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Consumers' reaction to fair trade motivated price increases

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ABSTRACT

Consumer perception of price increases and their reactions are a topic of great relevance for marketing research and practice. We investigate consumers' acceptance of price increases justified by higher costs due to company's corporate socially responsible activities by conducting two experimental studies. In the first study we examine perceived fairness and intentions following a price increase justified by a fair trade commitment. To assess the green attitude–behavior gap in consumer behavior our second study incorporates a real world experiment to explore actual consumer behavior against stated intentions. Our investigation adds nuance to our understanding of the effects of corporate social responsibility on consumer response to price increases. Our results reveal that a price increase due to a fair trade commitment is perceived as fair and does not have a negative impact on purchase behavior. We contrast our findings with a price increase due to higher taxes and due to profit increase. Our results demonstrate that fair trade justified price increases can skim twice the amount compared to tax justified increases. Furthermore, consumers' actual buying behavior reveals no difference to their stated intentions. Hence, prior research proclaiming an attitude–behavior gap in the context of consumers' socially responsible buying behavior has to be called into question.

1. Introduction

Price increases have always been a very sensitive topic for companies out of fear of negative consumer reaction (Herrmann et al., 2004). Research identifies the perceived fairness of a price increase as an important psychological factor influencing consumer judgment of higher prices (Kahneman et al., 1986a, 1986b) and consequently their actual behavior (Dickson and Kalapurakal, 1994). Research demonstrates that consumers who evaluate a price increase as unfair are generally unwilling to pay the increase, potentially leading to a direct negative effect on a company's profits (Campbell, 1999a). Moreover, perceived unfairness of a price increase can lead to consumer boycotts, lower levels of satisfaction, higher switching intentions, and other negative consumer reactions, like negative word-of-mouth, to name a few (Goldman, 1994; Kaufmann et al., 1991; Oliver and Swan, 1989; Xia et al., 2004).

There are numerous reasons why a company might increase prices. Often a firm is confronted with higher costs or taxes and the question whether they can pass these higher costs through to the consumers by raising prices. Relatively new costs companies are confronted with are those related to corporate social responsibility (CSR) (McWilliams and Siegel, 2001). However, consumers are increasingly demanding companies to pay attention to CSR related issues such as the environment or the fair trade and production of their products (Hira and Ferrie, 2006). At issue, though, is whether consumers will accept higher prices associated with corporate socially responsible activities like a fair trade commitment. Beyond intentions, the more important concern is if consumers will really pay more at the point of sale or if there will be a difference between what they say to intend to do and what they really do. Reflecting the prevalence of this issue, this separation can be termed the attitude–behavior gap. Research exploring the gap between consumers' attitudes and actual behavior has been in focus of previous research (e.g., Padel and Foster, 2005, Vermeir and Verbeke 2006).

In this study we research consumer reaction to a price increase under different justification scenarios. As fair trade commitment is a widely discussed topic in the field of corporate social responsibility (de Pelsmacker et al., 2006), we choose the introduction of a fair trade scheme by a company as a test condition in the present study. In addition, we use increasing taxes for comparison. Using different scenarios (fair trade commitment and tax increase) we examine consumers' perception and intentions following a price

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increase in the context of consumers' everyday consumption good: coffee. Moreover, we investigate actual purchase behavior of participants in a field experiment. This allows exploration of differences between the stated intentions of the consumers and their actual behavior and thus sheds light on a potential attitude–behavior gap. We contribute by offering novel insight into whether perceptions of price fairness and corresponding intentions translate into actual behavior.

2. Conceptual framework and hypotheses

2.1. Perceived fairness of price increases

Fairness in general can be described as the consumers' judgment of whether an outcome and/or the process to reach an outcome are reasonable, acceptable or just (Bolton et al., 2003). Studies exploring the acceptance and the impact of price increases on consumer behavior are predominantly embedded in the concept of price fairness (Campbell, 1999b; Kahneman et al., 1986a, 1986b). Consumer perception of price fairness is defined as the subjective feeling of whether a price is fair, legitimate or right versus unfair, illegitimate or unjust (Campbell, 2007). Consequently, perceived fairness of a price increase has a strong influence on consumer reaction (Etzioni, 1988). Existing research offers first insight into consumer perception of price increases.

The dual entitlement principle describes fairness perceptions by drawing on the concept of reference transactions (Kahneman et al., 1986a, 1986b). Consumers are shown to perceive having an entitlement to a reference price and companies, in turn, are entitled to reference profits (Haws and Bearden, 2006). Hence, a firm is not allowed to increase prices, thus violating consumer entitlement to the reference price, simply to increase profits (Herrmann et al., 2007). If, however, the reference profit of a company is threatened, the firm may increase prices enough to protect its profit, even if this increase comes at the expense of consumers (Vaidyanathan and Aggarwal, 2003). The dual entitlement principle thus predicts consumers will better receive a profit maintenance-based rationale for a price increase than a rationale driven by a desire for increased profits (Kahneman et al., 1986a).

Attribution theory provides understanding of fairness perceptions in the absence of otherwise identified causes. Attribution theory research finds that consumers are likely to search for causal explanations for events that are surprising and/or negative such as an unexpected increase in price (Folkes, 1988; Weiner, 1985). In the absence of alternative information, consumers often infer a negative motive for an unjustified price increase (Kalapurakal et al., 1991; Martin et al., 2009; Urbany et al., 1989). According to the dual entitlement principle this leads to lower perceived fairness for an increase in price than if the company can provide a justification such as rising costs (Bies and Shapiro, 1988; Franciosi et al., 1995; Kachelmeier et al., 1991; Urbany et al., 1989). In the absence of an explanation, consumers are prone to infer a negative, profit-driven motive for a firm's price increase, negatively impacting perceived price fairness. Stated formally, we predict:

H_1. A price increase justified by an explanation will lead to higher perceived fairness of a price increase than an increase without any given justification by the company.

In addition to perceived motive, research shows that the nature of a justification has an impact on perceived price fairness. Higher costs can stem from numerous different reasons, ranging from those that improve the product or service being offered to those that have little impact. Increased taxes represent an example of a justification that does not change the product or service being consumed, but does offer a negative, albeit justifiable rationale for a price increase. The intention of such a price increase is to maintain companies' profits due to higher taxes they have to pay. Hence, consumers will evaluate the price increase as fair on the one hand but are also aware the fact that they are not gaining anything with these higher prices. In contrast, adoption of fair trade sourcing policies represents a more positive and benevolent motive for a price increase compared to the first scenario, which is expected to have a positive impact on consumers' fairness evaluations (Campbell, 1999a). Moreover, it is reasonable to assume fair trade sourcing generates an additional ethical benefit for consumers by providing a feeling of charity by supporting deprived producers in the third world. Applied to the present study, these considerations lead to the formulation of the following hypothesis:

H_2. A price increase justified by higher costs due to fair trade commitment will lead to higher perceived fairness of a price increase than an increase attributed to higher taxes.

Prior studies find that the perceived fairness of a price increase has an effect on attitude towards the company as well as on consumers' repurchase intention following a price increase (Campbell, 1999a; Homburg et al. 2005). Hence, we develop the following hypotheses relating to the consequences of a price increase.

2.2. Attitude toward the company

A reasonable consequence companies do fear following a price increase is the negative impact of a price increase on consumer attitudes. Research demonstrates a positive impact of perceived price fairness on attitude towards the company (Maxwell, 2002). This implies higher perceived price fairness of a price increase maintains a more positive attitude towards the company. Studies within the field of corporate social responsibility identify a general positive influence of the social commitment of a company on consumers' attitude towards this company (Sen and Bhattacharya, 2001). As fair trade commitment is one manifestation of corporate social responsibility, this relationship is expected to be significant in this context (de Pelsmacker et al., 2006). Integrating these findings, those justifications that elicit higher levels of perceived price fairness should be associated with more positive attitudes towards the company. As such, we expect:

H_3. Attitudes towards the company will be highest in the fair trade commitment justification, followed next by the tax justification, and with no justification expecting the lowest attitudes.

2.3. Repurchase intention

Repurchase intention is another critical factor when a company decides to increase prices and is defined as the voluntary choice of a consumer to buy the product again. Research often explores the repurchase intention of consumers following a price increase (Homburg et al. 2005). Past research demonstrates greater perceived fairness of a motive for a price increase that is associated with higher repurchase intention (Campbell, 1999a). A justification of a price increase due to growing costs (either due to a tax or due to a fair trade commitment) for the company provides a positive motive for the consumer compared to an increase without any justification as consumers will assume a company's intention to raise profits (Urbany et al., 1989). As a commitment to fair trade sourcing is seen as a positive motive consumers should regard such a price increase as fair. Again it can be also assumed that the fair trade attribute can generate an additional benefit for the consumer by giving them the feeling of contributing to a good