



Fairness perceptions of retail price increases by foreign and domestic brands: The roles of ethnocentric beliefs, profit stickiness, and contextual information☆



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ABSTRACT

Although consumers do not usually take kindly to price increases, their perceptions of fairness of price increases are contingent on relevant factors. This study investigates consumers' perceptions of the fairness of retail price increase by a domestic versus a foreign brand, as moderated by consumers' ethnocentricity, bias toward inferring a profit motive from a price increase (i.e., "profit stickiness"), and relevant contextual information. Over the course of two sets of experiments, the authors find that ethnocentricity does not necessarily lead to the intuitively expected favorable (unfavorable) bias toward (against) a domestic (foreign) brand's decision to raise prices, subject to profit stickiness and contextual information. These findings have implications for theory, practice, and further research.

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Retail prices of a brand's products are critical in driving its success at the retail level (e.g., Gauri, Trivedi, & Grewal, 2008; Karande & Kumar, 1995). Brands often need to increase their retail prices, sometimes drastically. For instance, in the recent past, Apple raised prices for some of its products in multiple countries, the increase being about 30% for some products in the Canadian market (Apple Example, 2015). Also, more recently, Nikon increased its prices for some of its cameras and lenses in the UK market, the increase being from £1389 to £1699, i.e., by about 22%, for one product model (Nikon Example, 2016). Consumers are naturally averse to price increases and by increasing prices, companies risk consumers' patronage because such increases might be perceived as unfair (e.g., Bolton, Warlop, & Alba, 2003; Xia, Monroe, & Cox, 2004). Therefore, understanding the fairness perceptions of price increases is both theoretically and practically important (Bolton et al., 2003; Campbell, 1999; Martin, Ponder, & Lueg, 2009; Rotemberg, 2005; Rotemberg, 2008; Xia et al., 2004; Xia, Kukar-Kinney, & Monroe, 2010; Wirtz & Kimes, 2007).

Prior research suggests that consumers' perceptions of price increases are contingent on other factors (Bolton & Alba, 2006; Campbell, 2007; Homburg, Hoyer, & Koschate, 2005; Kwak, Puzakova, & Rocereto, 2015), particularly, those that affect their perception or

inference of why the increase occurred (Campbell, 1999; Grewal, Hardesty, & Iyer, 2004). Generally, if consumers largely infer a cost (profit) motive behind a firm's decision to raise prices, they evaluate the increase to be (un)fair (e.g., Bolton et al., 2003; Campbell, 1999). In this research, we study how consumer ethnocentricity, which predisposes people to favor domestic but disfavor foreign brands (Shankarmahesh, 2006), affects their responses to price increases in a market characterized by multi-domestic competition. Our findings suggest that consumer ethnocentricity shapes fairness perceptions of a brand's decision to raise prices (and consequently future purchase intentions) by influencing consumers' attribution of the price increase to profit as opposed to cost-based motives (Bolton et al., 2003), depending on whether the brand initiating the increase is domestic or foreign.

In Study 1, we surprisingly find that consumers with stronger ethnocentricity do not judge a domestic brand's price increase more favorably, though we find support for the intuitively expected ethnocentric bias against a foreign brand's decision to raise prices. Study 2 shows that these effects are particularly likely when consumers know that the brand in question has a relatively high market share. However, if the brand's market share is low, consumers with stronger ethnocentric beliefs judge a domestic brand's decision to raise prices more favorably, but ethnocentricity has no effect on perceptions of a foreign brand's decision to raise prices. Thus, the intuitively expected bias of ethnocentricity in favor of the domestic brand disappears (appears) when the brand has high (low) market share, whereas the expected bias of ethnocentricity against the foreign brand disappears (appears) when the brand has a low (high) market share.

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In the next section, we elaborate on the role of ethnocentricity in the context of a firm's decision to raise prices and develop hypotheses for both domestic and foreign brands. We then describe our studies. Studies 1A and 1B test the hypotheses in two country markets. Studies 2A and 2B address the impact of neutral contextual information, namely, the brand's relative market share. Finally, we discuss the implications of the findings across our studies, as well as some limitations of this research and possible avenues for further research.

1. Hypotheses

People seek causal explanations for unexpected events such as price increases for products that they buy (Campbell, 1999, 2007; Maxwell, Mayer, Stamer, Diller, & Avila, 2013). Typically, consumers perceive a price increase as less fair when they infer that the seller's decision was based on an intent to extract higher profits from customers, rather than resulting from cost-based constraints, likely because they perceive the former reason as a more negative motive than the latter (Bolton et al., 2003; Campbell, 1999; Homburg et al., 2005; Kahneman, Knetsch, & Thaler, 1986; Xia et al., 2004). That is, when they learn of a seller's intention to raise prices, consumers likely perceive the decision as less (more) fair if they strongly infer that a profit (cost-based) motive underlies the decision. We posit that consumer ethnocentricity would affect their inference of the likely motivational cause for a domestic or foreign brand's decision to increase the prices of its products, in turn affecting their perception of decision fairness and future purchase intention. We first develop one set of predictions related to the domestic and foreign brand's decision to raise prices. This is followed by a set of alternative predictions related to the domestic brand.

Consumer ethnocentricity refers to "the beliefs held by consumers about the appropriateness, indeed morality, of purchasing foreign-made products" (Shimp & Sharma, 1987; Sharma, Shimp, & Shin, 1995). Generally, consumers with stronger ethnocentricity tend to display increased preferential bias in favor of (against) domestic (foreign) brands, compared with those with weaker levels of ethnocentricity (e.g., Netemeyer, Durvasula, & Lichtenstein, 1991).

Research on "confirmation bias" suggests the possibility that ethnocentricity would be positively (negatively) related to perceived fairness of a domestic (foreign) brand's decision to raise prices. Confirmation bias refers to people's inherent tendency to interpret ambiguous information in a way that supports their prior beliefs or hypotheses (Nickerson, 1998). This bias has been explained in motivational terms, in that it arises from people's felt need to maintain or bolster their beliefs while avoiding their disconfirmation (e.g., Kunda, 1990; Nickerson, 1998; Sanbonmatsu, Posavac, Kardes, & Mantel, 1998). In line with this motivational basis, we predict that consumers' ethnocentric beliefs affect their causal inferences for a domestic or foreign brand's decision to raise prices, and in turn their perceptions of the fairness of that decision occur in such a way that they help consumers satisfy their need to defend or preserve their ethnocentric beliefs.

Consumers with stronger ethnocentric beliefs would likely exhibit weaker attributions of a domestic brand's decision to increase prices to the negatively valenced profit motive, because doing so helps satisfy their inherent need to preserve or defend their beliefs about the importance of supporting domestic brands. Thus, as ethnocentricity becomes stronger, inferences of a profit motive for a domestic brand's decision to raise prices should become weaker. Consequently, we expect the perceived fairness of the brand's decision to increase with greater ethnocentricity. In contrast, for a foreign brand, stronger ethnocentricity may lead to stronger inferences of a profit motive, thereby satisfying the need to preserve or defend beliefs about the importance of disfavoring foreign brands. Thus, perceived fairness of a foreign brand's decision to raise prices would diminish with increasing ethnocentricity. Accordingly, we propose:

H1. Inferred profit motive mediates the effect of ethnocentricity on perceived fairness of a brand's decision to raise prices, and this effect is moderated by brand type such that for (a) a domestic brand, inferences of a profit motive become weaker and perceptions of fairness grow stronger and (b) a foreign brand, inferences of a profit motive become stronger and perceptions of fairness grow weaker with increasing ethnocentricity.

Research on price fairness suggests the possibility of competing prediction related to the domestic brand's decision to raise prices. This research indicates the possibility that as ethnocentricity becomes stronger, inferred profit motive for a domestic brand's decision to raise prices remains unaffected, due to what we term as "profit stickiness", evidenced in past research (Bolton et al., 2003). Thus, consumers exhibit an inherent tendency to strongly attribute pricing decisions (especially price increases) to sellers' profit motives, reflecting in their perception of price fairness, and this tendency persists even when cost-based motive is plausible (Bolton et al., 2003). Given this basic tendency to emphasize profit motive in explaining price increases, it is possible that consumers would strongly adhere to their suspicion of this motive, even as their ethnocentricity becomes stronger. This is particularly likely given that a domestic brand's decision to raise prices is fundamentally unpleasant, even for ethnocentric consumers, who are likely endorsers of those brands and thereby have stakes in such decisions. This perspective leads to the following competing hypothesis¹:

H1 (Alt). Brand type moderates the effect of ethnocentricity on perceived fairness of the brand's decision to raise prices such that for (a) a domestic brand, ethnocentricity has no effect on perceived fairness; (b) a foreign brand, inferred profit motive mediates the effect of ethnocentricity on perceived fairness such that inferences of a profit motive become stronger and perceptions of fairness grow weaker with increasing ethnocentricity.

Perceptions of fairness might affect other outcomes, such as consumers' future intentions to purchase a brand (Xia et al., 2004). We present competing predictions with respect to the effect of ethnocentricity on consumers' purchase intention for the domestic brand, followed by prediction for the foreign brand. One possibility is that ethnocentricity would positively affect purchase intention for the domestic brand, unmediated by perceived fairness. A baseline bias due to consumer ethnocentricity exists in relation to purchase intentions, such that stronger ethnocentricity leads consumers to express higher (lower) intentions to purchase domestic (foreign) brands (Balabanis & Diamantopoulos, 2004; Netemeyer et al., 1991; Shankarmahesh, 2006). Given this natural ethnocentric bias in favor of domestic products, we might expect ethnocentricity to relate positively to future purchase intentions for a domestic brand, even when it decides to raise its prices, though this effect may not be mediated by the perceived fairness of that decision. Consumers with stronger ethnocentricity might find a way to rationalize a domestic brand's decision to raise prices (by deemphasizing the profit motive), but this rationalization is unlikely to enhance their purchase intentions, because even ethnocentric consumers are likely to be aversive to price increases. Consequently, ethnocentricity might be positively related to purchase intention, unmediated by perceived fairness.

A competing possibility arises from our argumentation for H1 (Alt). If profit stickiness persists with increasing ethnocentricity, and consumers fail to rationalize the domestic brand's decision to raise prices, it is possible that ethnocentricity would be unrelated with purchase intention, i.e., would not show the expected bias in favor of the domestic brand. Thus, even as ethnocentricity becomes stronger, consumers'

¹ We do not predict these competing effects for the foreign brand because even if profit stickiness persists with increasing ethnocentrism, the baseline (expected) bias of ethnocentrism against such brands would likely ensue, leading to weaker perceptions of fairness as ethnocentricity becomes stronger.

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