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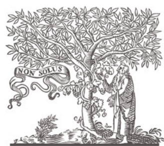

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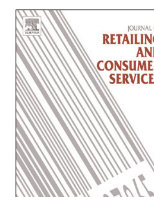

Unfairness in consumer services: Outcomes of differential treatment of new and existing clients

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ABSTRACT

In a consumption context, there is a growing interest in understanding unfair behaviour of firms towards customers. Our research focuses on unfairness perceptions driven by differential treatment, particularly through price discrimination, i.e. the practice of charging differential prices to different customers. Our purpose is to investigate the consequences of these practices for unfairness perceptions, satisfaction, trust and patronage, showing a dual perspective: the perceptions of new vs existing clients when they face the advantaged or disadvantaged conditions. A survey-based experimental design approach was used. We conclude that unfairness perception is stronger for existing than for new clients, prompting negative attitudinal and behavioural consequences when the former are exposed to disadvantaged conditions in relation to the latter. Our study aims to provide marketers with a perspective on the pitfalls related to differential treatment between present and prospective clients, with implications in terms of design and implementation of customer management strategies.

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1. Introduction

Marketing practices focusing on differential treatment are not atypical (Nguyen and Klaus, 2013), especially in the retail and consumer services settings. Hotels, travel agents or banks treat customers differently according to various segmentation schemes (Frow et al., 2011). These practices are potential causes of unfairness, in particular when customers are placed in a disadvantaged situation (e.g. through differential pricing) when comparing offers made to their friends, family or colleagues (Nguyen and Klaus, 2013). With the development of IT, the implementation of favouritism and discriminatory practices by firms has increased (Kivetz and Simonson, 2002), becoming a common tactic (Levy et al., 2004).

Consumers' perceptions of unfairness triggered by differential pricing may potentially damage the firm's long term reputation and competitive edge. Indeed, when organizations implement these pricing techniques at a specific group of clients, they are favouring some at the expense of others, leading to perceptions of unfairness on the part of the non-targeted segment (Boulding et al., 2005; Nguyen and Simkin, 2013). Building on equity theory (Adams, 1965) and the theory of distributive justice (Homans, 1961), it appears reasonable to expect unfairness to prompt negative attitudinal and behavioural consequences, namely on satisfaction (Xia et al., 2004; Haws and Bearden, 2006), trust (Sirdeshmukh et al., 2002; Guiltinan, 2006) and patronage intentions (Grewal et al., 2004; Gelbrich, 2011), chasing disadvantaged clients away from their current provider. Thus, without careful consideration of differential treatment of customers, firms' marketing efforts may be incur the risk of long-term failure (Nguyen, 2012). However, research remains fragmented (Campbell, 2007; Nguyen and Klaus, 2013) and this “dysfunctional” form of customer management has been neglected in the marketing literature (Frow et al., 2011).

Following calls from e.g. Nguyen and Klaus (2013) about the need for more research that uncovers how customers perceive (un)fairness in differential treatment, including self/other-comparisons, this paper assesses outcomes of differential pricing, from the perspective of new vs existing customers when facing advantaged vs disadvantaged conditions. The study is developed in a consumer setting (a health club), a desirable context for examining customers' perceptions of unfairness, given its specific service characteristics and common price discrimination practices. The remainder of this paper is organized as follows. The next two sections will focus on literature relevant to this study leading to the development of the hypotheses. Following a description of the empirical study undertaken to test the conceptual framework, a discussion of the research findings, managerial implications, and future research directions concludes the paper.

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2. Differential pricing strategies and unfairness perception

Firms treat their customers differentially through the use of targeted marketing tactics (Kimes and Wirtz, 2003; Nguyen et al., 2012). The benefits of differential treatment include meeting customers' needs more effectively and developing buyer–seller relationships (Kimes, 2002). A firm's customer base can be thought of as consisting of customers who are targeted its offerings and those who are not (Nguyen and Simkin, 2013). However, treating customers differentially may cause perceptions of unfairness (Boulding et al., 2005; Frow et al., 2011) and deceptive marketing schemes may evoke negative attitudes amongst consumers (Heath and Heath, 2008). Thus, a focus on fairness is an increasingly important differentiator between companies (Nguyen and Klaus, 2013).

Fairness has been defined as "a judgement of whether an outcome and/or the process to reach an outcome are reasonable, acceptable, or just" (Bolton et al., 2003, p. 474) or in the case of retailing, "the degree of perceived quality, honesty and justice a customer has for a retailer" (Nguyen and Klaus, 2013, p. 320). Recently, fairness as also been portrayed as a multidimensional construct (Nguyen et al., 2015).[1] The concepts and principles of justice, or fairness, have stemmed from the work of social sciences. The theory of distributive justice focuses on the distribution of rewards between individuals or group (Homans, 1961) and the equity theory considers the ratio of costs and benefits for all participants (Adams, 1965). The theory of distributive justice claims that one person's reward should be proportional to that person's contribution to the exchange relationship, and that people tend to compare their transactions with those of a comparable and similar other reference party (Tsai and Lee, 2007; Gelbrich, 2011). An exchange is judged to be fair when customer input (what the customer is willing to invest) is proportional to outcomes associated with the exchange. As such, customers' criteria for evaluating distributive equity come from observations of how other customers are treated (Lacey and Sneath, 2006). Equity theory extends traditional economic theory by postulating that customers do not only assess the utility to themselves but rather compare it with what others receive (Feinberg et al., 2002; Xia et al., 2004). Only when outcome to input ratios are perceived as equal, relationships are seen as equitable (Homburg et al., 2007). Otherwise, unbalanced situations lead to inequality and the consequent perceptions of unfairness (Adams, 1965).

In a consumption context, there is a growing interest in understanding unfair behaviour of firms towards customers (Nguyen and Klaus, 2013), since perceptions of unfairness may potentially undermine buyer–seller relationships (Frow et al., 2011). Perceptions of unfairness can trigger intense reactions from customers, especially if they feel vulnerable and disadvantaged (Martín-Ruiz and Rondán-Cataluña, 2008). Whilst there are many antecedents to fairness perceptions, the focus of this study is on firms' marketing tactics, namely differential pricing, which may influence customers' attitudes and behaviours. Price remains one of the least researched areas of marketing (Hoffman et al., 2002). A "fair" price is defined as a price that is both reasonable" and just (Maxwell et al., 2009). Price unfairness exists when a customer assesses a seller's price as unreasonable, unacceptable or unjustifiable (Xia et al., 2004). Grewal et al. (2004) provide empirical evidence that differential pricing tactics have a significant impact on consumers' judgments of price fairness. If a customer perceives that another similar customer receives better treatment from the same firm, unfairness perceptions are increased (Feinberg et al., 2002). Response to perceived inequity may include actions to restore a state of equity (Namkung and Jang, 2010). According to equity theory, when a better price is offered to a customer, this has a negative impact on other similar non-targeted customers' perception of their relative outcome to input ratio for the same product or service, which may lead them to sever their relationship with the firm or even to retaliate (Grégoire and Fisher, 2008; Martín-Ruiz and Rondán-Cataluña, 2008; Cockrill and Goode, 2010). Xia et al. (2004) propose that comparisons with other consumers will have a greater effect on perceived price fairness than comparisons with other sellers or self-references.

Nowadays, not only are price discrimination and dynamic pricing (Kopalle et al., 2009) becoming common retail pricing strategies (Levy et al., 2004), but also increasingly informed and connected consumers are becoming more aware of prices offered to other customers (Cox, 2001; Feinberg et al., 2002; Garbarino and Lee, 2003; Nguyen and Klaus, 2013). This is especially true with regard to services, where word of mouth tends to be more prevalent (Nguyen and Simkin, 2013) and customers regularly interact with other customers and are able to observe superior value propositions being awarded (Lacey and Sneath, 2006). Differential pricing is defined as the practice of charging customers different prices for essentially identical goods or services (Hoffman et al., 2002). This practice can be based on different types of discrimination (Iyer et al., 2002; Grewal et al., 2004; Lacey and Sneath, 2006; Gelbrich, 2011), such as time (e.g. early vs late booking), purchase quantity (e.g. light vs heavy users), frequency of usage (e.g. frequent vs occasional), loyalty programs (members vs non-members), age (e.g. adults vs children) and-the focus of this study-customer status (present vs prospective customers).

From a relational perspective, building and maintaining long-lasting relationships with existing customers is more profitable than continually recruiting new customers to replace lost ones (Payne and Frow, 2006). Though attracting prospective customers is important, long-term success in highly competitive markets is contingent on customer retention over customer acquisition (Nguyen, 2012). However, in terms of differential pricing, prospective customers are still offered the best deals (Tsai and Lee, 2007). To attract first-time shoppers, firms frequently promote rebates for new customers. This practice is based on loyal customers' assumed high switching costs, attachment to the firm and low price sensitivity and its aim is to capitalize on the individual price acceptance of customers (Haws and Bearden, 2006; Martin et al., 2009; Santos and Basso, 2012; Weisstein et al., 2013). Those with a lower price acceptance (e.g. prospective customers) are charged lower prices than those with a higher price acceptance (e.g. existing customers). For example, a firm could charge a lower price to attract new customers, while extracting a higher price from loyal customers (Lii and Sy, 2009). This is a typical example of the economic theory of consumer surplus, which examines consumers' perceived value of a product/service and their willingness to pay (e.g. Hicks, 1945), leading to additional profits (Kung et al., 2002; Sahay, 2007). This is especially true as regards services, where discrimination is widely practised by charging target segments different prices for essentially the same service in order to fill spare fixed perishable capacities, balance demand and maximize revenues per capacity unit (McMahon-Beattie, 2011; Wang, 2012). However, while this strategy may be effective for gaining new business it may also have negative effects on existing customers, who are practically "punished" for their loyalty. Though existing customers may have a desire to maintain their relationship with the retailer and may respond positively to hardships, they expect retailers to reciprocate and believe they deserve a fair treatment (Martin et al., 2009). The idea that someone else is getting a better deal on the same offer can evoke dissatisfaction and stir up a consumer revolt (Feinberg et al., 2002). Thus, price

[1] Please see Xia et al. (2004), Nguyen and Klaus (2013) or Nguyen et al. (2015) for a comprehensive review on fairness

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