



A Great Bargain or a Big Rip-off? Consumers' Perceptions of Price Fairness in the U.S. and China

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You know what it's like to feel taken. You're sitting on a plane and the man next to you brags that he got his ticket for half of what you paid. Or you're wearing a new blouse that you bought at an outlet and your friend says she found the same shirt for \$10 less at a department store sale. Or how about the non-refundable hotel reservation that you booked at an Internet site, only to discover that it wasn't a bargain after all?

No doubt you have also been on the other side of the equation -- snagging a round-trip ticket to London or an ocean-view hotel room at an attractive price and feeling good about it.



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Wharton marketing professor [Lisa E. Bolton](#) and two colleagues -- Hean Tat Keh, professor of marketing at the Guanghua School of Management at Peking University, and Joseph W. Alba, professor of marketing at Warrington College of Business at the University of Florida -- explore pricing and fairness perceptions in a new research paper and document how attitudes are different, or in some cases similar, between consumers in China and those in the United States. The researchers wanted to know, for example, how consumers react when they discover that someone else bought the same product as they did at a cheaper price. The paper is titled "Culture and Marketplace Effects on Perceived Price Fairness: China and the USA."

The researchers found that American consumers in general tended to see things as fair if they got the bargain and unfair if they didn't, regardless of whether the shopper they were being compared to was a friend or a stranger. Chinese consumers, on the other hand, cared more about how they stacked up against their friends. "The Chinese were less affected by what a stranger paid than what a friend paid, whereas Americans were uniformly sensitive to price discrimination," the researchers report.

They also explored whether customers' relationship with the seller -- first-time buyer versus loyal customer -- affected their feelings of fairness in the price they paid. For American consumers, it did not seem to matter much whether they were a first-time or loyal customer: It was fair if they got a lower price and unfair if they paid more regardless of their relationship with the seller. Chinese consumers, on the other hand, tended to be more bothered if they paid a higher price as a loyal customer. Chinese consumers "were more sensitive...to the nature of the vendor-customer relationship."

According to Bolton, there are a number of reasons why marketers need to understand how customers determine what is fair. For one, "fairness is a driver of repeat purchases," she said, so understanding what customers think is critical to business success. Also, questions of fairness may arise more often amid the trend toward dynamic pricing, where "more companies are trying to charge different prices to different consumers for the same product," including such items as prescription drugs, airline tickets and books. The Internet makes it easier for companies to offer varying prices to customers and to quickly make adjustments in price, but the Internet also makes it easier for consumers to find out that all is not equal in the marketplace.

"Although price information sharing among friends may appear more prevalent, the Internet has expanded opportunities for consumers to learn what relative strangers pay for products (e.g., price information posted by other consumers on eBay, TripAdvisor, and similar websites)," the researchers write. A dynamic pricing strategy could backfire for a company if customers find out they paid more than

someone else and decide, as a result, to take their business elsewhere. Some people prefer to think of dynamic pricing as price discrimination.

Bolton said there is "surprising little research on price perceptions and how prices affect a person's view of fairness." Cross-cultural information is especially lacking. She said it was interesting from a research standpoint to look at both the U.S. and China because one is an established marketplace and the other is the "world's largest emerging market." Given today's global economy, American companies need to understand how Chinese consumers think when they make buying decisions, and Chinese companies, likewise, need to get inside the American mind.

Different Pricing Options

In the first part of the study, funded by the Guanghua-Wharton Joint Research Initiative on Firms and Markets in China, the researchers asked undergraduate students in China and the U.S. to read one of several variations of this scenario: "You are shopping for a shirt. You find one that you like in a store and pay (\$29.95/\$39.95) for it. You subsequently see a (stranger/close friend) and you are both wearing the same shirt (same brand, same quality, same style). You learn that (this stranger/your friend) paid (\$39.95/\$29.95) for the shirt. It was bought at the same time from the same store." The Chinese version had prices set at ¥119 and ¥159. The participants were then given a rating scale and asked, "How fair is the price that you paid?"

In another scenario, the variable of loyal customer versus first-time customer was introduced into the equation. Previous research has looked at how loyalty factors into customers' views about pricing, and findings are mixed. "The foundation of relationship marketing is that loyal customers are more profitable, in part due to decreased price sensitivity," the authors note in their paper. But "contrary to this popular wisdom, some past research suggests that long-time customers may be more sensitive to price and therefore less profitable to firms."

Bolton's research appears to support the latter view. While Americans judged it unfair to pay a higher price regardless of whether they were a new or returning customer, "Chinese consumers judge it unfair when they pay more to a vendor they have dealt with before," Bolton said.

The researchers also explored a variety of pricing scenarios in which they varied time of purchase (same day or next day); type of product (same or different) and location (same store or different store). For both American and Chinese consumers, "paying a higher price than another customer is seen as less unfair if the store or the item differs or if the date differs substantially," Bolton said.

In addition, the researchers wanted to know if consumers in China and America were more accepting of certain explanations of why prices vary from one store to the next, such as quality of the product; the store's margin strategy; other costs of doing business (such as rent and amount of service offered); risky inventory, and customer base. Both Americans and Chinese were most sympathetic to the quality argument and least accepting of the profit margin explanation.

The researchers said cultural differences likely play a role in how Chinese and American consumers view pricing fairness. The researchers said that the U.S. culture tends to value individualism (each man, or shopper, for himself) while the notion of collectivism, or defining "the self in terms of social connectedness," prevails in Chinese culture. "For example, Americans report treating friends, coworkers, and business owners equivalently whereas Chinese are more sensitive to group membership," the researchers report.

According to Bolton, these findings suggest that Americans may be less accepting of dynamic pricing at this point because "fair is fair" as they see it. "In China, there may be more room to maneuver" in setting different pricing levels, she said, because consumers tend to view pricing fairness in terms of how they fared in comparison to "in-group members," or friends versus strangers. Bolton pointed to a growing trend in China in which people are forming informal groups or clubs to obtain better prices from vendors. The practice, called *tuangou* (team purchase) unfolds when a group of people with a common interest in buying, for example, a car or appliance meet through an Internet chat room and then descend all at once on a store or dealership. The idea is that multiple shoppers can get a better price than one shopper alone. While Americans have some experience with how group membership might afford certain discounts (for

instance, being a member of AAA, AARP or an alumni association) the Chinese seem more accepting of the fact that the price they pay may be influenced by the group they are in, Bolton said.

So what does the future hold when it comes to pricing strategies? Clearly, gone are the days when stores held sales only two or three times a year and customers expected to pay full price most of the time. But are today's customers ready for the more unpredictable world of dynamic pricing? "Marketers have paid increasing attention to the potential of dynamic pricing -- or individual-level price discrimination -- as technology and the Internet increase its prevalence," the researchers conclude. But they say their findings suggest that at least for now, "fairness concerns may limit consumer acceptance of such pricing practices and may do so differentially across cultures.

"Of course, exceptions to that rule (such as special pricing for seniors or children), as well as our findings for price-setting mechanisms, suggest that traditional practice and social norms may also play a role -- and that, given time, dynamic pricing could become a better understood and more accepted practice," they conclude.

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