“Is the Price Fair?”
The Formation & Influence of Perceived Price Fairness
At the Early Stage of Dynamic Pricing

Wang Suk Suh¹, Yukyoum Kim², & T. Bettina Cornwell³
1 & 3: Lundquist College of Business, University of Oregon
2: Department of Physical Education, Seoul National University

1. Overview
- Dynamic pricing, a real-time based pricing strategy, has become one of the most popular pricing strategies with the benefits from today’s online purchase environments.
- Potential negative fairness perceptions derived from the price discrepancy have been warned by previous research (e.g., Xia et al., 2004).
- The early stages of the new pricing strategy: the problems of price unfairness may be even more prominent.
- Research Purpose: To contribute to the knowledge of price fairness and dynamic pricing, the present study investigates:
  1. The effects of the four predictors (i.e., magnitude of price difference, temporal proximity difference, nonmonetary sacrifice, and price setter fairness) on consumer perception of price fairness;
  2. The influence of perceived price fairness on different behavioral intentions (i.e., revenge, self-protection, and repurchase intentions).
- Key contributions: the results of the present study provide empirical evidence for the formation and influence of perceived price fairness with the introduction of dynamic pricing in a service industry that recently adopted the pricing strategy
- Key words: Dynamic pricing, price fairness, social comparison, and social justice framework.

3. Theoretical Background
- Social Comparison: People perceptually compare their beliefs or opinions to others.
  * People are inclined to select familiar people to draw comparison (Wood, 1989).
  * Dissymmetry between “input & output” in an exchange may trigger an unfairness perception.
- Social Justice Framework: Includes procedural and distributive justice.
  a) Procedural Justice (Thibaut & Walker, 1975): social norms and appropriate social behaviors contribute to the fairness judgment process.
  b) Distributive Justice (Homans, 1961): people expect to receive the same value of compensation from their investments.
- Construal Level Theory: People perceive a future even differently depending on the degree of temporal distance.
- Perception of Price Fairness: A judgment whether or not the price is just, acceptable, or reasonable by consumers (Bolton et al., 2003).
  * Notions of unfairness are typically clearer, sharper, and more concrete than notions of fairness. People know what is unfair when they see or experience it, but it is difficult to articulate what is fair (P1, Xia et al., 2004)

2. What is Dynamic Pricing?
- Dynamic pricing is an innovative pricing strategy in order to deal with the unstable market situations and demands. The pricing strategy has become one of the most popular pricing strategies based on the developed online shopping environments in the service industries (e.g., tourism industry).

4. Hypothesis Development
- The formation of perceived price fairness
  - H1-1: Perceptions of price fairness will decrease with a greater amount of price difference for the same ticket.
  - H1-2: Perceptions of price fairness will decrease when the consumer perceives the date the comparison target consumer made a purchase as temporally proximal rather than temporally distant.
  - H1-3: Perceptions of price fairness will decrease with greater nonmonetary sacrifices.
  - H1-4: Perceptions of price fairness will decrease when the consumer perceives the price setter as unfair.
- The influence of perceived price fairness
  - H2-1: Perceptions of price fairness will negatively influence consumers’ self-protection intentions.
  - H2-2: Perceptions of price fairness will negatively influence consumers’ revenge intentions.
  - H2-3: Perceptions of price fairness will positively influence consumers’ repurchase intentions.

5. Main Study
- Methods
  - Data Collection:
    1) A scenario: reflecting a likely situation within a sporting event ticket purchasing under dynamic pricing, was presented prior to the survey questions.
    2) Questionnaire: consists of 4 main parts including the predictors of perceived price fairness, perceptions of price fairness, behavioral intentions, and socio-demo questions.
    3) Sample: 384 samples were collected (response rate of 97.9%) from a large state university and 354 samples were used for a data analysis.
      - Invalid and/or incomplete responses were excluded.
      - 170 female (48.0%) and 180 male (50.8%).
      - The age range was 18-31.
  - Data Analysis: To appropriately measure the collected data, assumption test, exploratory factor analysis (EFA), confirmatory factor analysis (CFA), and structural equation modeling (SEM) were performed.
- Results
  - Data Screening: missing values and outliers were examined (no missing values and outliers were detected, after eliminating invalid and incomplete samples).
  - Assumption Tests: as a result of normality, linearity, multicollinearity and singularity tests, no assumptions were violated.
  - CFA: The four independent variables were examined. As a result, two subscales of “Nonmonetary sacrifice” and one subscale of “Price setter fairness” were dropped (with the Cronbach’s α scores of .056, .192, and .514, respectively)
  - CFA: the results indicated adequate fit with values of χ²/df = 2.218; RMSEA = .059; SRMR = .0439; CFI = .959; IFI = .960; NFI = .929; and TLI = .949.
- Structural Model:
  - Table 1: Structural Model Fit
    - Model: Fit Items
      - TLI: Good
      - CFI: Good
      - NFI: Good
      - IFI: Good
      - RMSEA: Good
      - SRMR: Good
      - χ²/df: Good
      - PLS: Adequate
      - Good: Fit
      - RMSEA: Adequate
      - SRMR: Adequate
      - IFI: Adequate
      - CFI: Adequate
      - TLI: Adequate
  - Figure 3: Hypothesis Testing