Improving Unfairness Perceptions of Prices

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Abstract: Many studies have examined the perceived unfairness of price increases and its consequences, but few works have examined methods of improving unfairness perceptions. This study examines two strategies managers can employ to improve perceived price unfairness, namely giving explanations and using bundled offers. A total of 686 subjects participated in a study with a 2 x 4 between-subject design to test the effects of the two strategies. The results of the study show that giving explanations and using bundled offers can mitigate unfairness perceptions derived from price hikes. Directions for future research also are discussed.

Keywords: Bundling, Explanation, Fairness, Price.

摘要: 過去曾有許多文獻探討消費者對價格不合理上漲的感受及其影響，惟僅有極少數的研究著重價格不合理感受的改善方法。本文旨在提出兩種管理者可因應之對策: 其一為合理解釋並說服客戶，其二為提供客戶選擇相對成組產品定價。本研究調查868位受訪者，透過八因子(2 x 4)實驗設計之變異數分析，測試該策略有效性，實驗結果發現上述兩種策略均助於緩和消費者對價格不合理上漲的感受。對未來研究的方向也列入本文探討範圍。

關鍵詞: 成組產品定價，解釋，合理性，價格。

說明：本文原刊載於交大管理學報25-2期，因編排上有誤，在此補上正確的版本。
1. Introduction

Businesses such as airlines, restaurants and hotels often are fully booked and turn away customers rather than raising prices (Withiam, 1994). Economists attribute these phenomena to the hostile reaction of customers to price increases perceived as unfair (Kahneman, Knetsch, and Thaler, 1986). Kimes (2002) showed that many survey respondents considered the use of yield management in the hotel and restaurant industries to be very unfair.

Perceptions of price unfairness create consumer resistance to purchasing. Kahneman, Knetsch and Thaler (1986) show that customers are willing to travel an extra five minutes to punish grocers considered unfair. Piron and Fernandez (1995) illustrates that customers care about fair treatment and are willing to resist unfair systems even at costs to themselves. Campbell (1999a) demonstrated that perceived unfairness lowers shopping intentions.

While many studies examined the perceived unfairness of price increases and its consequences, few works have examined methods of improving unfairness perceptions. Bolton, Warlop and Alba (2003) showed that consumers are inclined to believe that the selling price of a good or service is substantially higher than its fair price, causing widespread perceptions of price unfairness. Improving unfairness perceptions thus is critical for maintaining good customer relationships and increasing long-term firm profitability. With price increases derived from increased demand as the scenario, this study examines how companies can improve unfairness perceptions. Drawing from the literature on fairness, human resources and bundling, this work examines two strategies that managers can employ to improve perceived price unfairness: giving explanations and bundling with other offers. The study also examines the degree to which the two strategies can compensate for increased unfairness perceptions.
2. Fairness

Questions of fairness arise in all exchange relationships. The study of fairness has engaged researchers from numerous disciplines, such as economics, psychology, marketing, organization, and social psychology. Researchers generally consider exchange transactions to involve both outcomes and the process used to achieve those outcomes. For pricing, the outcome in question is the selling price of a good or service, with the question being whether that selling price is above or below its fair price. The process of an exchange transaction consists of the assessment of procedures used for decision making; for example, the considerations involved in price setting. Fairness judgments regarding outcomes are usually studied under the term of distributive justice, whereas those involving processes are labeled procedure justice (Adams, 1965; Colquitt et al., 2001; Jasso, 1980; Lind and Tyler, 1988)

2.1. Distributive justice

Most mutually satisfying exchange relationships require distributive justice. Based on the equity theory of Adams (1965), people are concerned not with the absolute level of outcomes per se but rather with outcomes fairness. One way of determining outcome fairness is to calculate the ratio of “input” to outcome, and compare the ratio of one with that of the other. Oliver and Swan's (1989) survey of automobile purchaser inputs to and outcomes from the sale transaction, and purchaser perceptions of salesperson inputs and outcomes revealed that fairness concerns dominate satisfaction judgments. Satisfaction, in turn, is strongly related to consumer intention cognitions. Discrepancies between actual and “just” outcomes produce emotional distress, motivating actors to restore a sense of fairness, such as by refusing to deal with the company again.

Kahneman, Knetsch, and Thaler (1986) surveyed randomly selected adults from the Vancouver and Toronto metropolitan areas regarding the fairness of various hypothetical business transactions. Kahneman, Knetsch, and Thaler
contended that community norms regarding what constitutes a fair price are used for making fairness judgments. They proposed the principle of "dual entitlement," which states that buyers are entitled to the terms of the reference prices and firms are entitled to their reference profits. When the reference profit of a firm is threatened, increasing prices to protect that profit is considered fair. Firms need not pass savings along to buyers when their costs decrease. However, firm exploitation of increased market power, such as during a supply shortage, is considered unacceptable. Many studies have confirmed these findings (Gorman and Kehr, 1992; Schein, 2002).

One of the focuses of pricing studies in marketing has been the role of internal reference price held by buyers in evaluating purchase utility (Rajendran and Tellis, 1994). Comparing actual price with internal reference price allows consumers to form a perception of price fairness (Thaler, 1985). Bolton, Warlop and Alba (2003) examined consumer perceptions of price unfairness in the absence of price changes, and found that fairness perceptions are driven by comparisons to past prices, prices of competitors, and perceived costs. Consumers systematically underestimate the effects of inflation and costs. Many costs are ignored, leading to high profit estimates that contribute to perceptions of unfairness. Restated, the internal reference prices and fairness judgments of consumers are strongly influenced by perceptual biases, increasing the burden on companies to deal with and point to the importance of improving unfairness perceptions.

2.2. Procedural justice

While the distributive justice of exchange relationships affect the fairness perceptions, the process employed for decision-making is also essential in determining fairness perceptions. In the context of pricing, consumers care not only about the price they have to pay but also about how that price is derived. "Dual Entitlement" not only deals with distributive justice: fair price and fair profit (Cox, 2001), but also deals with the processes which are judged by consumers for the price fairness (Maxwell, Nye and Maxwell, 1999). The same
price increase can be perceived as fair or unfair, depending on whether or not the process meets social norms. For example, 79% of respondents considered it acceptable for a local grocer to maintain profits by raising the price of lettuce by 30 cents per head to cover increased costs. However, 79% of respondents considered it unfair for a grocer to raise prices immediately on current stock of peanut butter in response to an increase in the wholesale price of peanut butter (Kahneman, Knetsch, and Thaler, 1986).

Bies and Moag (1986) introduced the concept of interactional justice, which focuses on the quality of the interpersonal treatment people receive when procedures are implemented. Greenberg (1993) considered interactional justice to consist of two components: informational justice and interpersonal justice. Informational justice may be enhanced by providing procedural information that demonstrates regard for people’s concerns. When explanations meeting the criteria of consistency and unbiasedness are offered to account for inequitable states, such as pay cut and layoff, perceptions of inequity may be reduced (Greenberg, 1990). Bies and Shapiro (1988) found that people facing negative outcomes, such as being denied a job or having a proposal rejected, were more likely to accept those outcomes as fair when they received a reasonable explanation of the procedure used to reach those outcomes than when no such justification was provided. The role of informational justice also has been demonstrated in the domains of performance appraisal, employee theft, corporate smoking ban and employee reactions to corporate layoffs (Greenberg, 1993). Shaw, Wild and Colquitt (2003), in a meta-analysis, found that explanation strongly affects fairness perception, and moreover this effect is moderated by outcome favorability. Specifically, explanations have more effects on fairness perception when outcome favorability is low than when outcome favorability varies. In other words, individuals attend less to the explanation content in the absence of unfavorable outcomes.
3. Methods of Improving Unfairness Perceptions

Based on previous literature on fairness, human resources and bundling, this study identifies two factors that might improve perceptions of price unfairness, namely: providing explanations and bundling with other offers.

3.1. Providing Explanations

As noted, in the context of human resource management, considerable justice research has demonstrated that explanations for negative decisions can lessen negative reactions associated with those decisions. It is reasonable to expect that explaining the reasons for the price increases would reduce perceptions of unfairness.

In an experiment, Campbell (1999b) demonstrated that when reasons for price increases were given to respondents, they did not infer negative motive and the prices were perceived to be fair. The reasons provided for the price increases were quite simple, either that the firm had already been charging the "unfair" price or that the price increase had been planned weeks in advance. However, the scenarios described by Campbell are stated as facts and are treated as a given for the respondents to inferred motives of the firm. In practice, no objective third party exists to tell customers the story related to the price. That is, no one except the firm can tell customers that the price hike was planned weeks in advance. Respondents would discount explanations given by the firm, reducing the effectiveness of the situation in which the explanations for the price hike are given as facts. Consequently, the effects of firms providing explanations for price hikes still remain to be tested.

3.2. Bundling with other offers

Bundle pricing, the selling of two or more products or services for a single price, is quite common. For example, hotels often offer packages that combine lodging and admissions to attractions. Tour packages usually comprises of
transportation, lodging, meals and attraction admissions. The use of promised donations to charity as an incentive for making a purchase can be considered a bundling of the product with an incentive (Strahilevitz and Myers, 1998). The use of bundling as a marketing strategy makes economic sense for companies because it increases sales and profits (Stremersch and Tellis, 2002). Considerable behavioral research, mostly based on prospect theory (Kahneman and Tversky 1979) and mental accounting (Thaler 1985), has focused on the presentation of price information to buyers (e.g., Yadav and Monroe, 1993).

The prospect theory holds that decisions in risky situations are made based on values assigned to gains and losses with respect to a reference point and decision weight (Kahneman and Tversky, 1979). Generally, the value function of a prospect is concave for gains and convex for losses. Furthermore, the value function is steeper for losses than for gains so that losses hurt more than gains help.

Thaler (1985) extend the above analysis to incorporate compound outcomes. For multiple gains, individuals would prefer segregation over integration. For multiple losses, individuals prefer integration over segregation. For hotel prices, charging $140 for a one night stay and two meals worth $40 is preferable to charging $100 for the stay and $40 for the two meals, since $140 is a single loss, while $100 and $40 are two losses.

4. Hypotheses

Suppose a firm faces a situation of demand exceeding supply. In such a situation, the firm may wish to raise prices. However, the firm may be concerned that such a price increase will provoke customer perceptions of unfairness. If explanations and bundles are effective in reducing perceptions of unfairness, the firm may consider raising prices and simultaneously providing explanations and extra offers. However, before implement this strategy, the firm must ensure two things: first, providing explanations and bundling with other
offers are effective in this scenario; second, the improvement of unfairness perceptions resulting from the two strategies can more than compensate for the increase in unfairness perception from the price hikes. If providing explanations and bundling with other offers can reduce the unfairness perceptions to a level comparable to the no-price-hike scenario, a firm can take advantage of the high demand situation to increase prices. On the other hand, if a firm raises prices, and bundles this price rise with various offers and explanations, yet customers still feel this is less fair than if no price hike is implemented, the firm would be better off maintaining the price unchanged in spite of high demand.

4.1. The Scenario

Consider the following scenario:

A hardware store has been selling snow shovels for $15. The morning after a large snowstorm, the store raises the price to $20.

The scenario, taken from Kahneman, Knetsch and Thaler (1986, p729), exemplifies one source of unfair perception. In this example, 82 percent of respondents (N=107) considered it unfair for the hardware store to exploit the short-term increase in demand associated with a blizzard. Frey and Pommerehne (1993) posed a similar question in their survey in Switzerland and Germany and found that 83% of respondents (N=215) considered this practice unfair or very unfair. Raising the price of snow shovels in this situation violates distributive and procedural justice, as well as the dual entitlement principle. Furthermore, price increases are also seen as more unfair when they are driven by an internal factor rather than external factors such as increased component cost. Thus, it seems reasonable for an overwhelming majority of respondents to consider the scenario unfair.

The present study employs a similar scenario:
A town has two big hotels, A and B. Hotel A is closed for renovation. The price for a room in Hotel B used to be $100 per night. However, while Hotel A is closed for renovation, Hotel B raises the price to $120. Is this price increase fair?

Refer to Table 1 for the wording in each cell in the experiment.

In one of our separate studies, the question was post to 201 MBA students and their colleagues, of whom the overwhelming majority (about 71% of respondents, N=201) considered raising prices to take advantage of the supply situation unfair. The percentage seeing the price increase as unfair is comparable to that in Kahneman, Knetsch and Thaler (1986) and Frey and Pommerehne (1993). Notably, the scale used herein has a mid-point, while the scales in their studies had no mid-point, forcing respondents to choose either fair or unfair.

4.2. Providing explanations

In the present experiment, one of the treatments was to provide explanations of how the price was set. For a 20% price hike, Hotel B explains that (please refer to Table 1):

When demand exceeds supply, the hotel association asks that the member hotels do not increase price by more than 40%. We increased the price by only 20%.

Several studies in human resources have illustrated interaction effects by showing stronger explanation effects in low outcome favorability conditions (Colquitt and Chertkoff, 2002; Gilliland, 1994). If no injustice is perceived, any knowledge gained from explanation is of limited importance. In contrast, when individuals can easily envision better states of well-being, they should attend more to the information provided in the explanation, making that explanation more powerful (Shaw, Wild and Colquitt, 2003).
H1: Providing an explanation does not affect fairness perceptions when the price is not raised
H2: Providing an explanation improves unfairness perceptions of increased prices.

4.3. Bundling

One of the bundling scenarios in the experiment is as follows:

A town has two big hotels A and B. Hotel A is closed for renovations. The price for a room in Hotel B used to be $100 per night. However, when Hotel A is closed for renovation, Hotel B sells for $140 a package including a hotel stay and two restaurant meal coupons worth $40.

Suppose the margin on the restaurant meals is 50%. In this case the $140 package allows the firm to make an additional $20. By simply raising the price from $100 to $120 without bundling, the firm also makes an extra $20 too. From the firm’s perspective, the two scenarios are equally profitable. However, customers may prefer the bundling scenario for the following reasons.

When raising the price, bundling with other offers at the same time may have three advantages. First, if the price is raised to $120, consumers have to pay an extra $20 for an identical product. However, bundling with meals worth $40 provides more for consumers. Although consumers are forced to pay higher amount, bundling is still a better deal for them than raising the price from $100 to $120 without bundling.

Second, Soman and Gourville (2001) built on the sunk cost literature, and showed that price bundling leads to a disassociation or “decoupling” of transaction costs and benefits, thus reducing attention to sunk costs and decreasing a consumer likelihood of consuming a paid-for service. Bundling thus blurs the relationship between price and services. It is difficult to identify and account for costs in a price-bundled transaction, making it difficult for consumers to compare the component price in the bundle with the original price,
reducing price sensitivity (Yadav and Monroe, 1993). Bundling thus may blur
cognition related to price increase, improving fairness perception as compared to
price increase alone.

Third, bundling with other offers provides customers with multiple gains. Since
the value function of the gain is concave, two gains are preferred to a single
gain, three gains are preferred to two gains, and so forth. Bundling with other
products significantly improve customers perceptions of value.

If price increases are maintained, the value of the bundle increases as more
offers are added. Individuals prefer bundles that include more offers. This
reasoning is consistent with the concept of distributive justice. The more an
individual gets for the same price, the fairer the individual considers that price to
be.

H3: Bundling is a viable strategy for improving unfairness perceptions
surrounding price increases
(a) For the same profit, bundling is perceived as fairer than an outright
price hike.
(b) Fairness perceptions improve as more offers are added to the bundle.

Bundling may provide several advantages, but raising prices has one great
disadvantage. If the reference point of customers in making the fairness
judgment is zero, customers may not see the loss as significant by comparing
$100 with $140. However, if customers use the original price of $100 as the
reference point, they compare the monetary loss with the gain from the bundles.
Since customers hate losses, they may see the price increase as unfair even if the
extra offers in the bundle are worth more than the price increase, making it not
worthwhile for the firm to raise the price in the first place. Harlam et al. (1995)
showed that changes in purchase intentions due to a bundle price ‘increase’ are
larger than changes in purchase intentions due to an equal bundle price ‘decrease’
relative to consumers’ reservation prices for the product components of the bundle.
Overall, weighing the loss that customers incur and the gain from bundling,
customers are expected to perceive bundling price as unfair, even the extra offers
are worth more than the price increase. Furthermore, if bundling with other offers is effective in improving fairness perceptions, it is likely to diminish the effectiveness of providing explanations, since weak explanation effects exist in higher outcome favorability conditions. Consequently, the interaction effect between the two factors constrains the effectiveness of explanation.

H4: Respondents who received an explanation and additional offers do not perceive prices as being as fair as respondents who received no price hike and no explanation.

5. Methods

An experimental design is used to examine the effects of using explanations and bundling with other offers.

5.1. Design and Procedures

A 2 x 4 between-subject design, giving explanation (no, yes) and bundling (no price hike, price hike with no bundling, price hike with one extra offer, price hike with two extra offers), is used for the study, as shown in Table 1. For the cells with price hike and no bundling, the price is raised to $120, meaning an extra $20 profit for the firm. Meanwhile, for the cells with price hike and one extra offer, i.e., two meals worth $40, the price is raised to $140. The profit margin on the $40 meals is assumed to be 50%, i.e., $20. The two scenarios thus produce the same profit for the firm. For the cells with price hike and two extra offers, two meals worth $40 plus $20 discount on a future stay, the price is maintained at $140. Consequently, this scenario is expected to be considered fairer than the scenarios with price hikes and one extra offer.

Respondents in each cell read the purchasing scenario. For respondents in the cells with explanations, a paragraph indicating the reasons for the prices (and the extra offers) is given to the respondents. After reading the scenarios (and explanations), the respondents answer questions about the fairness perceptions of
the price and the firm. One of the questionnaires is list at the Appendix as an example.

Table 1. Experimental Design and Scenarios

<table>
<thead>
<tr>
<th>No explanation</th>
<th>Price increases only</th>
<th>Price increase by bundling with $40 meal coupons</th>
<th>Price increase by bundling with $40 meal coupons and $20 discount on future stay</th>
</tr>
</thead>
<tbody>
<tr>
<td>A town has two big hotels A and B. Hotel A is closed for renovation. The price for a room in Hotel B used to be $100 per night, and this price is maintained while Hotel A is closed for renovation.</td>
<td>A town has two big hotels A and B. Hotel A is closed for renovation. The price for a room in Hotel B used to be $100 per night. However, when Hotel A is closed for renovation, Hotel B raises this price to $120.</td>
<td>A town has two big hotels A and B. Hotel A is closed for renovation. The price for a room in Hotel B used to be $100 per night. However, while Hotel A is closed for renovation, Hotel B sells a $140 package which includes a hotel stay and two restaurant meal coupons worth $40.</td>
<td>A town has two big hotels A and B. Hotel A is closed for renovation. The price for a room in Hotel B used to be $100 per night. However, while Hotel A is closed for renovation, Hotel B sells a $140 package which includes a hotel stay, two restaurant meal coupons worth $40 and a $20 discount on a future stay.</td>
</tr>
<tr>
<td>(Same as the above)</td>
<td>(Same as the above)</td>
<td>(Same as the above)</td>
<td>(Same as the above)</td>
</tr>
<tr>
<td>Hotel B explains that when demand exceeds supply, the hotel association asks that member hotels do not increase prices by more than 40%. Since Hotel B wants to thank customers for their patronage over the years it has decided to maintain the price at 100.</td>
<td>Hotel B explains that when demand exceeds supply, the hotel association asks that member hotels do not increase prices by more than 40%. Hotel B has increased its price by only 20%.</td>
<td>Hotel B explains that when demand exceeds supply, the hotel association asks that member hotels do not increase prices by more than 40%. Hotel B wants to thank customers for their patronage over the years and thus has decided to sell a package which does not increase the prices of a hotel stay and meals</td>
<td>Hotel B explains that when demand exceeds supply, the hotel association asks that member hotels do not increase price by more than 40%. Hotel B wants to thank customers for patronage over the years and thus has decided to sell a package through which customers can actually save $20.</td>
</tr>
</tbody>
</table>

Cell numbers are indicated in the bottom right corner of each cell.
5.2. Measures and Subjects

Four items are used to measure fairness. One item is similar to the one employed in Kahneman, Knetsch and Thaler (1986) and three items are taken from Oliver and Swan (1989). The items were translated into Mandarin and then back translated to ensure the accuracy of the translation. All items were measured using a 7-point Likert scale, with -3 indicating strongly disagree and +3 indicating strongly agree.

The questionnaires were administered to full time and part time MBA students in university classes in northern Taiwan. Students were given a randomly chosen one of the eight questionnaires. Additionally, each student was given eight extra questionnaires, encompassing the eight cells in the experiment. The students were asked to take the questionnaires to their coworkers or friends to collect more data. A total of 765 questionnaires were distributed and 686 usable questionnaires were returned, representing a response rate of 90%.

These 686 responses included 56.4% males and 43.6% females. Most respondents (68%) were aged between 24 and 40. Some 82.4% of respondents had at least two years of college education. Finally, 24.8% of the respondents were full time students.

6. Results

The coefficient alpha of the four items of fairness measurement is .92. For simplicity, the following analysis uses the average value of the four fairness measures. Table 2 lists the means and standard deviations of fairness perceptions. As expected, providing an explanation does not improve fairness perception for the no price hike situation (mean values .91 vs. .93, p-value = .90). Hypothesis 1 thus is supported.
Table 2. Summary Statistics of Fairness

<table>
<thead>
<tr>
<th></th>
<th>No price increase</th>
<th>Increased price only</th>
<th>Price increase by bundling with $40 meal coupons</th>
<th>Price increase by bundling with $40 meal coupons and $20 future stay discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>No explanation</td>
<td>.91(1.17), N=83</td>
<td>-1.25(1.26), N=88</td>
<td>-.78(1.24), N=85</td>
<td>-.20(1.23), N=86</td>
</tr>
<tr>
<td>Provide explanation</td>
<td>.93(1.22), N=87</td>
<td>-.96(1.34), N=87</td>
<td>-.51(1.38), N=85</td>
<td>-.035(1.13), N=85</td>
</tr>
</tbody>
</table>

Cell numbers are indicated in the bottom right corner of each cell.
In each cell the mean of fairness (using the average of four 7-point ratings scales ranging from -3 to +3) is reported with standard deviations shown in parentheses. N indicates the number of observations in each cell.

ANOVA analysis requires the assumption of data normality and equal variance across groups. Examination of normal probability plots of data in each group shows that the data follow normal distribution. Furthermore, Levene’s test of equality of error variances is not significant (F(5,510) = 1.263, p-value = .279). ANOVA analysis of the data, excluding the no-price-hike situation, shows that explanations significantly improve fairness perception (F(1, 510) = 4.67, p-value = .031)(Table 3).

Table 3. ANOVA Analysis of the Effects of Bundle and Explanation

<table>
<thead>
<tr>
<th>Source</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bundle</td>
<td>84.29</td>
<td>2</td>
<td>42.14</td>
<td>26.26</td>
<td>.000</td>
</tr>
<tr>
<td>Explanation</td>
<td>7.49</td>
<td>1</td>
<td>7.49</td>
<td>4.67</td>
<td>.031</td>
</tr>
<tr>
<td>Bundle * Explanation</td>
<td>.44</td>
<td>2</td>
<td>.22</td>
<td>.14</td>
<td>.873</td>
</tr>
<tr>
<td>Error</td>
<td>818.39</td>
<td>510</td>
<td>1.61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>910.68</td>
<td>515</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Hypothesis 2 thus is supported. The same ANOVA analysis shows that increasing the bundling offers improves fairness perceptions ($F(2, 510) = 26.6$, p-value < .01). The improvement from no bundling offer to one additional bundling offer improves the fairness perception from -1.11 to -0.64 (mean difference = .47, standard error = .14, p-value = .002). Moreover, the improvement from bundling one additional offer to two additional offers improve the fairness perception from -0.64 to -0.12 (mean difference = .53, standard error = .14, p-value < .001). Thus, hypothesis 3, bundling is perceived as fairer than an outright price hike that achieves the same profit, and moreover that fairness perception increases with the number of offers, is supported. The results support the contention that bundling improves unfairness perceptions.

Mean fairness perception for no-price hike and no explanation is .92 (1.19) (cell 1 in Table 2). Respondents consider no-price hike to be fair. The mean value of fairness perception when the price is raised and two extra bundling offers are provided is -.035 (1.13) (cell 8 in Table 2). The mean difference between the two cells is .95 (with standard error .18, p-value < .001). Thus, hypothesis 4, that respondents who received the explanation and the two extra offers will not perceive the price as being as fair as those who received no price hike and no explanation, is supported. Notably, the value from the two extra offers in the bundle exceeds the extra monetary cost to consumers, namely $40.

**Figure 1. Mean of Fairness in Each Cell**
7. Discussion

The experiment findings suggest that giving explanations to consumers can mitigate perceived unfairness from a price increase. As predicted, providing an explanation effectively improves unfairness perceptions only when respondents face an unfavorable situation. When demand exceeds supply and the firm maintains its price, no unfairness perception exists. In this situation, providing an explanation does not affect fairness perceptions.

Bundling with other offers can improve perceptions of price unfairness. As expected, fairness perceptions increase with the number of offers a firm gives to customers. However, raising prices to take advantage of increased demand has a significant negative impact on fairness perceptions. The impact is so large that bundled offers which more than compensate for the increased price still cannot remove the unfairness perceptions. Firms thus are advised not to exploit short term increases in market power by raising prices.

To our knowledge, the existing literature has not empirically examined the problem of improving price unfairness perceptions. Research opportunities exist in at least three areas for further examining the issue of improving price unfairness perceptions. First, there are numerous situations in which consumers perceive prices as unfair, such as no show penalties (McCarthy and Fram, 2000), targeted promotions (Feinberg, Krishna and Zhang, 2002), price increase from inflation and comparison with competitor prices (Bolton, Warlop and Alba, 2003). Consequently, research can be conducted in the future to examine the effectiveness of the two methods of improving price unfairness perceptions in those situations.

Second, the merits of different types of explanations deserve further study. In the human resource literature, some works have shown that excuses, where the authority shifts responsibility to some external cause, can achieve beneficial results. Other studies have suggested that justifications, which admit responsibility while appealing to higher order concerns, are more effective than
excuses (Shaw, Wild and Colquitt, 2003). In the price context, the relative merits of excuses, such as where the price increases are due to cost increases which are beyond the control of the firms, versus justification, such as where the increased prices are necessary for the firm to survive and continue to offer services to customers, deserve to be explored. In any case, perceiving explanations as fair require them to be recognized as honest, genuine and not manipulative (Lind and Tyler, 1988). Research also should measure the effects of explanation clearness, reasonability, and detail.

Third, literature on bundling deals mostly with the preference and purchase intentions for congregation or segregation presentation of prices and offers. Few previous works deal with the issue of improving unfairness perceptions. This study only examines a 20% and 40% increase in prices and a couple of additional offers in a bundle. Varying the level of price increases and changing the variety as well as quantity of offers can advance our understanding of improving unfairness perceptions.

8. References


Appendix

假設您在網路上訂美國或歐洲的旅館房間，碰到下列情況：

某城市有甲和乙兩家旅館，甲旅館正在重新整修，因而暫停營業。乙旅館的房價原為每天美金$100 (約合台幣$3500)，在甲旅館暫停營業的期間，乙旅館將房價和餐券合併銷售，價格為每天美金$140 (約合台幣$4900)，此價格包括住宿一晚，以及價值美金$40 (約合台幣$1400)的餐券。此外，還提供一張折價券，顧客未來再來住宿時可享受美金$20的折扣。

乙旅館在網頁上有下面的說明：

按旅館公會的自律公約，旅館在預計需求高於旅館房間數時，提高房價最高不能超過40%，本旅館為感謝顧客多年來的光顧，只將房價和餐券合併銷售，並贈送折價券，整體而言，顧客可節省美金$20。

對於乙旅館，請就下面各題，在最能代表您意見的數字上畫圈。

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顧客的效益

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