

Employees' Pricing Power and its Impact on Customers' Acceptance of Dynamic Pricing

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Abstract

Companies that apply dynamic pricing adapt prices over time to balance supply and demand which can boost capacity utilization and revenues. Yet, when transitioning from fixed to dynamic prices, companies need to carefully design the new strategy to avoid negative customer reactions. As in many service industries quality varies across employees – and prices could possibly too – companies could use the transition to grant employees pricing power. So the question arises whether employees should be allowed to flexibly determine the prices of their own services. We propose that (1) acceptance of dynamic pricing and repurchase intentions depend on employees' pricing power, (2) that this effect is mediated by perceived procedural fairness, and (3) that justification, price variation and framing are first stage moderators. To investigate our hypotheses, we outline a set of experiments that provide practical insights for implementing dynamic prices in a novel setting, namely in beauty services.

Keywords: *dynamic pricing; (employee) decision-making; services marketing*

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