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Et tu, Brute? How unfair!

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ABSTRACT

Marketing literature has consistently suggested that retailers should invest in building trust, as customers' trust in the retailer results in a number of benefits for the retailer. The objective of this article is to understand the impact of buyers' prior trust in retailers on their price unfairness perceptions. To investigate this, we conduct three experiments; the findings of the first experiment suggest that buyers' prior trust in retailer has a dual impact (forgiveness and betrayal) on their perception of price unfairness. Trust helps to reduce price unfairness perceptions when the magnitude of the price increase is small, but accentuates this when the price increase is large. Moreover, forgiveness acts as a mediator between price increase and perceived price unfairness. This mediation effect of forgiveness depends upon a shopper's prior trust in the store. The second experiment replicates these findings in a real life experimental setting and thus establishes the robustness of the findings in real life contexts. The third experiment extends the boundaries of this research by demonstrating that the effect of trust on price unfairness perception depends on the nature of comparisons, i.e., whether the price comparison is made with one's own past price or with a price paid by someone else.

"It is easier to forgive an enemy than to forgive a friend." William Blake.

Amazon is the most trusted retailer in the USA (Binns, 2013).

Prices on Amazon for Christmas toys change by the hour (Evans, 2012).

1. Introduction

Amazon has the reputation of being the most trusted store in the US. It is also known to use differential pricing[1] (Adamy, 2000; Rosencrance, 2000) and to adjust prices based on demand (Hayward, 2015). Literature suggests that consumers tend to dislike differential prices as these result in perceptions of price unfairness (Fernandes and Calamote, 2016; Nguyen, 2013). The fact that retailers strive to build trust with customers, while they also use differential pricing strategies which can negatively impact customers price unfairness perceptions raises important questions. Why do retailers invest in trust and in differential pricing simultaneously? Can trust mitigate the negative effects of differential pricing on consumer perceptions? Do trusting customers forgive? When implementing differential pricing, what are the advantages and disadvantages of having trusting customers? We examine these questions from a social exchange perspective by applying theories from relevant domains.

Retailers know the benefits of investing in trust building activities (Toufaily, Souiden, and Ladhari, 2013), and are aware that trust can influence buyers' commitment and loyalty (Agustin and Singh, 2005; Morgan and Hunt, 1994). Retailers are also aware of the benefits of differential pricing, and use price promotions and dynamic pricing[2] (Kopalle et al., 2009; Levy et al., 2004). Since there are benefits from differential pricing, trusted retailers may be tempted to use differential pricing strategies. However, the extant literature indicates that the interaction between trust and differential pricing practices could lead to negative consequences for retailers. Researchers (Grégoire and Fisher, 2006) have suggested that trust is not always beneficial and there could be negative effects of investing in trust building activities. Unfortunately, there are few studies that have investigated the negative effects of trust; most of these are conceptual in nature (Singh and Sirdeshmukh, 2000; Xia et al., 2004). Empirical studies are scarce (Garbarino and Maxwell, 2010), moreover, these show mixed findings. As such, there is a lack of conclusive understanding about how buyers' trust in seller interacts with differential pricing practices.

Differential pricing is closely associated with price unfairness (Kahneman et al., 1986a, 1986b) and trust is an important construct in the research context of perceived price unfairness and social exchange (Xia et al., 2004). In exchange situations, trust is "a willingness to rely on an exchange partner in whom one has confidence" (Moorman et al.,

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[1] Differential pricing involves selling the same product to different customers at different prices. It could also refer to changing the price at different points of time.

[2] Dynamic pricing is a pricing strategy where sellers set flexible prices based on changing customer demand.

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1992, p. 315). Researchers (Garbarino and Maxwell, 2010; Garbarino and Lee, 2003) have investigated the interrelationships between trust and differential pricing and their impact on consumers' perceptions and behaviors (Garbarino and Maxwell, 2010; Garbarino and Lee, 2003). The extant literature (Roloff and Janiszewski, 1989; Singh and Sirdeshmukh, 2000) suggests that the interplay between trust and differential pricing could result in one of two alternative effects, forgiveness or a betrayal effect. However, so far there has been no conclusive evidence on how trust impacts the effect of differential pricing on price unfairness perceptions (Garbarino and Maxwell, 2010). Retailers and researchers need to investigate this aspect, given importance of this question for both theory and practice.

The objective of this article is to investigate how shoppers' prior trust in a store impacts perceptions of price unfairness. We adopt an experimental approach and conduct three experiments, two of which are lab experiments and one is a field experiment. We draw from the literature on social exchanges, trust and forgiveness. We propose that when shoppers encounter a higher than expected retail price, they may forgive small price increases, leading to low perceptions of price unfairness. However, shoppers do not forgive large price increases, resulting in high perceived unfairness. We also suggest that, shoppers' prior trust in the store moderates the effect of the magnitude of the price increase on price unfairness. High trust mitigates the effect of a small price increase but it accentuates the effect of a large price increase. We also investigate the effect of different types of references (self/others) for price comparison on price unfairness perceptions. We show that the impact of shoppers' prior trust on price unfairness depends on the nature of price comparisons.

Through this study, we contribute to the extant literature in the domains of trust and price unfairness perceptions. While researchers have contemplated the negative effects associated with high trust (Grégoire and Fisher, 2006; Garbarino and Maxwell, 2010), there is hardly any empirical evidence to support or disprove this effect. This is possibly the first study that explicitly demonstrates the negative effects of trust and suggests that building high trust can be harmful as it can lead to more extreme responses amongst shoppers. When shoppers' trust in the store is high, they expect the store to behave fairly and not increase price unreasonably. In such situations, a large price increase evokes extreme reactions, reduces forgiveness and leads to high unfairness perceptions. However, when trust in the store is low, a price increase is not unexpected and shoppers are more likely to accept it, resulting in low unfairness perceptions. The construct of forgiveness is not a popular construct in marketing literature with very few studies, and this study contributes to the literature on forgiveness. Finally, this study advances the current understanding related to perceived price unfairness. The results suggest that shoppers' trust in the store moderates the impact of the magnitude of the price increase as well as the type of price comparison on price unfairness perceptions.

2. Literature review

2.1. Social exchange theory

The paradigm of marketing as an exchange process is a widely accepted framework to conceptualize marketing behavior and is a part of most of the contemporary definitions of marketing (Bagozzi, 1975, 1977). The theory on social exchange (Homans, 1961) is widely used in different marketing contexts such as in business-customer relationships (Morgan and Hunt, 1994) and in online marketing (Luo, 2002).

Homans (1961) defines social exchange as the exchange of activity, tangible or intangible, and more or less rewarding or costly, between at least two persons. The social exchange theory adopts a view that exchange is a social behavior that may result in both economic and social outcomes (Lambe et al., 2001). The theory compares human interactions with the market place, and views social change and stability as a process of negotiated exchange between the negotiating parties. Interestingly, social exchange theory is not a single theory, rather it refers to a family of conceptual models (Cropanzano and Mitchell, 2005), which have a number of common aspects. All of these conceptualize social life as a series of sequential transactions between two or more parties (Mitchell et al., 2012).

Economic exchanges are often *quid pro quo* transactions and exchange partners actively monitor them. On the other hand, social exchanges are typically open-ended and involve trust (Organ, 1988, 1990). Trust is an important construct in the domain of social exchange theory (Anderson and Narus, 1984; Doney and Cannon, 1997; Dwyer et al., 1987) and has been applied widely (Cropanzano, and Mitchell, 2005). Another key construct associated with social exchange is the concept of fairness in exchange. According to Homans (1961) and Leventhal (1976), a reciprocal exchange of resources is an important characteristic of relationships and this reciprocity has an impact on fairness perceptions related to exchange. Fairness in exchange relationships applies to entities such as employees and organizations (Cropanzano and Mitchell, 2005) as well as to marketers and consumers (O'Malley and Tynan, 2000). According to the norms of reciprocity, employees expect support from the organization and when these expectations are unmet; employees perceive unfairness and react negatively towards the organization. Similarly, for business-customer relationships, when customers engage in an exchange relationship with a business, they expect a specific outcome from the engagement. However, if consumers feel that their investment in the relationship are not reciprocated they may react negatively by reducing patronage or even breaking the relationship (Kingshott, 2006).

These two constructs of trust and fairness associated with social exchanges are a subject of this article and we provide a brief review of literature in these domains in the following sections.

2.2. Trust

Trust is a popular construct in social sciences (David, 2007), especially in economics (Arrow, 1974; Williamson, 1993), social psychology (Lewicki and Bunker, 1995) and sociology (Lewis and Weigert, 1985). In the domain of marketing, there have been a number of investigations on trust and pricing. Garbarino and Lee (2003) studied how differential pricing impacts buyers' trust in the seller. Similarly, Lagace (1991) conducted a study on the role of reciprocal trust between the salesperson and the manager. The results suggest that the level of reciprocal trust impacts a number of sales variables important to the salesperson and the manager.

In this study, the focus is on the buyer-seller relationship in a retailing context. We adopt a cognitive/evaluative expectation based conceptualization of trust, similar to the one adopted by Sirdeshmukh et al. (2002). According to this conceptualization, a buyer's trust in the seller is 'the expectations held by the buyer that the seller is dependable and can be relied upon to deliver on its explicit and implicit promises'. There is sizeable research that has investigated the impact of trust on the buyers' behavior. The literature suggests that trust is a fundamental requirement for relationship marketing and improves relationship commitment (Morgan and Hunt, 1994); it is a driver of word of mouth (WOM) (Ranaweera and Prabhu, 2003), improves satisfaction with complaint handling (Tax et al., 1998) and is a motivator for consumer loyalty schemes (Agustin and Singh, 2005). Trust is also an essential element in building strong customer relationships and sustainable market share (Urban et al., 2000).

Over the years, the use of differential pricing practices has increased. There is high interest both amongst managers as well as academicians towards understanding how such practices impact consumers' trust in the seller (Tomlinson et al., 2004; Wang and Huff, 2007). Garbarino and Lee (2003) observed that dynamic pricing practices could reduce trust. Grewal et al. (2004) studied the impact of differential pricing based on internet-enabled buyer identification techniques (as compared to purchase timing tactics). Their results show