



The discount is unfair: Egocentric fairness in risky discounts

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ARTICLE INFO

Article history:

Received 9 August 2012

Received in revised form 20 June 2013

Accepted 30 June 2013

Available online 11 July 2013

JEL classification:

C91

D80

PsycINFO classification:

2229

3940

Keywords:

Promotional methods

Pricing

Risky discounts

Scratch and save

Egocentric fairness

Ambiguous price promotions

ABSTRACT

This paper examines how consumers perceive fairness and enjoy the outcome of an emerging risky discount: the retail industry's gambling or lottery type "scratch and save" (SAS) price promotions, in which the actual discount is determined by chance at the checkout.

Risky discounts such as Scratch-and-Save promotions are relatively new retail tools with very little existing research. Previous work in discount claims focuses on perceptions of the offer, whereas this study focuses on perceptions of the outcome and provides managers with information for implementing risky discounts.

Across four studies, experiments with a variety of discount levels and reference prices are used to gather consumers' responses to disparities between suggested and actual discounts. This paper finds that consumers perceive a promotional offering, which is smaller than the reference discount, as more unfair and less enjoyable, even when they still get a deal. However, consumers perceive a discount greater than the reference discount only as fair and enjoyable as the reference discount. Furthermore, poor outcomes are evaluated with severe negativity in terms of perceived fairness and enjoyment, whereas beneficial outcomes garner only moderate positivity, which is consistent with the combination of prospect theory and egocentric fairness. Nevertheless, perceptions of increased unfairness arising from risky discounts have no negative bearing on future purchase intentions, but rather result in positive attitudes and optimism for future risky discounts.

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1. Introduction

Retailers frequently use price promotions to boost store traffic and sales (Gupta & Cooper, 1992). Adding to this practice is a new format of price promotion – risky discounts, which are usually offered via "Scratch and Save" (hereafter SAS) cards that work in a similar way as lottery cards. Retailers offer ambiguous discounts on the face of SAS cards such as "Scratch and Save Up to 50% Off"; the actual discount can only be determined by chance when cashiers scratch the card upon checkout (Kamleitner, Mandel, & Dhami, 2011). As adding uncertainty to price promotions is considered a cost effective promotional tool (Goldsmith & Amir, 2010), risky discounts are gaining popularity among retailers (Choi & Kim, 2007; Kamleitner et al., 2011). For example, department stores such as Kohl's and Sears often offer SAS promotions; category specialists such as Rona and Toys "R" Us frequently hold SAS events; and extreme-value retailers such as GUESS Factory Stores implement SAS promotions from time to time.

When consumers are offered price promotions, their perceived fairness of the offers may be influenced by the promotion outcome (distributive fairness) and/or the procedure that leads to the outcome (procedural fairness) (e.g., Kukar-Kinney, Xia,

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& Monroe, 2007; Xia, Monroe, & Cox, 2004). In many situations, both the distributive fairness and procedural fairness matter. For example, when consumers evaluate a price-matching guarantee policy, consumers' price fairness perceptions are influenced by the final price as well as the perceived fairness of the policy (Kukar-Kinney et al., 2007).

In the context of risky discounts, however, because consumers know the outcome is determined by chance, they are less concerned with procedural fairness (Kamleitner et al., 2011) and more concerned with the outcome. In addition, risky discounts usually lead consumers to implicitly expect to receive some level of discount and accordingly to form a reference point for discount. Consequently, the revealed discounts will generate various degrees of deviations from the reference discount. Thus, risky discounts offer an opportunity to study the effect of the distributive fairness caused by variations of reference on consumers' responses.

This paper intends to investigate consumers' perceived (un)fairness in risky discounts in the specific format of SAS promotions. Price unfairness has been shown to have negative consequences on retailers (e.g., Blakely, 2007; Campbell, 1999). SAS promotions, if perceived less fair, could dilute the surprises in the promotions and the enjoyment of lottery-like outcomes, which are the reason why retailers implement SAS promotions in the first place. In addition, SAS promotions may backfire if the perception of low fairness undermines consumers' purchase intentions in the future. It is thus important to examine the extent to which the magnitude of differences between reference discounts and actual discounts affects fairness perceptions in these risky discounts, and future purchase intentions.

This paper contributes to the literature on consumers' psychological responses to price promotions. Literature has examined how various ambiguous price promotions influence consumers' perceptions. For example, much prior research has documented consumers' responses to ambiguity inducing "tensile price claims" (Biswas & Burton, 1993, 1994; Dhar, Gonzalez-Vallejo, & Soman, 1999; Mobley, Bearden, & Teel, 1988). A few recent papers have looked at SAS promotions (Choi & Kim, 2007; Choi, Stanyer, & Kim, 2010; Kamleitner et al., 2011). Furthermore, Goldsmith and Amir (2010) have acknowledged the relative effectiveness of uncertain promotions compared to certain promotions. However, previous studies only focus on the effect of the price promotion claims in consumers' responses. In comparison, this paper focuses on the outcome of price promotions and examines the consequences of risky discounts. Furthermore, this paper identifies conditions when risky discounts, despite providing a deal to consumers, are perceived as less fair and less enjoyable.

The paper proceeds as follows. In the next section, we review the relevant literature and develop the hypotheses. In the subsequent sections, we introduce four experimental studies and present the results. We conclude the paper in Section 7.

2. Theory and hypotheses development

Much of the existing research on fairness and pricing deals with price changes. A subtle difference in the case of SAS promotions is that the regular price remains unchanged, though there will always be some variation in the discount. Despite SAS promotions being a novel tool with little formal examination, existing literature on fairness of pricing practice still provides a basis to work from. According to previous research, price reductions are often perceived to be more fair and price increases to be less fair; and consumers evaluate fairness in a subjective manner (e.g., Bolton & Alba, 2006; Bolton, Warlop, & Alba, 2003; Campbell, 1999, 2007; Kahneman, Knetsch, & Thaler, 1986; Kukar-Kinney et al., 2007; Xia et al., 2004).

The study of SAS promotions departs from other work on the topic of pricing and fairness which has examined deviations from a reference price. In comparison, the present study examines deviations from a suggested discount within a range: Attention is placed on the discount amount instead of on the final price. The reference *discount* provides a basis for evaluating the outcome of the deal that measures consumers' reactions to higher or lower than expected results. It also serves as a mechanism for prompting deviations: the reference discount is expected to prompt fairness judgments by providing an expected discount that might be different than the actual outcome, thus operating somewhat like a reference price (e.g., Maxwell, 2002). Given the possibility of discount deviations, this paper intends to answer the following questions: Will consumers perceive the outcome of SAS promotions to be homogeneously fair regardless of the discount depth? Or instead, will consumers perceive the outcome to be more or less fair depending on whether the final discount is better or worse than the reference discount?

In an SAS promotion, consumers are aware of the discount range before making the transaction. In absolute terms, buyers cannot suffer a loss, regardless of the discount outcome, because they will, at worst, receive the regular price. In the game proposed by the discount range, however, buyers could consider a lower-than-reference outcome to be less fair. In that case, a worse-than-reference deal would be considered a loss despite providing a discount, whereas a better-than-reference deal would be considered a gain. Thus, we will consider such a fairness perception to be biased toward buyers' own interests, which is egocentric.

2.1. Egocentric fairness

Past research has demonstrated that consumers perceive fairness with a preferential or egocentric motive: Maxwell, Nye, and Maxwell (1999) find that consumers who are prompted to consider social fairness make large concessions in price negotiation, but without prompting for fairness, they pursue only the most personally advantageous price. In a study on cheating in a contest, Krehbiel and Cropanzano (2000) find that less unfairness is reported so long as the outcome benefits the respondents. Furthermore, consumers may deviate from the socially fair model of balanced inputs and outputs if they perceive the

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