Dynamic Pricing: Consumer Reactions and Effective Retailer Responses

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Abstract

Prices become increasingly volatile in online markets due to dynamic pricing, conflicting with consumers' preference for price stability. Drawing on price fairness and range-frequency theory, five studies explore the effects of dynamic pricing on consumer trust and price search behavior. Overall, consumers trust dynamic pricing retailers less and compare prices more frequently under dynamic pricing. However, the negative effect of dynamic pricing on trust is nullified if consumers have already experienced dynamic pricing (the habituation effect). Moreover, dynamic pricing's effect on price search actually reverses (an asymmetric effect) if consumers are price-advantaged or dynamic pricing is the market norm—a favorable effect from a retailer's perspective. To effectively manage dynamic pricing, managers should offer cash price-matching guarantees. Consumers trust dynamic-pricing retailers offering such guarantees more and compare prices less.

Keywords: *Dynamic Pricing; Price Search; Price Fairness*

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