, or constraints that dictate behavior of sellers away from exploiting market power (KKT, 1986a). It is a judgment whether an outcome and/or process to reach an outcome are reasonable, acceptable, or just (Bolton, Warlop and Alba, 2003). At the normative level, fairness is a matter of principle or moral imperative; one may resist unfairness regardless of the price (Eckel and Grossman, 1996; Piron and Fernandez, 1995). Perception of
(un)fairness are also subject to framing effects\(^7\) (KKT, 1986a; Ordonez, Connolly and Coughlan, 2000; Wirtz and Kimes, 2007).

The words ‘equity’ and ‘fairness’ are used much interchangeably in literature though the former has been replaced by the latter in recent researches. Both words appear to have same meaning but with a little change in orientation. ‘Equity’ appears to lay emphasis a little more on the tangible and perceptual - the objective ratios of inputs and outputs, and; ‘fairness’, on the other hand, emphasizes on the conceptual essence of what is moral, impartial and just.

2.2.2 Is fairness a moral imperative?

Do individuals consider fairness as preference phenomenon (e.g., Zwick and Chen, 1999) or as a moral imperative (e.g. Eckel and Grossman, 1996; Piron and Fernandez, 1995)?

If it is a preference phenomenon, then behavior consequent to a perception of unfairness is more likely to be based on cost-justifications, i.e. based on cost of pursuing fairness; e.g. continuing patronage of an unfair seller since, alternatives sellers are, say, difficult to reach. Consumers may initially consider a morally imperative stance, i.e. resist unfairness at all costs, or when the willingness to sacrifice one’s material well-being is significantly higher compared to the material cost of sacrifice. The material cost of the sacrifice can be the choice of higher priced alternative, costs of information search, and the time spent on information search. It follows that the higher the price of sacrifice (read fairness), the lower the demand for it. Further, perception of fairness is subject to egocentric bias; consumers perceived an exchange to be fair when the ratio of consumer’s outcomes over efforts was perceived to be exceeding that of seller’s (Oliver & Swan, 1989a & 1989b). Interestingly, consumers perceived a seller’s practice of playing each consumer off against other consumers to obtain a high price was considered unfair; however, when a consumer played each seller off against other sellers to obtain a low price was considered fair (Kalapurakal, Dickson and Urbany, 1991).

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\(^7\) The classic example framing is in KKT, 1986a. Owing to a sudden shortage of popular automobile, a dealer raising the price above list price by $200 is judged unfair; however, owing to a sudden shortage of popular automobile, a dealer who has been selling these cars at a discount of $200 below list price, now withdrawing the said discount is considered fair.
If it is a moral imperative, repatronage intentions will be largely based on ethical or moral guidelines. KKT (1986 a and b) provide empirical proof for consumers avoiding an unfair seller even at a cost to themselves. Also, Piron and Fernandez (1995), empirically prove that a significant erosion of customer base; after adjusting to demand effects, the residual customer defection due to “moral defense” was a quarter of the customer base. Of course, the extant research has no proof to support the extreme idea of moral imperative: avoid the unfair seller at all costs.

In our opinion, truth lies somewhere in between a preference phenomenon and moral imperative. It may as well be moderated by context, consumer characteristics etc. We leave this debate for future research.

2.2.3 Are fairness and unfairness opposites of the same construct?

The most of the extant research considers Fair and Unfair are opposites of the same construct. However, we opine Fair and Unfair are different constructs. Fairness is more readily understood in its absence (Kaufmann, Ortmeyer and Smith, 1991). Notions of unfairness are typically clearer, sharper, and more concrete than notions of fairness. People know what is unfair when then they see or experience it, but it difficult to articulate what is fair (Xia, Monroe, and Cox, 2004). Violations by the seller to his advantage of status quo about the entitlements of the buyer (e.g. the reference price) and the seller (e.g. reference profits) would be perceived as unfair by buyers (KKT, 1986a). Fairness prevails when there is no envy (Feldman and Kirman, 1974); consequent to a transaction when a consumer perceives him/herself in an inferior position vis-à-vis the seller or when a consumer is envious of what another consumer gets, then a presence of envy can be inferred.

Some of the scales to measure this construct reflect the fundamental confusion over the issue. For instance, some researchers use a single item scale anchored by words “very unfair” and “very fair” at the two ends (e.g. Vaidyanathan and Aggarwal, 2003). Some other researchers use a three item scale anchored by words “not at all” and “extremely”, with the three items whether the price is “fair”, “unfair” and “reasonable” (e.g. Lee-Wingate and Corfman, 2006). We leave resolution of the scale to be a matter of future research. All these scales can be said to measure, PPF, PPU or PPU/F interchangeably.
2.2.4 Defining (Un)Fair Price:

The extant literature offers little guidance for a clean and unambiguous definition of what consumers consider a fair price. The term ‘fair price’ is a combination of two words ‘fair’ being an adjective and ‘price’ being the noun. Monroe and Lee (1999) suggests that consumers store price information in memory in both nominal and magnitude representation formats. For instance, that ‘a pen costs Rs. 10/-’ is stored in the nominal format; while that it is ‘a fair price’ or ‘cheap price’ is stored in the magnitude format. While numerical processing of price information does not always result in the encoding of numbers into magnitude representations, such representation encoding may nonetheless proceed automatically and unintentionally (Tzelgov, Meyer and Henik, 1992). Further, magnitude representations predominate (Hinrich and Novick, 1982).

The basis for magnitude representation of fair price can be broadly classified into two: social and individual. The social conceptualization of what is fair is based on what the society at large considers to be fair and may be not the same as that evaluated at an individual level, while we do admit that there is a large possibility that both overlap. For instance, an individual may consider a price of Rs. 25/- for a kg of raw rice to be fair since most members of the society consider so (i.e. market-determined), however, considering her/his personal income position, s/he may yet (and at the same time) consider the price to be unfair and expect, say, a subsidy. This coexistence of apparent contradiction is largely skirted by researchers who, alluding to a sense of equity and / or ethicality, take the social perspective. Thus, a fair price is what may be socially acceptable (Maxwell, 2002). Early researchers defined it as a judgment against a standard of fairness (Bearden, Kaicker, de Borro and Urbany, 1992) or a concept of what a good ought to cost (Winer, 1986). “Fair” is a global measure of price acceptability (Lichtenstein, Bloch and Black, 1988). It is a price based on cost, of adequate quality, affordable to everyone, valuable to the society at large, transparent, etc.; it need not be the cheapest or the lowest price (Maxwell, 1995). It may be the maximum price above which a consumer is unwilling to pay (Kamen and Toman, 1970). A price paid voluntarily (Nagle and Holden, 1995).

Social perspective of fair-price implies that the fair price may be systematically influenced by past market prices (Garbarino and Slonim, 2003). It could be the lowest
of the observed prices. It could be a range of prices (called ‘fair zone’) within a range of acceptable prices (Maxwell, 1999).

2.2.5 Fair Price and Internal Reference Price

Fair price is usually the reference price (Thaler, 1985). Fair price may be one of the many reference prices, called the Internal Reference Prices (IRP), in the mind of the consumer that is readily invoked to compare the external price at any time of the consumer decision process. IRP does not appear to be a single number, i.e. unidimensional; it is a multidimensional construct that may comprise ‘fair price’, ‘lowest price’, ‘reservation price\(^8\)’, ‘normal price’ (Chandrashekaran and Jagpal, 1995); or ‘expected price\(^9\)’ (Garbarino and Slonim, 2003). IRP could be based on market prices, historical prices, or aspiration prices (Klein and Oglethorpe, 1987). Possibly, all these prices may coincide in the mind of the consumer, i.e. a fair price, expected price, reservation price etc may be one and the same number. IRP could be greatly influenced by the costs of a seller, even if the benefit of the product is not triggered by such costs (Baron and Maxwell, 1996).

IRP could be a band of prices. For instance, consumer may invoke expected future price, or a past price, or what s/he believes as fair price, or a normal market price, or based on the latitudes of consumer acceptance, such as reservation price, or lowest observed/acceptable price for comparing. Such use of multiple internal prices can easily result in the consumer getting framed. For example, consider the consumer wants to buy a TV; if he observes the list price to be Rs. 11,000/-, which is lower than the last year’s price of Rs.12,000/-, expected to negotiate it down to Rs. 9,500/- but manages to conclude the deal at Rs.10,000/- and alas he finds that his neighbor for the same deal paid 9,600/-. Consumer’s perception of what the final price that would be fair or unfair is any one’s guess! Framing is evident in other situations too; for a given quantum of price increase, consumers will switch or downward adjust consumption more when the price levels were high than low (Kamen and Toman, 1970).

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\(^8\) Reservation Price is the price above which the product will not be purchased; or the most one is willing to pay.

\(^9\) Expected Price is the price consumers expect sellers to charge for a given product.
2.2.6 Comparison as a Cause of PPU/F and the Role of Reference Transaction

Perceptions of price fairness or unfairness arise out of a comparison by a consumer (Haws and Bearden, 2006) more especially price comparison (Xia, Monroe, and Cox, 2004; Matins and Monroe, 1994). Compared usually are the characteristics of Reference Transaction residing in the implicit and explicit memory of the consumer with characteristics of a transaction that calls for evaluation and decision making (i.e. a Referent Transaction). A reference transaction is the norm or standard that may have evolved over past experiences of the consumer at the market place and includes expectations in future. Reference transaction may be what consumers think how the transaction ought to be conducted. A reference transaction provides a basis for fairness judgments because it is normal, not because it is just (KKT, 1986a).

Characteristics of a reference transaction are many: reference price, product, promotion, distribution techniques, processes that deliver the goods/service, behavior of people that deliver the goods/service, tangible aspects of service delivery, competition, consumers, and context. It includes, most importantly, reference behavior of the seller; behavior includes the procedures / processes adopted. Lastly, reference transaction also includes the amount of consumer resources, i.e. resources in terms of time and effort, required (for an exchange to consummate) and likewise the amount of seller resources, i.e. resources in terms of capital, labor and technology. For new transactions, prevailing competitive prices provide the natural reference (KKT, 1986a).

More the two transactions, i.e. the Reference and the Referent, appear dissimilar, larger the probability that the price would be perceived unfair (Xia, Monroe and Cox, 2004).

There is no clear view in extant literature as to what triggers comparison first. Is it price (Xia, Monoe and Cox, 2004) or even other elements of a reference transaction (Haws and Bearden, 2006), such as seller, consumer, time, or product. We posit that the most likely start of a comparison is the price cue. Only differences in price would trigger a consumer to commence comparison among other elements of the reference and referent transaction for seek justification.
Extant literature is not clear whether all differences between a reference transaction and a referent transaction, especially the price difference, would result in evaluations such as PPU/F. Recall, when there is a price difference it may be coded as a gain or loss. Would an evaluation of PPU emanate for all differences in prices? We investigate this issue in Chapter 3.

The key assumption in extant literature is that a consumer would engage in mindful processing of all information available to her/him. Especially, consumer is supposed to be allocating sufficient processing resources to incoming information such as the actual price and evaluate it with reference prices residing in the memory. Such assumption appears to us too demanding when the literature of social cognition describes humans as “cognitive misers” who normally limit the number of cognitive resources and the amount of mental effort expended in any one task (Fiske and Taylor, 1984). We believe that under certain circumstances, consumers may actually not be engaging in any mindful processing of incoming information. For example, consumers may have a strong preference for reliance on routines, heuristics, and any other means to alleviate the demand for thought (Anderson, 1990; Macrae and Bodenhausen, 2001). We investigate this issue in detail in Chapter 3.

A comparison of a reference price or a price another consumer received with the actual price may result in a situation of gain or loss to the consumer. Extant literature assumes a symmetric impact of a negative change as well as positive change on PPU/F. The rate of change, i.e. increase, in perception of fairness when the price change is positive, i.e. a gain, is assumed to be the same for decrease in perception of fairness when the price change is negative, i.e. loss. This may not be so since in line with Prospect Theory (Kahneman and Tversky, 1979) loss curve is steeper at the origin, i.e. people are loss averse. Losses loom larger than gains. We investigate the asymmetric effects of price change on PPU/F in Chapter 6.

2.2.7 PPU and the Theories of Justice

Differences between a reference transaction and a transaction under scrutiny can be either positive or negative, i.e. a gain or loss in value to the consumer, a case where a consumer may perceive the situation to be just/unjust or fair/unfair. The question is when would a consumer perceive a situation to be fair/unfair? A situation can be
judged fair / unfair using theories of justice. Colquitt (2001) postulates that the structure of justice is four-dimensional: (1) distributive, (2) procedural, (3) interpersonal and (4) informational. We use this framework for explaining the outcomes.

The distributive component of justice is explained by various theories such as the Principle of Distributive justice (Homans, 1961), Equity Theory (Adams, 1965), Principle of Dual Entitlement (KKT, 1986a and 1986b).

Distributive justice here reflects reasonableness, justifiability, and appropriateness of outcomes. The principle of distributive justice maintains that people, in an exchange relationship with others, are entitled to receive a reward that is proportional to what they have invested in the relationship. If the reward is not commensurate, a perception of unfairness is likely. For instance, did the employee get the raise s/he deserved based on performance? Or, did a loyal customer receive more discounts as opposed to a new customer? At times, the underpinning of the concept of justice lets one accept even disproportional rewards. For instance, consumers accept shorter and better waiting-line queues for aged-consumers. The outcome ought to be justified by a norm. A norm may be based on that of need (e.g. fee-waiver for the poor students) or of merit (e.g. fee-waiver for the meritorious).

Equity Theory is a social comparison theory in which individuals evaluate the ratio of the investments they make to a particular exchange to the profits they derive from it, relative to the investments and profits allocated to their exchange partners. The inputs and outputs that are compared are just the characteristics of the reference and the referent transactions. Equity exists if the parties involved have obtained equal ratios of perceived profits, or gains, to perceived investments or losses. Consumer inputs include time, money and other, say physical and mental, efforts. Consumers’ output include product value from shopping experience, product performance, etc. Seller’s inputs include provision of information, product etc. and outputs include money received and consumer referrals if any. In simple terms it is a fair product for a fair price. For instance, if a consumer who has paid a fair price for a product receives a product of poor workmanship, perceptions of inequity are inevitable. This imbalance in the expected ‘input’ (i.e. poor product) of the seller compared to the expected ‘input’ (i.e. just price) of the consumer can be set right by additional ‘input’ (say a
warranty replacement) of the seller or the consumer downward adjusting his/her expected output (i.e. money by seeking a partial refund).

The Principle of Dual Entitlement (DE) postulates that in a reference transaction, the seller is entitled to the reference profit and the buyer to the reference price; this status quo, or an implicit contract between a consumer and a seller, cannot be altered by the seller to his advantage. Consumers may accept price increases they perceive as being justified by increasing sellers’ costs and resist price increases that are perceived as resulting in higher profits for sellers. The DE principle embodies a “community norm of fairness”. So therefore, cost-based price increases are more justified than exploitation of market power. The DE Principle is borne out of findings of Prospect Theory (Kahneman and Tversky, 1979). Prospect Theory is a descriptive theory of an individual’s subjective evaluation of all alternatives faced by him/her. The evaluations are with respect to a neutral reference point. Some alternatives may mean disutility and other utility to the individual. Such evaluations result in an S-shaped value function. The theory posits that an individual’s judgment is (1) reference dependent, (2) subject to loss aversion and (3) subject to diminishing sensitivity with increasing values of objective gains or losses. Reference dependence indicates that valuation of an alternative is subject to a neutral reference point. In the context of this chapter, a reference point may be an IRP. Loss aversion implies that a unit loss is weighted more than a unit gain. Diminishing sensitivity implies that marginal values of both gains and losses decrease with their size. The idea of loss aversion is particularly interesting to us. We show in Chapter 6 asymmetric effects of price change on PPU/F.

The procedural component is explained by Procedural Fairness (Thibaut and Walker, 1975). The primary element of Procedural Justice is process control or influence; it is the process or the procedures through which the outcome is delivered. For instance, was the pricing policy consistently applied across all consumers and all times? Was it free from bias and correctability? Whether the processes or procedures are based on prevailing norms and behaviors?

Informational justice is concerned with the communication process about the ‘rules’ for obtaining a discount such as the quality of the explanations. Where the information timely, clear, through and candid? Information is required to provide a basis for structural adjustments to justice perceptions. Consider a situation when a
consumer was not informed about a possibility of better service for the same price for a special status the said consumer enjoys, for e.g. many women are not aware that they are entitled to a specially secured women’s coupe in rail travel. Absence, partial presence and full presence of information about pricing policies have differential impact on PPU (Kimes, 1994; Choi and Mattila, 2004).

Interpersonal justice deals with the interpersonal treatment that people receive in situations such as salesperson-customer interactions. For instance, was the seller polite, treated consumers with dignity, respect and refrain from improper remarks? For instance, simple-appearing consumer may perceive injustice when a salesman in a shop pays more attention to an affluent-appearing consumer, even though both consumers’ needs and ability to pay may be similar.

Distributive justice issues (since essentially economic in nature) may have more immediate behavioral impact than issues of procedural justice (Brockner and Wiesenfeld, 1996). That is an unfair price may elicit immediate reaction of customer exit even though the sales procedure was just; as a corollary, a consumer may suffer for some time procedural injustice, e.g. a sales-boy’s mistreatment, since the price is fair.

Order of presentation of information about procedure and outcomes appear important. If procedural information is processed before the outcome information, the “fair process effect” suggests that fairness in procedure influences the way outcomes are evaluated (van den Bos, Wilke, Lind and Vermunt, 1998); i.e., if people consider a procedure to be fair, they are often more accepting of its consequences, which has also been empirically confirmed in a marketing scenario (see Kukar-Kinney, Xia and Monroe, 2007). However, if the outcome information is processed first and procedural information is processed later, the “fair outcome effect” suggests that fairness in outcome influences the way procedures are evaluated (van den Bos, Wilke, Lind and Vermunt, 1998); i.e., if people consider an outcome to be fair, they are often more appreciable of its process / procedures, which has also been empirically confirmed in a marketing scenario (see Herrmann, Xia, Monroe and Huber, 2007). Further, if the outcomes of others are not known, then the procedural fairness may be used as a
heuristic to judge outcome fairness (van den Bos, Lind, Vermount and Wilke, 1997); a proposition refuted\textsuperscript{10} by Collie, Bradley and Sparks, 2002.

A new stream of researches also uses Attribution Theory to explain PPU/F. According to attribution theory, consumers attempt to make causal inferences about observed actions and these causal inferences influence their responses. Causes can be categorized on the basis of locus of causality, controllability and temporal stability. For instance, a price increase due to rising taxes is at once ‘not caused’ and ‘not controllable’ by the seller and the implications may be rather permanent. However, an increase in price due to sellers’ poor inventory systems is at once caused and controllable by the seller, and is rather temporary; and hence the price increase may be perceived unfair.

We discussed how various theories posit that differences between actual price and expected price trigger a PPU/F. We also briefly indicated that several characteristics of the reference and referent transaction, such as seller, consumer, procedures, etc., may influence (accentuate or attenuate) or moderate such fairness perceptions. Such characteristics of the reference and referent transactions that impact the fairness perceptions are called the antecedents. We now elaborate on such antecedents.

2.3 Antecedents to Perception of Price (Un)Fairness

There are several antecedents to the PPU/F. As indicated earlier, a consumer compares and evaluates several characteristics of a Referent Transaction (that is a transaction that calls for an evaluation) with the Reference Transaction (residing in the implicit and explicit memory of the consumer) for arriving at a judgment as to the price is unfair or not. A review of the current literature brings to fore several attributes, such as price, pricing policy, characteristics of consumers etc., of a reference and a referent transaction that a consumer may put to use for evaluation.

Price: We examine first the impact of a consumer comparing two prices and later proceed to examine impact of differences about price policies. If the difference between actual price and expected price is high, it may result in perception of low fairness and is acerbated for high-priced items and when shopping frequently

\textsuperscript{10} We offer no resolution to this issue in this research, since it is not our main focus. Perhaps, this can be a point of future research.
(Huppertz, Arenson and Evans, 1978). Even though consumers cannot recall past prices accurately (Dickson and Sawyer, 1990) and a low proportion of buyers can recall accurately prices of products they had recently purchased (Monroe and Lee, 1999), consumers do use previous prices to judge appropriateness of current prices and use current prices to forecast future prices; but sadly, they underestimate the effect of inflation on future prices (Bolton, Warlop and Alba, 2003). In a similar vein, consumers will perceive temporally proximal price differences as more unfair than temporarily distant price differences (Haws and Bearden, 2006).

If most transactions happen at a discount over the stated price, it may be perceived unfair (Kaufmann, Ortmeyer and Smith, 1991). If consumers compare a product’s price to its price at a different point in time (e.g. off-season) it may be perceived unfair; consumers also compare a product’s current price with that of its future sale price when they want to dispose it. (Bechwati, Sheth and Sisodia, 2005).

Other Consumers: Consumers compare prices what other consumers get and perception of unfairness is high if the other consumer is of same income level and the other consumer’s prices are lower; price differences are perceived to be fair if the product is a necessity and income levels of the other consumer are low (Martins and Monroe, 1994, Xia, Monroe and Cox, 2004). Lower price to the disadvantaged is fair (Martins, 1993). Nothing, perhaps, drives dissatisfaction more than the fact that another consumer got a better deal; it is mediated somewhat when the other consumer is revealed as a regular consumer (Darke and Dahl, 2003).

It is interesting to note that possibly the difference between actual price and IRP (expectation comparison) on the one hand and actual price and what another similar consumer secured (social comparison) is same; in such instances, social comparison produces more PPU than expectation comparison (Choi and Mattila, 2004). In fact PPU induced by such social comparison is highest relative to PPU triggered by differences in prices over time, sellers, or who the price-setter was (Haws and Bearden, 2006).

Pricing Policies: In general, a pricing policy will be perceived to be fairer if the policy is transparent, altruistic, informative, follows norms of the industry and does not discriminate. For instance, prices that used partitioning techniques when it was not the
norm were found to impact purchase intentions (Redden, Fitzsimons and Williams, 2007). A price-matching policy present is usually considered procedurally fair, more so if the assortment of products covered by price-matching policy is not unique, i.e. the products are widely available at other competitive stores (Kukar-Kinney, Xia and Monroe, 2007). At the basic level, a price skimming strategy may be perceived as unfair as opposed to penetration pricing strategy even if consumers are made aware that the long-term net profit from each of the strategies is the same (Bolton, Warlop and Alba, 2003). Price partitioning\textsuperscript{11} techniques, if used inappropriately, may lead to PPU and damage store trustworthiness (Xia and Monroe, 2004); for instance, if there are many partitions without a total price, due to numerosity heuristic, total price may be over-estimated\textsuperscript{12} and hence may be perceived unfair; however, when total price was provided, many price partitions lead to a higher PPF than fewer partitions perhaps due to higher perceived transparency (Carlson and Weathers, 2007). The more heterogeneous the prices are, the higher are the chances that the price would be perceived unfair (Puntoni, 2002) - one reason why negotiable prices are seen to be more unfair than fixed prices (Purohit and Sondak, 1998). Ortmeyer, Quelch and Salmon (1991), perhaps extend this logic by suggesting more use of an everyday low pricing (EDLP) policy that is usually more homogenous, as opposed to other pricing policies such as High-Low (HLP), which is usually more heterogeneous. Price discrimination policies such as the Yield Management\textsuperscript{13} practiced in airlines, hotels etc, are perceived to be unfair (Kimes, 1994; Huang, Chang and Chen, 2004); though over time, they become acceptable (Kimes and Wirtz (2003). If consumers are more familiar with pricing policies, PPU is less, especially if consumers are advantaged by such policies (Wirtz and Kimes, 2007). Perception of fairness about a price differential policy, such as negotiation, price-match, price protection or targeted protection, may be enhanced by providing information on the policy, making the amount of the discount flexible to meet with the individual consumer demands, and

\textsuperscript{11} Separating total cost into a base price and one or more surcharges has been labeled price partitioning. In the internet, for e.g., total price may be partitioned into basic price, shipping, handling, and sales tax.

\textsuperscript{12} Typically for a 2-partitioned price, customers underestimate the price – the price partition bias (Morwitz et al, 1998) and consumers may experience ‘sticker-shock’ when they come across the actual total.

\textsuperscript{13} Yield Management, a form of dynamic pricing and also known as Revenue Management, is practices to improve sales, especially in services such as airlines, hotels etc. With a rigid pricing policy, part of the aircraft or some rooms in the hotel may go empty. So firms attempt to manage this by ‘rate-fencing’ or offering different rates to aged customers or customers with differing income levels, time of booking (early or late), time of use (seasonal or not; night or day), location of stores (up market or downtown), intensity of competition (low or high) etc.
rewarding the consumers with discounts for some transaction behavior than for predetermined consumer trait (Guiltinan, 2006).

**Product:** If products that are not adequately dissimilar yet having different prices may lead to PPU; for instance, charging a higher price for a room with a view as opposed to a room without (Kimes, 1994); and some rate-fences\(^\text{13}\) help differentiating service-products adequately (Kimes and Wirtz, 2003). A deliberate versioning of a product, where the producer reduces functionality\(^\text{14}\) in such a way that the products are not very dissimilar but prices are, may lead to PPU (Gershoff, Kivetz and Keinan, 2007).

A product that higher price than other similar products would be avoided (Crompton and Love, 1994). If products are not unique, i.e. they are not available in other stores, and the seller offers a price-matching guarantee, the consumers may infer negative motives that may impact procedural fairness negatively (Kukar-Kinney, Xia and Monroe, 2007). Prices of complementary products can be compared; for instance prices of ink cartridges were reported to be unfair in relation to prices of ink-jet printers; similarly for razor blade cartridges; (Bechwati, Sheth and Sisodia, 2005). Familiarity with the product and fairness in procedures of selling (e.g. offering to secure a product under discount from another store even though the discounted stocks ran-out) interact to produce high willingness to buy; this signals a possibility that unfamiliar products need to rely heavily on procedural fairness for initial acceptance of price (Shehryar and Hunt, 2005); fair price is a better predictor of purchase intention in the case of innovative products (Lowe and Alpert, 2007). Prices were judged to be unfair when there was Hyperchoice\(^\text{15}\) (Maxwell, 2005). A price-premium for large-size products, e.g. women’s apparel, that usually do not have regular volumes is deemed unfair (Anderson and Simester (2005).

**Distribution:** Consumers perceive price unfairness when the price of a product distributed through the internet and traditional channels are the same (Huang, Chang and Chen, 2004). Interestingly, wildly fluctuating prices for a product that is

\(^{13}\) The authors provide some interesting examples. It appears, IBM’s 5-page per minute 4019e printer was produced by starting with the 10-page per minute 4019 printer and adding a computer chip that had the sole purpose of slowing it down. Or consider Toyota Tocoma trucks are equipped with alarm systems that will never sound because a simple electrical connection disables the alarm in some lower priced models.

\(^{14}\) Hyperchoice is the term used to indicate an ever-increasing amount of new products, brands and brand extensions, in the midst of an ever-increasing amount of other daily demands and an ever-decreasing amount of discretionary time. It is initially attractive but ultimately unsatisfying.
distributed through various channels, the product in question being a hotel room and the channels being a quote through, phone, e-mail, website etc., may also be deemed unfair (Murphy, Schegg and Qui, 2006).

**Promotion:** Sellers’ credibility as well as legitimacy of a price-offer improves if discounts are passed on with sound rationale (Bobinski, Cox and Cox, 1996). A consumer would perceive price to be unfair if the same price is not offered to all consumers; for instance, consumer abandoned shopping online when they were prompted to fill in a coupon code, a prompt that sensitized them to the fact that some other consumers may be enjoying a lower price (Shor and Oliver, 2003). Consumers feel betrayed if firms that they patronize offer discounts only to switchers; further, consumers all feel jealous if a competing firm provides deeper discounts for its loyal customers (Feinberg, Krishna and Zhang, 2002). The price at which a consumer bought a product may be deemed unfair when a firm, post-purchase, announces a discount\(^{16}\); lesser the time gap between the purchase to announcement of a discount more unfair the price perception is; and such customers purchase fewer items even though discounts are available (Anderson and Simester, 2004).

**Physical Evidence:** In-store atmospherics impacts PPU. Soft lights as opposed to bright lights coupled with orange interiors produce maximum perceptions of price fairness (Babin, Hardesty and Suter, 2003).

**Consumer Characteristics:** Perception of fairness and consequent behavior is impacted by personality differences, such as, by how much a person has consistent concern for self-interest alone as opposed to group interest\(^ {17}\) (Loewenstein, Thompson and Bazerman, 1989). Though a heterogeneous price system may be perceived unfair, such PPU may be attenuated by consumers’ low risk aversion, high expertise and low sensitivity to price unfairness, low involvement (Puntoni, 2002; Anton, Camarero and Carrero, 2007); further, PPU differs across gender\(^ {18}\) (Beldona and Namasivayam,

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\(^{16}\) When Apple reduced the price of its IPhone dramatically by $200 on the 5\(^{th}\) of Sept, 2007, there were many angry messages by people who had bought phones before the price cut.

\(^{17}\) Loewenstein, Thompson and Bazerman (1989) indicate three groups – *ruthless competitors* are those who consistently prefer to get a better outcome than others, *loyalists* are those who want different outcomes depending on whether they have a relationship with the other partner to the exchange, and *saints* are those who consistently prefer equality of outcomes.

\(^{18}\) The three studies arrive at diametrically opposite results. While Beldona & Namasivayam and Eckel & Grossman propose that women perceive unfairness relatively lesser than men, Piron & Fernandez
2006; Piron and Fernandez, 1995; Eckel and Grossman, 1996), age (Piron and Fernandez, 1995), culture / country (Kimes and Wirtz, 2003; Buchan, Croson and Johnson, 2004) and even race (Graddy and Robertson, 1999). Consumers with high price-sensitivity appear to deem prices unfair (Petrick, 2005). Consumers with high dispositional trust\(^{19}\) rate price differences as fairer than those with low dispositional trust (Maxwell, 2003). Men are more likely to take principled stance (and hence perceive more strongly fairness or unfairness\(^{20}\)) than women (Eckel and Grossman, 1996). Low involvement consumers use aspirational IRP that are stricter than market based IRP used by high involvement consumers. Consequently, low involvement consumers are more likely to perceive a given price or a price increase negatively (Vaidyanathan and Aggarwal, 2001). Frequent shoppers perceive inequity or unfairness more than infrequent shoppers (Huppertz, Arenson and Evans, 1978). Highly satisfied customers do not alter their repurchase intentions in spite of price increases (Homburg, Hoyer and Koschate, 2005). Affluence of consumers positively impacts PPF (Maxwell, 2003). In an interesting auction study, Suter and Hardesty (2005) suggest that winning bidders perceived their higher starting bids to be fairer simply to manage and protect their self-esteem; while the losing bidders blamed the winners of bidding unfairly high prices; and lastly, none blamed the seller for anything. In a different study, consumers found prices set by bidding more fair than prices set by retailer (Haws and Bearden, 2006). People can be framed or primed whereby one can alter concern from a steady state of self-interest to an alternative state of other’s interest, leading to a different outcome (Tajfel and Turner, 1986), providing an indication that the sense of fairness is to be evoked.

Consumer’s cognitive resources too play a role in PPU. Campbell (2007) states that when cognitive resources are constrained, by say a distraction, while processing a price change scenario, it is likely that a swell of affect will form PPU more than rational thoughts such as inferring the motive of the seller.

**Competitors:** Consumers compare prices of competitors to arrive at a judgment of price fairness; further, though consumers are willing to pay a higher price for store

\(^{19}\) Dispositional trust is product of one’s personality and background. People with high dispositional trust will start with lower expectations that others will act opportunistically.

\(^{20}\) The words in parenthesis are ours.
differences, however, differences in prices are attributed more to profit than to costs, which may lead to PPU (Bolton, Warlop and Alba, 2003). For example, we may consider to pay for a cup of coffee about Rs. 50/- at a five star hotel; however, we are likely also to believe that the said hotel must be making a lot more profit and hence harbor a perceptions of price unfairness. Consumers at the best acknowledge quality differences to be a fair reason for price differences and no other reason.

Context: If the situation is such that consumers’ perceived vulnerability due to an urgent need and their immediate demand increases, their perception of price offer fairness will decrease (Herrmann, Xia, Monroe and Huber, 2007). Given that the price change bode negative outcome to the consumer, the PPU was higher if the source was human than a non-human source (e.g. a price tag) (Campbell, 2007).

Behavior of Seller(s): Price increases not accompanied with cost increase justifications are perceived more unfair (Okun, 1981; Urbany, Madden and Dickson, 1989). Extant literature states the importance of rationale (see also Campbell, 2007), types of justifications or rationale are not yet investigates. For instance, justifications may be categorized in a continuum that maps relevancy or quality of such justifications. We investigate this issue in Chapter 3. Differential pricing, not accompanied with information about pricing policy, perceived unfair (Choi and Mattila, 2004). If the consumers perceive that there may be intention on the part of sellers to exploit the consumer, i.e. infer a negative motive, prices may be perceived unfair (Campbell, 1995; Campbell, 2007). In the same vein, provision of a rationale for price increase (Maxwell, 1995; Campbell, 2007), demonstration that the sellers power has not been exploited, and being sensitive to cultural norms of pricing can ameliorate PPU (Maxwell, 1995). PPU may be less for a highly reputed seller (Campbell, 1999; Puntoni, 2002); though in certain conditions, especially when processing large negative information, even, good reputation does not mediate PPU (Carlson and Weathers, 2007). A set of sellers engaging in price war, may permanently lower the reference price in the minds of the consumers, and later price increases may seem unfair (Heil and Helsen, 2001).

Behavior of Seller (adhering to processes): Sellers’ processes of delivering value have to be as fair as the outcome of the transaction. For instance, when internet sellers use buyer identification processes, as opposed to purchase timing tactics, customers report
lower levels of price fairness, trust and repurchase intentions (Grewal, Hardesty and Iyer, 2004).

Sellers’ resource inputs: What is fair price is strongly influenced by costs of the seller (Thaler, 1985); a reason why movie tickets for the film ‘Sivaji’ cannot be sold by cineplexes such as Satyam and Mayajal at black market prices. Presence of invoice price, i.e. cost information, in advertising moderated the negative effect of Sale Price on Perceived Offer Fairness (Bearden, Carlson and Hardesty, 2003). Consumers do acknowledge the costs of goods sold as a cue for estimating prices; but no other costs such as selling and promotional overheads (Bolton, Warlop and Alba, 2003); one reason why consumers at South Chennai beyond Guindy metropolitan area feel prices of petrol marked ten paise more to cover for transportation costs to be unfair. It is common perception that prices of ink cartridges is high in relation to its perceived cost. Fairness perceptions increase if inputs of sellers to an exchange, such as time spent on customers etc., increase (Oliver and Swan, 1989a). If sellers’ cost decrease, it may be perceived as unfair if the benefit is not passed on the consumers, especially if the seller has a history of passing on cost increases to consumers (Kalapurakal, Dickson, and Urbany, 1991). Similarly, for a given price change, if consumers infer higher relative profit, it may lead to higher PPU (Campbell, 1999). Not all cost increases passed on the consumers are considered fair. If the seller was the cause of cost increase and/or the seller had reasonable control over the incidence of cost, then there is a high likelihood that the price increase, even though cost justified, would be perceived as unfair (Vaidyanathan and Aggarwal, 2003; Xia and Monroe, 2004). Cost increase of one component of a product, if compensated through price increase of another component of a product, it may be deemed unfair (Bolton and Alba, 2006).

2.4 Consequents of Perception of Price (Un)Fairness

There appears to be a few researches in what may be the intervening psychological steps between perception of unfairness and negative behavior. A few studies find mediators between PPU and negative behavior such as Purchase Intention etc. We now review the literature concerning this area.

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21 We hear the black market prices for the film ‘Sivaji’ was as high as Rs. 1,500/- per ticket, while the ticket-counter rates may be anywhere from Rs. 20/- to Rs. 200/-. Most importantly, these cineplexes are legally allowed to price at rates in multiples of stipulated upper band of prices for normal cinema houses.
First of the researches that examined an intervening variable between PPU and behavior was that of Urbany, Madden and Dickson (1989) and the empirical evidence that PPU does not predict behavioral intention and thereby actual behavior was much against general intuition. As discussed earlier, PPU does not lead to negative actions when, for e.g., the costs of retaliation are high.

But otherwise, usually, PPU leads to a negative attitude towards the seller and also low shopping intentions / willingness to buy (Kamen and Toman, 1970; Campbell, 1999; Maxwell, 2002, Carlson and Weathers, 2007; Kukar-Kinney, Xia and Monroe, 2007, Shor and Oliver, 2006), low perceived value (Kukar-Kinney, Xia and Monroe, 2007; Oh and Jeong; 2004, Bobinski, Cox and Cox, 1996), satisfaction (Hermann, Xia, Monroe and Huber, 2007; Haws and Bearden, 2006; Darke and Dahl, 2003) and lower overall trust, especially the benevolent trust\(^{22}\) (Garbarino and Lee, 2003). A dimension was added by Sinha and Batra (1999), when they uncovered yet another variable; they contended that PPU leads to higher price consciousness\(^{23}\) which in turn impacts choice. At a more fundamental level, it is fairness perception of a bargain that drives satisfaction up (Darke and Dahl, 2003; Herrmann, Xia, Monroe and Huber, 2007).

Perception of inequity impacts the choice of the type of inequity reduction activity (Huppertz, Arenson and Evans, 1978). Research in allied areas, such as those in (in)equity and (dis)confirmation judgments, provide further interesting bases for understanding, albeit not in the empirical sense but in the inferential manner. Oliver and Swan (1989a), using equity theory, posit that customer satisfaction with an exchange process between a salesperson and a buyer is influenced by buyer’s perceptions of relative equity between buyer’s inputs and outputs on the one hand and the seller’s inputs and outputs on the other; however, they merely indicate that such consumer satisfaction may impact ongoing relationship between sellers and buyers. In a subsequent research Oliver and Swan (1989b) they test the relationship between satisfaction with the salesperson and predictors such as salesperson fairness,

\(^{22}\) Benevolent trust is perceived willingness of the trustee to behave in a way that benefits the interests of both parties with a genuine concern for the partner even at the expense of profit.

\(^{23}\) Price consciousness may be defined as a consumer’s reluctance to pay for the distinguishing features of a product if the price differences for these features is too large.
preference and disconfirmation; they also extend the study to show relationship
between satisfaction with the salesperson and product satisfaction.

A set of researches investigating the emotional outcomes, when there is fair or unfair
perception, are worthy of mention here. In general regret and anger are both triggered
when people learn that they are worse off than they could have been (Berkowitz and
Harmon-Jones, 2004). Unfairness may lead to wounded pride and spiteful action
(Pillutla and Murnighan, 1996). People blame themselves as well as the sellers when
they are unhappy and there are evidences for such co-mingling of emotions (Yi and
Baumgartner, 2004). Unfair price perception may evoke emotions such as upset,
regret, disappointment, anger or outrage (Xia, Monroe and Cox, 2004; Campbell,
2007); but anger is primarily associated with unfairness (Mikula Scherer and
Athenstaedt, 1998). Price inequity is thought to result in distress, resentment, and
vindication (Austin and Walster, 1974).

Different emotions evoke different actions - anger is linked associatively with an
urge24 to injure some target; regret may lead to hurting oneself as well as target. As
we quoted the works of Anderson and Simester (2005) earlier, a discount offered after
a purchase may lead to a regret (having paid “too much”) which then leads to the
consumer avoiding the firm even though the customer could have benefited from
subsequent discounted price.

First of the studies that directly investigated the effect of remediation techniques upon
an instance of PPU was that of Lee-Wingate and Corfman, 2006. A victim of an
unfair price scenario may find her/his negative perception, as well as her/his state of
emotions, alleviated once s/he is able to express her/his emotions or facts and if the
target of the emotions and facts is able to redress. However, contingent upon how
similar is the observer to the expresser, observation of such expressed emotions and
facts will only acerbate the already negative perceptions and emotions of the observer.

Positive inequity is expected to result in embarrassment and guilt (Anderson, Berger,
Zelditch and Cohen, 1969). Negative disconfirmation results in disappointment and
positive disconfirmation predict delight (Oliver and DeSarbo, 1988). Equity is

24 A discussion with Prof. Chaitanya Sai Gaddam (Cognitive and Neural Sciences Dept, Boston
University, USA) provided a neurological basis - that pleasure centers of the brain light up when people
harm those that have behaved selfishly in an economic exchange.
expected to result in contentment (Walster, Walster and Berscheid, 1978) and confirmation is expected to add no emotional content to purchase decision (Oliver, 1981). It is assumed by the researchers that such positive or negative emotions lead to either positive or negative behavior, such as those mentioned in the initially.

2.5 Towards Synthesis and a General Theory of Perception of Price (Un)Fairness

We reviewed several studies concerning the focal area. As one may agree, the model depicted in Figure 1 in page 5, stands quite inadequate considering the advancements in the recent years. We summarize the key findings into a general theory.

Consumers’ PPU/F occurs due to comparison the actual price of the product/service with that of an IRP or what another consumer gets as price. The outcome may be coded as a gain or loss. Next, the consumer proceeds to evaluate whether the difference, coded now as a gain or a loss, is just or not. Past researches bring out two variances of PPU. The first type is when the difference bodes significant negative outcome or negative inequity, such as when the reference price is far lower than the actual price encountered. In such an event, the consumer may perceive price unfairness with attendant negative purchase intentions and negative emotions such as anger. The consumer actions may be negative such as leaving the exchange, indulging in negative word of mouth, litigation, etc. The second type is when the difference bodes significant positive outcome or positive inequity, such as when the reference price is far higher than the actual price encountered. In such an event, the consumer may still perceive price unfairness with attendant negative purchase intentions and negative emotions but those of guilt, shame etc. The consumer actions may be negative to the extent such as leaving the exchange etc. but may not result in litigation, negative word of mouth etc. Past research suggests that PPU is sharper and stronger for a given magnitude of negative price difference than the same magnitude of positive price difference. Lastly, if the difference between the reference price and the actual price is not significantly different, i.e. negligible, and all the other properties or characteristics of the reference transaction and the referent transaction

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25 We take the liberty of including findings of this thesis, elaborated in later chapters, here and now. Kindly bear with us.
are similar, consumer may perceive price to be fair and continue engagement with the marketer in a positive manner.

Perceptions of price unfairness or fairness are moderated by consumer perceptions as to how similar or dissimilar are various other properties of the reference and the referent transactions and also consumers’ characteristics. Consumer actions consequent to intentions are moderated by the perceived cost of the consumer for taking any action; the consumer may not leave the exchange, for e.g., if the perceived cost of switching is high. The decision steps are modeled in the following Figure 2 in page 34.

The review of the attributes of a reference or a referent transaction from the empirical findings of extant research can be grouped into two. The first of the groups is consumers’ perceptions about the characteristics of

A. The Value Proposition from the marketer in terms of Price, product, promotions, distribution, positioning etc. For instance, if the difference between the IRP and the actual price is high, the attendant PPU may be moderated by how similar the referent product, promotions, distribution, positioning, etc. are with respect to those of the reference transaction.

B. The sellers’ behavior, procedure, processes, people, and physical evidence, reputation, etc.

C. Comprises the consumers’ perceptions about other consumers’, competing firms’ and other institutions’ actions and characteristics and the context relevant to the transaction under scrutiny. For instance, the price difference can be justified by the characteristic of other consumer being ‘a senior citizen’ or ‘a foreign firm’ etc. Higher the similarity is, higher the probability of perceived price unfairness, if the price difference is large.

The second group is a set of consumers’ characteristics and actions also moderate the PPU. The set includes among others, consumer knowledge, personality, lifestyle, values, attitudes, beliefs, feelings etc.
Figure 2: A Comprehensive Model of Perception of Price (Un)Fairness
We also show that negative intentions may be moderated by consumers’ perception of trustworthiness of sellers and prior product usage satisfaction. That is, a consumer may continue with the exchange, even if the price was considered to be unfair if there was enough prior trustworthiness about the seller or there was adequate prior product usage satisfaction.

Lastly, negative intentions’ impact on behavior may be moderated by perceived cost of retaliation, knowledge about alternatives, and sellers’ remediation techniques.

2.6 Suggestions for Further Research

There are indeed several areas that are worthy of further investigation with respect to the focal area, viz., PPU/F.

The first, and the foremost, suggestion is to test the model proposed in Figure 2, page 34 in its entirety. While it may be infeasible to do so, due to cost and other technical reasons such as scale and modeling, we propose various other issues that may be tested in part from the proposed model.

Several open issues are investigated simultaneously in Chapter 3:

- Studies that have investigated the impact of price change have assumed that a consequent evaluation of price (un)fairness is imminent for any magnitude of difference. We in fact propose that the difference needs to be significant before any such evaluation of fairness is made by the consumer.

- Extant research assumes that a consumer would engage in a mindful processing of information concerning the Referent Transaction.

- Past research has investigated the impact of presence or absence of justification, consequent to a price change on PPU. One may consider impact of different types of justifications, e.g. Placebic and Relevant Justification. A Placebic justification is one that is devoid of any meaning or quality. We also investigate the impact of different types of justification.

- There is little investigation in the past on framing effects of discounts to mask a price increase.
The theoretical underpinnings of findings of Chapter 3 rely heavily on psychophysics of Weber’s Law. Perhaps it is also interesting to investigate the claim of Kamen and Toman, (1970) that they have indeed found Weber’s Law not applicable to PPU. We investigate their claim in Chapter 5.

Several researchers posit that a heterogeneous pricing strategy would result in PPU (e.g. KKT, 1986a). Further, such PPU would lead to negative purchase intentions. However, we find many successful practice of dynamic pricing or revenue management such as in airlines and hotels. We investigate this issue in Chapter 4.

We investigate the issue of asymmetric effects of price change (see page 18 for discussion) in Chapter 6.

As noted in the proposed general theory of PPU/F, even a positive outcome or a state of advantageous inequity may result in PPU, though accompanied with differing emotions such as guilt and shame (Anderson, Berger, Zelditch and Cohen, 1969). It is proposed that the consumer may still leave the exchange for consumers are reluctant to take advantage of excessively low prices (Winer, 1986). There are equally contradicting findings that suggest that advantageous inequity may be very satisfying (Lowenstein, Thompson and Bazerman, 1989) and there is little evidence that feelings of guilt that accompanies such advantageous inequity is motivation enough to restore equity (Deutsch, 1985). It may be an interesting aspect to test or retest these contradicting propositions concerning PPU.

At a deeper psychological domain, it is also interesting to answer the question as to what comes first after a coding of the outcome to be negative: whether a state of negative emotions or the perception of unfairness and how these two consequents reinforce each other.

One of the fundamental issues of price (un)fairness research literature is the issue whether fairness and unfairness are opposites of one and the same construct. Increasingly, researchers believe that it may not be. That is, fairness and unfairness are different constructs. Unfairness may be typically clearer, sharper, and more concrete than notions of fairness. This confusion is evident in the scales that have been used in the past research to measure the constructs fairness and unfairness. We believe that this may be an important issue to be resolved.
One of the fundamental assumptions of literature is that ‘fair price’ has a more socially constructed meaning as opposed to individually constructed one. That is, what is a fair price may be a price so considered by the society and an individual’s view of what is fair has no role: neither in formulation of such perceptions and consequent intentions and behavior. This is perhaps a weak link in the past literature that requires an urgent resolution. For instance, a society may consider a bus-fare from point A to B as fair. However, a consumer may consider it to be unfair and may expect a lower price. Such situations are not uncommon and chances are that consequent intentions and behavior may be easily framed by what ‘fair’ price was evoked for elicitation of such intentions and consequent action.