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Reactions of the jilted consumer

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ABSTRACT

Differential promotion strategies are a vital relationship marketing tool that is advantageous to both the company and the targeted customer. However, a differential approach means some customers do not fare as well as others. The customers who get the lesser deals are the focus of this study. How does a customer react when they learn another customer received a better deal? How should the provider respond when this imbalance is obvious to the customer? Fairness theory is utilized to address these research questions. The study includes an experiment featuring hypothetical scenarios. MANOVA results reveal that a proactive, upfront strategic response can mitigate the negative effects of differential promotion strategies in terms of fairness perceptions and behavioral outcomes.

1. Introduction

Relationships between service providers/retailers and their clients are comparable to marriages between husbands and wives (Beaton and Beaton, 1995; Fournier, 1998). In both cases, the quality of the relationship is based on satisfaction, trust, and commitment (De Wulf et al., 2001). Establishing and enhancing relationships with valuable customers have been recognized as a strategic imperative for firms (Morgan and Hunt, 1994). One method that retailers often use to deepen the relationships (i.e., encourage loyalty) with customers is to offer deals (discounts, coupons, gifts, etc.) via differential promotion strategies. This method can strengthen relationships by making the customer feel 'special.' However, a customer that witnesses the preferential treatment of another customer while not receiving comparable service may feel somewhat jilted (defined as being dropped capriciously or unfeelingly – www.merriam-webster.com) by their provider and deem the experience unfair. This situation could cause a customer to have a negative emotional response that could adversely affect the firm (e.g., negative word of mouth, dissatisfaction, switching, etc.). Understanding the impact of perceived unfairness of differential marketing strategies is especially important for retailers and service providers who interact with customers directly and in a public setting. However, research on the negative impact that differential promotions can have on non-targeted customers has been neglected (Darke and Dahl, 2003).

1.1. Differential promotion strategies

Marketing managers strive to build relationships with customers so as to encourage repeat purchases and positive word of mouth. Differential promotion strategies are a common marketing tool used to foster customer relationships. These strategies are applied based on some customer or situational characteristic. For example, some customers receive discounts for being a new customer, by participating in a loyalty program, or by simply benefitting from a temporary discount (Darke and Dahl, 2003) while other customers do not get the same deal. The following comments observed in complaint forums illustrate the backlash from customers who observed new customers getting a better deal than they did for the same purchase.

> "I have been a loyal customer with sprint for many years. I would like to upgrade to a better phone. For a new customer they are free but for me they are $99.00 and I have 5 phones on my plan so that is $495.00. I would think that … they would do more to keep a loyal customer. I asked and they said no. Just seems that they would want to try harder." (https://community.sprint.com/baw/message/570970)

> "After being a customer of Dish Network for 6 years I finally decided to get with the program and upgrade to DVR. I was told that I would be charged $149 for it, but had I been a new customer it would be free. Pretty sure I will be looking into a different company. Seems as though they prefer new customers as to old ones." (http://www.my3cents.com/showReview.cgi?id=96003)

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Temporary discounts are another differential tool. For example, the airline industry is well-known for offering temporary discounts and varying prices to different customers for the exact same service. In fact, a recent study by travel-planning site Hopper found that the spread between the lowest and highest economy fares on a single return flight in the United States can be as much as $1400 (Mangla, 2014). The availability and visibility of this information, along with simple interactions with other customers, means it is not too difficult for the customer to determine they got the short end of the deal, as evidenced by this next quote.

> "On a recent vacation trip to Canada, Gina Kano couldn't help thinking that she probably paid more for her ticket than other passengers on the plane" (Martin, 2014).

In some cases, deals are given to customers who simply complain more than other customers (Peppers, 2010). Customer location can even determine which customer gets a better deal than others. For example, retailer websites (e.g., Staples) offer different prices for the same product based on the customer's location (Valentino-DeVries et al., 2012). Similarly, locale based deals have been observed by travelers who have found that booking through an airline's official website in their home country can be much more expensive than booking through the overseas website (Norwood, 2011). Loyalty program rewards can be based on tier structures whereby the top value customers receive more optimal deals than base level customers (Woith, 2013). Retailers such as Kohl's acknowledge on the company website (www.kohls.com) that different coupons are sent throughout the year and "not every customer will receive the same coupon at the same time".

Obviously, retailers have defined strategies when it comes to offering deals to customers.

The aforementioned differential promotion strategies no doubt can have a positive impact on the retailer's bottom-line in terms of the customer on the winning end of the deal. However, these activities could potentially backfire on the company if the left out customer perceives the recipient customer as getting a better deal than they did. Fassnacht and Mahadevan (2012) found that favoring new customers over loyal customers in terms of differential pricing results in decreases in perceived fairness by the loyal customers. Similarly, Darke and Dahl (2003) report that consequences of finding out that another customer received a better bargain seemed to have a much larger impact on satisfaction than the direct effects of the bargain the customer received themselves. This customer may perceive a lack of fairness in the company's process thereby triggering a negative emotional response which could manifest in negative customer behaviors.

1.2. Aim of the study

Marketers need to understand these customer perceptions and reactions in order to counteract negativity and maintain a positive relationship with the customer. Thus, the primary objective of this study is to better understand the reactions of the jilted consumer. Does seeing another customer get a better deal seem unfair to the customer in question? Are his or her feelings/intentions changed as a result of seeing another customer get a better deal? Is the relationship between the customer and the retailer damaged in terms of trust and commitment? We will examine fairness perceptions and behavioral intentions of the jilted consumer via a highly controlled hypothetical scenario experiment in an effort to address these research questions. The next section outlines the conceptual development of the study followed by the methodology, results, conclusions, and managerial implications.

2. Theoretical development

2.1. Relationship marketing

Developing and maintaining relationships with customers has become a key marketing strategy for service firms and retailers. This focus is evidenced by firm investments in customer relationship management teams, loyalty programs, one-to-one marketing, etc. Morgan and Hunt (1994) propose that relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges. A common theme identified in the relationship marketing literature is that firms benefit from developing strong, long-term relationships with customers (Brady et al., 2012). For example, De Wulf et al. (2001) provide beneficial support (e.g., increased loyalty and relationship quality) for investing in consumer relationships by devoting resources, efforts, and attention to maintaining or enhancing relationships with regular customers. Positive consumer-brand relationships can also help consumers forgive brands of their transgressions (DeShea, 2003, Fournier, 1998).

Relationship marketing tactics include strategic and differential promotion strategies centered on price (e.g., cents off, buy one/get one, etc.). Price promotions are an important part of the marketing mix across industries (Blattberg et al., 1995). Price is an important marketing cue because it is present in all purchase situations and represents at a minimum the amount a consumer must give up to participate in a purchase transaction (Lichtenstein et al., 1993). Differential pricing/promotion techniques allow firms to offer better deals to their best customers in hopes of strengthening bonds with the customers. Although benefits of this approach can accrue, critics of differential pricing argue that such practices might alienate customers due to perceived unfairness, thus leading to decreased goodwill and ultimately to lost customers (Mattila and Choi, 2005). Consequently, there is a critical need for retailers and service providers to understand the fairness perceptions of customers in these situations.

2.2. Fairness theory

Fairness perception theory (aka justice theory) provides the theoretical foundation of the current study. The concept of fairness focuses on "a justice, rightness or deservedness judgment that individuals make in reference to what one or others receive" (Oliver 1996, p. 194). The basic premise of "justice" is that fair dealings, as defined by society and culture, play a prominent role in how people think, feel, and behave (Sindhav et al., 2006). Perceived fairness is often conceptualized as a three-dimensional concept that comprises distributive, procedural and interactive justice (Smith et al., 1999). This three dimensional viewpoint is a rather comprehensive approach to capturing and understanding perceptions of fairness in a variety of consumer situations (e.g., service failure/recovery, salespeople interaction, pricing, etc.).

Distributive justice describes the first dimension of fairness theory. This element borrows from equity theory (Adams, 1965) and relates to the fairness of an outcome in comparison to the inputs. The jilted consumer may perceive that they put in (e.g., retailer loyalty, money, time, etc.) just as much as another customer, yet the other customer received a better deal in some way. Equity evaluations have been shown to affect customer satisfaction (Oliver and Swan, 1989), repurchase intention, and word-of-mouth decisions (Blodgett et al., 1997).

The second dimension of fairness theory consists of procedural justice which captures the process of allocating outcomes. Procedural justice occurs when consumers perceive that the process assures they are treated fairly, in respect to their inputs, and compared to other consumers (Sindhav et al., 2006). The perception that a firm's