



How price complexity takes its toll: The neglected role of a simplicity bias and fairness in price evaluations



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ABSTRACT

Marketing managers commonly employ complex price plans. Surprisingly, limited and conflicting evidence reports how customers perceive and react to complex prices. This study examines perceptions about price complexity and shows that customers tend to prefer simple prices. Two experimental studies show that perceived price complexity negatively affects customer perceptions of price fairness and influences product choice because customers negatively evaluate the transparency of the firm's pricing practices and infer higher total prices. Customers comparing alternate offerings may therefore prefer simple over complex prices, even when the latter are less expensive. Study results suggest limiting price plan variations positively affects customer inferences about transparency and fairness, and thus customer choice.

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1. Introduction

Customers often face complex price plans. Rather than dealing with all-inclusive prices, they frequently have to add several additional fees (or charges) to a base price, add prices of various extras, or consider price discounts when calculating the final price of a particular offer. In addition, customers frequently have to cope with many different numbers and with many odd numbers firms use for the different charges.

Complex prices are popular in industries such as telecommunication services, airlines, financial services, or automotive. This observation holds for three major reasons. First, firms tailor their offers and the corresponding prices to different customer segments to better adapt to the customers' needs and to respond to changes in the marketplace (Monroe, 2003). Second, many offers are bundles of services or products: Prices are thus complex because the different parts of an offer have different charges (Carlson & Weathers, 2008; Xia & Monroe, 2004). Third, firms may intentionally make prices complex (Kim & Kachersky, 2006).

As a result, the complexity of prices adds to the complexity customers face in their daily life as shoppers, for example, when evaluating the value of a particular offer or when choosing out of large assortments.

In this respect, customers frequently suffer from overload in choice and show negative reactions to choice complexity (e.g., Dellaert & Stremersch, 2005; Scheibehenne, Greifeneder, & Todd, 2010; Schwartz, 2004).

However, customers' specific perceptions and reactions to complex prices are unclear. The question is whether complex pricing ultimately pays off for firms. On the one hand, prior work shows that when customers have to deal with a price consisting of multiple elements, they may not process the total price completely, but rather focus, for example, on the base price of an offer (Morwitz, Greenleaf, & Johnson, 1998). As a result, customers tend to underestimate the total price. This result implies that firms could structure their price plans in a complex way to keep their customers from accurately calculating the total price of an offer (Carlin, 2009). On the other hand, customer reactions to price complexity might also be detrimental for firms. Marketing practice highlights that customers increasingly choose transparent and so called fair alternatives (McGovern & Moon, 2007). Accordingly, a growing number of firms promote the simplicity of their prices. This practice might hold for two major reasons.

First, complex prices cause a high cognitive burden. Depending on the specific design of a price plan, customers have to invest different levels of cognitive effort (Estelami, 2003; Herrmann & Wricke, 1998; Kim & Kramer, 2006). Thus, customers should have a harder time judging the value of a complex price plan since they must invest more energy in the determination of the final price. As a result, customers may associate higher overall costs with a particular offer. Customers may not even invest high effort but directly infer higher prices from more complex prices (Carlson & Weathers, 2008). Second, customers may

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infer that companies try to make their pricing opaque (Ayres & Nalebuff, 2003), which can cause negative reactions (Lee & Han, 2002).

To summarize, the question how customers perceive prices of varying complexity and how their complexity perceptions affect their choice behavior is not straightforward. However, evidence on how customers perceive the complexity of prices is scarce. Prior work has not considered the customers' perceived price complexity as a determinant of their reactions to objectively simple or complex price plans. In light of this research gap, this article addresses the following questions: (1) Does a simplicity bias affect customers' price evaluations, and (2) why do customers evaluate a simple price more favorably compared to the same price presented in a complex way? More specifically, this article addresses the following three issues.

First, this article investigates the customers' perceived price complexity, that is, their subjectively reported total cognitive effort involved in the evaluation of a price plan. The way companies set up their price plans should affect this perceived cognitive effort. With respect to the latter, this article takes a broader perspective on the design of price plans compared to prior work on multi-part prices. Prior work focuses on customer reactions to an increasing number of price elements, that is, the size of a price plan (Xia & Monroe, 2004). However, the heterogeneity of prices (e.g., the use of even versus odd numbers) and the different calculations customers have to use in order to calculate the final price of an offer should also determine price complexity. For example, prior work in this field either uses even prices, which are very easy to process (Schindler, Morrin, & Bechwati, 2005) or odd prices, which are more difficult to process (Morwitz et al., 1998). Prior research does not consider the role of customers' complexity perceptions (see also DelVecchio, Krishnan, & Smith, 2007, p. 166). In addition, the understanding of price complexity in this article is more general: Prior studies focus on offers that only consist of a base price and surcharges (Morwitz et al., 1998).

Second, this manuscript examines why customers' perceptions of price complexity affect their price fairness perceptions and choice. Except for Carlson and Weathers (2008), no prior work considers the interplay between the customers' perceived price complexity and price fairness. In addition, prior work largely neglects the customers' inferences about a firm's pricing and the perceived fairness of a firm's pricing (Campbell, 1999).

Third, this article examines customer reactions to a trade-off between the complexity and the price levels of alternative offers. Prior work does not directly address the general question of whether simplified pricing can outperform complex pricing. Customers may prefer a simple price option even when the option is more expensive. Studies that deal with a conflict between simplicity and variety in choice support a similar notion (e.g., Gourville & Soman, 2005).

The remainder of the article presents the results of two experimental studies. Study 1 investigates the relationships between customers' perceived price complexity, the perceived pricing transparency of the firm, price fairness, and willingness to buy, while manipulating the objective complexity of a price plan. Study 2 confronts customers with a choice task that includes a trade-off between the complexity and the price levels of two alternative options.

2. Study 1: How price complexity affects willingness to buy

2.1. Overview

Study 1 establishes a chain of effects linking the complexity of a price plan to the customer's willingness to buy this particular offer. Drawing on justice theory, price fairness research (Campbell, 1999; Lind & Tyler, 1988; Xia, Monroe, & Cox, 2004), and research on customer choice (Bettman, Luce, & Payne, 1998) the customer's perceived price complexity of a specific offer, the perception of the transparency of

the firm's pricing, and the price fairness judgment with respect to the specific offer are the intervening constructs (Fig. 1).

2.2. Theoretical background and hypotheses

The first important step is to define what makes a price plan complex. In line with the basic ideas of systems theory (e.g., Luhmann, 1996), the number of elements belonging to the system and the relations between these elements constitute a system. Both system characteristics determine system complexity. Organizational theory applies a similar logic to classify the complexity of managerial decisions according to the number of components of a decision problem and the degree to which these components are heterogeneous. Decision complexity increases as the underlying complexity dimensions increase (Duncan, 1972).

Drawing on this notion, the size of the price plan and two different facets of heterogeneity constitute three distinct drivers of objective price complexity. Accordingly, the total number of price elements within a price plan (e.g., the different parts or charges of a particular offer) a customer has to use in order to calculate to total price of a particular offer first determines objective price complexity. This dimension corresponds to the degree of price partitioning (e.g., Xia & Monroe, 2004). Beyond this traditional view, the heterogeneity of the price plan covers two further aspects. Heterogeneity firstly refers to the variety of different numbers (e.g., equal and even numbers versus all of them being different and odd). Secondly, heterogeneity refers to the difficulty of calculations necessary to determine the total price of an option. This dimension ranges from simple calculations to calculations of higher difficulty (Estelami, 2003). Both dimensions affect cognitive effort and the customer's perceived fluency of processing price information (Estelami, 2003; King & Janiszewski, 2011).

The customer's *perception* of price complexity as focal construct captures the subjectively reported total cognitive effort involved in the evaluation of an objectively complex price (see also Cooper-Martin, 1994). This study conceptualizes perceived price complexity as a formative second-order construct being constituted by three dimensions. The first dimension, price load, refers to the number of price elements a customer must consider (Jacoby, 1977). Price load captures information overload due to individuals' limited ability to process information (Jacoby, Speller, & Kohn, 1974; Malhotra, 1982). The second dimension, calculation effort, refers to the perceived difficulty in calculating a final price as complex numerical stimuli lead to difficulties in a price judgment (Monroe & Lee, 1999). The third dimension, evaluation effort, refers to the perceived difficulty in evaluating the final price against the benefits of an offer (Heitmann, Lehmann, & Herrmann, 2007).

The central premise is that the three dimensions of objective price complexity affect the customer's perceived price complexity due to a higher cognitive burden because individuals have limited cognitive capacity (Hitch, 1978). The perceived price complexity should have an effect on the customer's perceptions of the particular offer as well as of the firm's pricing (e.g., Lee & Han, 2002). More specifically, price fairness is a major determinant of customer reactions to prices (Campbell, 1999; Xia et al., 2004).

Prior research calls for a distinction between procedural and distributive price fairness by drawing on justice theory (Lind & Tyler, 1988). Distributive fairness refers to the fairness of an outcome. Procedural fairness refers to the process that leads to the outcome. Procedural fairness addresses the *firm level* whereas distributive fairness addresses a *particular outcome*, for example, a transaction (Cohen-Charash & Spector, 2001). According to this understanding the evaluation of the *firm's pricing* is distinct from the evaluation of the price of a *particular offer* (Kukar-Kinney, Xia, & Monroe, 2007; Martin, Ponder, & Lueg, 2009).

Price fairness captures the customer's perception that the price of a particular offer is "right, just, or legitimate versus wrong, unjust, or illegitimate" (Campbell, 2007, p. 261). Besides this evaluation of the

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