Price fairness, consumer involvement, emotional and behavioural responses: how do goods and services compare?

Domen Malc University of Maribor Borut Milfelner University of Maribor Aleksandra Selinšek University of Maribor

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Abstract:

Present study investigates how product type – good/service, affects the relationship between price fairness, emotions and behaviour. It also introduces consumer involvement as a possible determinant in perceptions of price fairness. All relationships were hypothesised and empirically investigated. Results suggest that consumer involvement has no significant effect on price fairness, with the exception of consumer purchase involvement in the physical good scenario. Relationship between price fairness and emotional responses is confirmed and discussed for both types of products. Largest differences between two product types appear in behavioural responses to perceived price fairness. Important theoretical and managerial implications are also discussed.

Keywords: price fairness, services, consumer involvement

1. Introduction

In a service-oriented world, price presents a particularly interesting challenge. While pricing approaches and objectives may be similar to pricing of goods, service prices are nevertheless characterised by several meaningful differences (Hoffman, Turley, & Kelley, 2002) ranging from particular demand, cost, customer, competitive, profit, product and legal considerations. Due to service characteristics, consumers often find service pricing difficult to understand, mainly because of intangibility and variability of services. Consequently, consumers can perceive prices as risky or even unfair. The nature of services pricing, price variability, growing consumer awareness of price movements and fierce competition in service markets provide distinct opportunities for researchers and practitioners alike. One area of intrigue is related to the perceptions of service price fairness, its' antecedents and consequences.

Price fairness perceptions are a widely accepted construct that relates to several cornerstones of consumer behaviour research: satisfaction (Bei & Chiao, 2001), buying intentions (Bolton, Warlop, & Alba, 2003; Campbell, 1999; Iyer, Grewal, & Rothenberger, 2017), consumer loyalty (Bei & Chiao, 2001; Konuk, 2019) and others. However, the majority of past research focused on studying fairness in the context of tangible products, such as: clothing (Bolton et al., 2010), groceries (Kahneman, Knetsch, & Thaler, 1986), consumer electronics (Ferguson, Ellen & Bearden, 2014), and cars (Herrmann, Xia, Monroe, & Huber, 2007). There are some important exceptions (e.g. tourism, travel, hospitality services) to this observation in the field of services, which provide useful building blocks in theory development and some will be included in literature review part of this paper.

Main contributions to the broader field of price fairness studies are the inclusion of consumer involvement and the unique investigation of how the type of product (good or service) moderates price fairness perceptions and related emotional and behavioural responses. This type of comparative approach is extremely rare in price fairness research, although it can provide important benefits to this field. Findings of our study can help managers in developing sound pricing strategies and provide guidelines for customer relations practices that take consumers views on fair prices into an account.

2. Conceptual framework and hypotheses

General approach to defining price fairness originates from Xia, Monroe, and Cox (2004) who defined price fairness as a consumer's assessment and associated emotions of whether the difference (or lack there off) between a seller's price and the price of a comparative other party is reasonable, acceptable, or justifiable. Previous research has investigated price fairness in relation to several different types of products. Consequently, the comparability of price fairness's impact on consumer behaviour may be difficult to grasp. One possible avenue of providing an insight into how price fairness perceptions compare across different types of goods and services may be via consumer involvement. Consumer involvement is a wellestablished concept and it can be defined as an individual's assessment of product relevancy (or relevancy of other marketing stimuli) (Mittal, 1995). Past research was able to link consumer involvement to product selection and purchase decisions (Mittal, 1989; Smith & Carsky, 1996). Some authors also indicate that consumers with higher involvement are more price conscious (Arora, 1995) and show higher price sensitivity (Dominique-Ferreira, Vasconcelos, & Proença, 2016). However, only a handful of studies explored the role of consumer involvement in fairness research. High-involvement customers appear to have higher expectations that service providers treat them fairly (Varki & Wong, 2003) and Mattson (2014) showed a small, negative effect of consumer involvement on perceived price

fairness, albeit in a particularly specific scenario. Our aim is to explore this idea further, with our first hypothesis:

H1: Consumer involvement influences perceived price fairness.

One important notion of contemporary characterizations of price fairness is that emotions are an integral part of such appraisals. Emotional responses to perceived price fairness include (Xia et al., 2004): sadness, disappointment and regret. These are usually associated with lower emotional arousal and reactivity, and can be termed as passive responses. Differently, hate, contempt and rage, are characterised by higher emotional arousal and thus viewed as active emotional responses. Past research, however limited, reveals that emotions (1) affect the assessment of price fairness (Campbell, 2007; Heussler, Huber, Meyer, & Vollhardt, 2009) and (2) appear as a direct response to perceived price fairness which later mediates the behavioural responses (Xia et al., 2004). Our focus is on their motivational role therefore our second hypothesis states, that:

H2: Price fairness perceptions influence emotional responses.

The main appeal for price fairness studies comes from its impact on consumer behaviour. Price fairness perceptions affect many different facets of consumer behaviour, which researchers classified into three broader categories (Xia et al., 2004): no action, self-protection and revenge. First group relates to passive behavioural responses that require less or no effort at all, while the second and third group include behaviours that demand a more active approach from consumers. The motivations behind these reactions stem primarily from consumers financial self-protection, and financial compensation. Additionally, we can view them also as coping mechanisms through which consumers deal with negative emotions experienced in price (un)fairness situations (Wetzer, Zeelenberg, & Pieters, 2007), which also highlights the relationship between emotional responses and behaviour (Laros & Steenkamp, 2005). Hence, we propose third and fourth hypotheses:

H3: Price fairness influences behavioural responses. H4: Emotional responses influence behavioural responses.

Previous attempts in studying price fairness in services environment were at least in part overshadowed by the research on overall service fairness (Seiders & Berry, 1998; Han, Kwortnik, & Wang, 2008) and particularly, service recovery (De Ruyter & Wetzel, 2000; Van Vaerenbergh, Orsingher, Vermeir, & Lariviere, 2014). Bolton and Alba (2006) were among the first to provide a more detailed investigation of good and service differences in relation to price (un)fairness. They found that respondents perceive an increase in the price of goods as less fair than an increase in the price of services. One explanation provided by the authors was that price of goods may be perceived as less flexible and subject to change (Bolton & Alba, 2006). Additionally, Simon and Fassnacht (2019) argue that customers tend to agree more with price differentiation when it comes to services, rather than when it is about goods. Possible explanation is that with services and their intangible and variable nature, consumers expect the price to vary to a certain extent. Following this logic, an equal relative price increase may be less impactful in emotional terms, and consequently, price fairness perceptions may be more favourable in the case of services compared to goods. Hence, our last hypothesis: *H5: Product type (goods/services) moderates the relationships between the researched constructs.*

Conceptual model in Figure 1 presents an overview of our hypotheses.

Figure 1: Conceptual model



3. Methodology

3.1 Procedure

Data was collected with structured web questionnaire. We first asked participants to assess product involvement, and purchase involvement in relation to good (mobile phone) and service (subscription mobile plan). Afterwards, they read one of two (random assignment) short e-shopping scenarios:

Imagine that you are buying a [good/service] via Internet. After examining several offers, you choose a [good/service], that suites you (brand and provider of the product/service are irrelevant). Price of this [good/service] is $[819 \notin / 33 \notin /month]$. After you have made the purchase you talk to your friend and find out that he/she bought the same [good/service] for $[479 \notin / 19 \notin /month]$.

After reading the scenario, participants assessed price fairness, evaluated possible emotional responses and provided likelihood evaluations on a set of behavioural reactions.

3.2 Sample

Participants were economics and business students (average age = 20,5) from local university who participated in a broader research project. Participation was exclusively voluntary and they did not receive any type of payment for participating in the study. After checking for incomplete responses, 225 participants were included in data analysis.

3.3 Instruments

The main part of this research were the shopping scenarios where we varied the type of the product (good / service) and consequently its price. We established price points for

observed and reference prices through a pilot study where independent sample provided assessments of normal prices for particular good or service (reference price) as well as assessments of upper price thresholds (observed price). In both cases, observed price is approximately 1.7 times higher than the reference price. Specific types of products (good/service) originate from same pilot study results where both exhibited similar customer involvement levels.

Table 1 provides a short outline of research instruments adopted for this study.

Scale	Items
Price fairness scale (self-	3 items (fairness, acceptability, reasonability) measured
generated)	on a 5-point scale (e.g. 1 – completely unfair; 5 –
	completely fair)
Emotional reactions scale	2 dimensions: passive (4 items) and active (2 items)
(adapted from Richins, 1997)	emotional response on a 7-point intensity scale (e.g. 0 –
	no response; 6 – high intensity response).
Behavioural reactions scale	2 dimensions: passive (2 items) and active (2 items)
(self-generated)	behavioural response. Respondents provided their
	likelihood of particular response from 0 to 100.
Customer involvement scale	6 items in total -3 for product involvement and 3 for
(Laurent & Kapferer, 1985;	purchase involvement; measured on a 5-point scale.
Mittal, 1995)	

Table 1Overview of instruments for data collection

4. Results and interpretation

In order to analyse our conceptual model we used AMOS 24.0 software package where we applied the two-step procedure (Anderson & Gerbing, 1988) to establish the reliability and validity of the latent variables before testing the structural model and the hypothesized relationships (Hair, Celsi, Oritinau, & Bush, 2013; Fornell & Larcker, 1981).

Values of average variance extracted (AVE) all showed appropriate convergent validity (0,510 < AVE < 0,768). Internal consistency also appears to be sufficient with values of composite reliability (CR) exceeding the suggested level of 0,7 (0,711 < CR < 0,908). Fit indices indicated a good fit of our structural model ($\chi^2/df = 194,794/131$; p < 0,01; GFI = 0,923; NFI = 0,910; IFI = 0,968; TLI = 0,958; CFI = 0,968; RMSEA = 0,047). Additionally, values of squared correlations exceeded the values of AVE in every instance, which combined with the results of heterotrait-monotrait ratios (HTMT) of correlations (all below 0,6) also supports the notion of discriminant validity between the constructs.

Furthermore, we present the results of our analyses for two separate structural models. Table 2 shows parameter estimates for both product types.

Table 2

Parameter estimates comparisons based on type of product (good/service).

Path	Physical good	Service	
H1: INVpro \rightarrow PF	0,050	0,225	
H1: INVpur \rightarrow PF	0,220 *	-0,092	
H2: $PF \rightarrow ERp$	-0,616 **	-0,376 **	
H2: PF → ERa	-0,443 **	-0,143	
H3: PF → BRp	-0,323 *	-0,173	
H3: PF → BRa	-0,035	-0,128	

H4: ERp \rightarrow BRp	0,285 ^a	0,499 **
H4: ERp → BRa	0,193	0,234 ^a
H4: ERa → BRp	0,104	0,028
H4: ERa → BRa	0,134	0,299 *
Fit indices		
χ^2	194,087 (df = 141, $p = 0,002$)	217,686 (df = 141, p = 0,000)
GFI	0,848	0,854
CFI	0,949	0,926
TLI	0,938	0,911
IFI	0,950	0,928
RMSEA	0,059	0,068

INVpro – product involvement, INVpur – purchase involvement, PF – price fairness, ERp – passive emotional response, ERa – active emotional response, BRp – passive behavioural response, BRa – active behavioural response.

* *p* < 0,05

 $p^{a} p < 0, 1$

In the case for physical good (mobile phone), price fairness has a significant influence on passive and active emotional responses. On the other hand, for service (subscription plan), price fairness influences only passive emotional response, which in turn influences passive behavioural response. Consumer involvement does not appear to have any impact on perceptions of price fairness in the case of services, while in goods this influence exists but only for purchase involvement. Overall, fit indices show an acceptable structural model fit for physical good, despite lower GFI and higher RMSEA value. Both of these indices are absolute measures and thus, more affected by sample size (Ainur, Sayang, Jannoo, & Yap, 2017; Shevlin & Miles, 1998; Steiger, 2007). Fit indices for service scenario differ from the previous case; however, they still pass the suggested thresholds.

Comparison of both models indicates that price fairness has greater impact on emotional and behavioural responses when the type of product is a physical good. On the other hand, in the service condition behavioural responses are in larger part influenced by emotional responses, with the role of cognitive judgment being noticeably smaller.

5. Conclusion

The purpose of present study was to investigate the relationship between price fairness, consumer involvement, emotional responses, and behavioural responses across two product types: good and service.

Analysis revealed that price fairness influences emotional and behavioural responses differently when it comes to goods, compared to when focus is on services. First, in the physical good scenario, price fairness influences both passive and active emotional responses; however, it only provokes passive behavioural responses, where little to no effort is required from consumer. Additionally, only consumer purchase involvement affects price fairness, whereas product involvement had no significant effect.

Second, in the service scenario, price fairness only appears to evoke passive emotional responses, which in turn evoke passive as well as active behavioural reactions. There appears to be no relationship between price fairness and active emotional or active behavioural response. Relationships between consumer involvement and price fairness were insignificant for both types of involvement.

In light of these results, we reject hypothesis 1, that consumer involvement influences price fairness perception. The only exception is purchase involvement in physical good

^{**} p < 0,01

scenario. Physical goods and especially mobile phones from this study often exceed their functional role and represent visible and tangible social proof, which is not the case for services (e.g. subscription plans). Consumers invest their time and energy in their decision in order to choose the right phone in a wide array of alternatives. Such heightened purchase involvement consequently appears to have an effect on perceived price fairness.

Second hypothesis stated that price fairness influences emotional responses. Our results confirm this in all cases except for the relationship between price fairness and active emotional response in service scenario. Hence, we confirmed H2. As noted before, consumers expect service price to vary at least to certain extent (Bolton & Alba, 2006; Simon & Fassnacht, 2019) and active responses in terms of hate and/or contempt are less evident.

Third hypothesis that price fairness affects behavioural responses was rejected. Results of this study reveal the hypothesised relationship only in the case of physical good, and specifically for the relationship between price fairness and passive behavioural responses. However, as it appears in service model, it is not price fairness, but the passive emotional response, that spurs behaviour. Service consumers are often complemental actors in service delivery and their inputs arise more readily. Also, the connection between the service and its' provider is more visible, even more accessible, compared to product brand or provider of the physical good. Overall, hypothesis 4, that emotional responses influence behaviour can be partially confirmed.

Differences in both structural models allow us to (partially) confirm hypothesis 5. Observed differences show that product type (good or service) generates different responses to price fairness – both in emotional and behavioural aspects. While price differences in goods and associated price fairness perceptions evoke salient emotional responses, they have little to no impact on behavioural reactions. Behavioural reactions are more evident in service scenario, especially passive behavioural responses where consumers can plainly exclude the unfair provider or its offerings from future consideration. As Oliver (1996) notes, emotional responses depend on the perceived cause of emotions and are oriented either inward (e.g. sadness as a passive response) or outward (e.g. hate as an active response). In the case of physical goods, consumers may be more likely to attribute incorrect choices to themselves, hence no repercussions for the provider. However, in the case of services, where intangibility and variability is more characteristic the attributions target service providers. It is also likely that general social norms discourage expression and acting on emotions such as hate and contempt. Taken that into account, consumers may experience such active emotional responses privately and not act on them.

5.1 Managerial implications

Present research sheds a light into differences between price fairness perceptions and their consequences in selling of goods and selling of services. These differences highlight the importance of passive emotional reactions in service environments and consequently passive behavioural outcomes, which include the exclusion of the "unfair" provider or its products from future deliberations. The relationship between consumer and service provider stagnates or even deteriorates. Thus, passive repercussions as a result of perceived price (un)fairness appear more harmful, because they may be more difficult to trace. According to our results, we propose that service provider stake a proactive and controlled approach in gathering negative feedback and provide an accessible and open two-way communication channels. Previous research also identified that when consumers complain to the marketers they experience a reduction in dissatisfaction, which does not hold true when they take a more active approach and complain publicly (Nyer & Gopinath, 2005). Companies can benefit also from training their sales personnel to be conscious of signs of sadness and disappointment in their customers in order to provide them instant outlet to express their dissatisfaction.

5.2 Limitations and future research

Readers should view the results of this study in light of certain limitations. Sample size and sample characteristics (students) might limit broader generalization of our findings. Sample size also limited the available analytical approaches, which could provide a more robust investigation of the data. One notable restriction also stems from the specific products in our study. Mobile phones and mobile subscription plans are complementary by nature and often sell in a bundle (Yan & Pei, 2009). Customers may have to buy mobile phone along the subscription plan to obtain the full utility of the products. Consequently, the focus on the price is often spread between both of them – and not necessarily in a uniform manner. Some people may put more emphasis on acquiring a better deal on the service end; on the other hand, particularly young adults may favour more the tangible product. Especially if that product is their future mobile phone. Finally, some authors also warn that scenario based research may provide some over- or understated reactions to consumer responses, compared to real world experiences. Kim and Jang (2014) note that respondents in scenario based studies may understate their negative emotional and behavioural responses and overstate their positive evaluations (e.g. overall satisfaction).

6. Literature

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