



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



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ARTICLE INFO

Article history:

Received 17 March 2015

Received in revised form

16 August 2015

Accepted 18 August 2015

Keywords:

Unfairness

Consumer services

Differential treatment

Price discrimination

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; Gultinan, 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 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 has 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

inequity perceptions may lead to the dissolution of the customer-firm relationship (Sirdeshmukh et al., 2002). The potential financial benefits for firms on the one hand, but negative consumer reactions on the other, raise questions about the viability of differential pricing (Weisstein et al., 2013). When balancing customer acquisition and retention efforts, firms often ignore potential interaction effects between both customer management activities. If a firm does not consider these issues, differential treatment will potentially cross the line in terms of what its customers consider fair (Kimes and Wirtz, 2003), which may lead them to opt out of relationships, or engage in behaviour that may damage the firm (Nguyen and Klaus, 2013).

3. Outcomes of unfairness perception

Firms need to recognize concerns about different treatment and manage perceptions of fairness because these issues are connected to customers' trust and overall satisfaction with the relationship and hence repurchase intentions (Grewal et al., 2004; Haws and Bearden, 2006; Lo et al., 2007; Garbarino and Maxwell, 2010; Xia and Monroe, 2010).

The literature suggests that price fairness and trust are closely related (Garbarino and Maxwell, 2010), with fairness considered as an antecedent of trust (Buttle and Burton, 2002; Nguyen and Klaus, 2013). Trust has been conceptualized as the confidence one party has in an exchange partner's reliability and integrity (Morgan and Hunt, 1994), corresponding to perceived credibility and benevolence. Credibility pertains to intentions and ability to keep promises (Guiltinan, 2006), while benevolence trust has been defined as a willingness of an exchange party to be vulnerable to the actions of another party in whom one has confidence (Doney et al., 2007). Trust is a feeling of security based on the belief of favourable and positive intentions, as opposed to lying or taking advantage of the vulnerability of others (Nguyen, 2012). Trust is therefore vital in any long-term relationship (Garbarino and Johnson, 1999), and as suggested by Boulding et al. (2005), the precursor to issues of consumer trust is fairness. Differential pricing may undermine trust in an organization where customers perceive that they have been treated less fairly in terms of price than other buyers (McMahon-Beattie et al., 2002; McMahon-Beattie et al., 2004), generating a sense of betrayal (Weisstein et al., 2013). Moreover, a lack of price transparency creates conditions for mistrust. Garbarino and Lee (2003) have noted that dynamic pricing which results in unexplained price differentials leads to diminished trust in the seller.

Furthermore, the idea that someone else is getting a better deal on the same offer can also evoke dissatisfaction (Lo et al., 2007; Nguyen and Simkin, 2013). Research has shown that equity is related to satisfaction (Szymanski and Henard, 2001), particularly in terms of (un)fair pricing (Oliver and Shor, 2003). Customer satisfaction has been defined as a post-consumption evaluation (Szymanski and Henard, 2001) which results from a comparison of previously held expectations with the perceived product. Hence, consumers' price perceptions are considered an important factor which influences overall satisfaction judgments (Herrmann et al., 2007). Research indicates that existing consumers perceive price unfairness and exhibit low satisfaction when paying higher prices than others for similar transactions (Haws and Bearden, 2006). Furthermore, Voss et al. (1998) suggest that perceived price fairness might be the dominant determinant of satisfaction. Similar results were also found by Oliver and DeSarbo (1988), Oliver and Swan (1989), Namkung and Jang (2010) and Nguyen et al. (2015). However, little research has linked perceptions of price fairness with satisfaction judgments.

The most widely addressed behavioural consequence of price

unfairness in the literature is purchase intentions (e.g. Kukar-Kinney et al., 2007; Tsai and Lee, 2007). Price-disadvantaged buyers view differential pricing tactics as unfair, and they subsequently express lower repurchase intentions (Grewal et al., 2004), avoid transactions or do not buy at all (Cockrill and Goode, 2010). Moreover, Homburg et al. (2005) found a direct link between perceived fairness and intention to repurchase. Therefore, customers' perception of fairness of a retailer's action can affect customer retention (Chebat and Slusarczyk, 2003). Santos and Basso (2012) suggest that trust may mediate the relationship between price unfairness judgments and behavioural responses such as repatronage: if customers believe that the retailer is engaging in unfair practices, they may perceive the firm has broken the implicit trust in the relationship, leading to its dissolution (Sirdeshmukh et al., 2002; Martin et al., 2009). However, the role of trust on the relationship between fairness perceptions and repurchase intentions remains under-investigated. Research also shows that perceptions of fairness influence satisfaction which, in turn, relates to future purchase intentions (e.g. Oliver and Shor, 2003). Satisfied customers are more inclined to remain in a relationship, whereas a dissatisfied customer is likely to look for alternative options (Nguyen and Simkin, 2013). Homburg et al. (2005) draw on economic theory to examine how satisfaction can moderate the link between price fairness and repurchase intention and conclude that satisfaction can play an important role in terms of how customers react to marketing activities.

Thus, research suggests a relationship between perceived price fairness, trust, satisfaction and repatronage (Grewal et al., 2004; Garbarino and Maxwell, 2010; Xia and Monroe, 2010). Since research shows that present customers perceive greater unfairness if they receive a less favourable treatment than new customers (Feinberg et al., 2002; Tsai and Lee, 2007), the impact in terms of trust, satisfaction and repatronage may also be more damaging. However, despite such important consequences, little attention has been paid to understanding unfairness in differential pricing schemes and companies often underestimate the negative reactions these practices provoke among customers (Martin et al., 2009; Santos and Basso, 2012; Nguyen and Klaus, 2013).

4. Research hypotheses and methodology

Along the lines of previous research on price fairness (e.g., Bolton et al., 2003; Grewal et al., 2004; Tsai and Lee, 2007; Maxwell et al., 2009), we used a survey-based experimental design approach. The experimental method employed a 2 × 2 between-subjects factorial design, where subjects were divided in two segments, new and existing customers, and were presented with two hypothetical scenarios, one under the advantaged inequality condition and the other under the disadvantaged inequality condition. Based on existing scales, four dependent variables were measured: price unfairness, satisfaction, trust and repurchase intention. In accordance with the literature review, we propose a set of research hypotheses.

Hypothesis 1. (H1): When facing the disadvantaged inequality condition, current customers' unfairness perception (trust and satisfaction) is (are) higher (lower) than that of new customers'.

We assume that favouring new customers negatively affects existing customers' perception of their relative outcome to input ratio, i.e. their perceived equity or fairness. Research shows that when different conditions are offered to current and prospective customers, the former perceive higher unfairness and a sense of betrayal if they receive the less favourable treatment (Feinberg et al., 2002; Tsai and Lee, 2007). The negative reaction is mainly

due to their attachment to the firms and their products (Weisstein et al., 2013) and higher expectations of the retailer (Grégoire and Fisher, 2008; Martin et al., 2009). In addition, fairness judgments tend to be biased by customers' self-interest (Nguyen and Simkin, 2013). This means that when the inequality is to the customers' advantage, unfairness perceptions are less severe than when it is to their disadvantage (Xia and Monroe, 2010). Based on distributive justice, existing customers feel they have invested more in the relationship than prospective customers (Cox, 2001) and may perceive a less favourable treatment as unfair. This may have a more severe impact, causing a decrease in trust in the firm's activities and stronger dissatisfaction.

We also propose that price unfairness will have a direct effect on consumers' repatronage. The relationship between perceived fairness and behavioural response (such as repurchase intention) has received considerable attention from marketing researchers in general, and from consumer behaviour scholars in particular (Namkung and Jang, 2010). Differential pricing tactics may have potentially negative effects on price fairness and repurchase intentions (Kung et al., 2002). When consumers perceive price unfairness in a transaction, they are disappointed and upset and may choose to terminate the buyer–seller relationship (Xia et al., 2004). Thus, we posit that:

Hypothesis 2. (H2): Customers' unfairness perception has a negative impact on repurchase intentions.

Drawing on equity theory (Adams, 1965), we deduce that perceived price unfairness resulting from disadvantaged price inequality decreases satisfaction (e.g. Haws and Bearden, 2006) and trust (e.g. Guitinan, 2006). Since trust and satisfaction are well established antecedents of loyalty (e.g. Sirdeshmukh et al., 2002) this will also decrease repatronage intentions (e.g. Kukar-Kinney et al., 2007). Thus we propose that price unfairness perceptions will also exert an indirect effect on repurchase intentions through trust and satisfaction:

Hypothesis 3. (H3): Customers' unfairness perception has a negative impact on repurchase intentions through satisfaction.

Hypothesis 4. (H4): Customers' unfairness perception has a negative impact on repurchase intentions through trust.

The setting chosen was a health club. Fairness is particularly salient in service transactions because services are difficult for customers to evaluate before purchase, due to their intangibility and variability, placing them in a more vulnerable position (Martín-Ruiz and Rondán-Cataluña, 2008; Namkung and Jang, 2010). This setting is also relevant because service firms have the ability to utilize customers' data for differential treatment (Nguyen and Simkin, 2013) and are known to deploy frequent customization practices. Moreover, in services word of mouth tends to be more prevalent (Nguyen, 2012) and therefore consumers become more aware of prices offered to other customers. Other market related criteria, such as strong competition, the free market and switching, which prevail in the retail and service industries, increase the likelihood of firms acting in an unfair way (Nguyen and Klaus, 2013). Finally, differential pricing is a viable practice in service industries due to its perishability and simultaneous production and consumption (Hoffman et al., 2002). In order to fill spare fixed perishable capacities, services such as health clubs may require a constant flow of new customers (McMahon-Beattie, 2011) and low prices may be required to attract them.

Data collection was done through a cross-sectional survey, applied to a convenience sample of acquaintances and to randomly chosen members of a health club, with a total of 402 answers. Respondents were identified as current (200) or prospective (202) clients. To achieve comparable sample sizes, we

used restrictive random assignment (Shadish et al., 2002). One of four possible scenarios was presented to participants. The following scenario was presented to current members of the health club on an advantaged {disadvantaged} inequity condition:

"As a member of the health club, the membership fee per year is 60€. Your membership is about to expire and you are considering whether to continue the membership. You receive a letter that says: "By continuing your membership, you will have 20% {10%} off the membership fee. The next day, you meet one of your friends who is not a member of the health club who tells you (s)he that when applying for membership, new members will have 10% {20%} off the membership fee."

The following scenario was presented to prospective customers of the health club on an advantaged {disadvantaged} inequity condition:

"You are not a member of a health club, but now you are considering whether to join. You discover that when applying for membership, new members will have 20% {10%} off the membership fee. The next day, you meet one of your friends who is a member of the health club who tells you that, by continuing her(is) membership, s (he) will only have 10% {20%} off the membership fee."

The questionnaire comprised 20 questions regarding demographic data, perceived unfairness, trust, satisfaction and repurchase intentions. The measures were established scales from previous studies, adapted to the present study. All items employed seven-point Likert. Perceived unfairness was measured with 4 items from the Tsai and Lee (2007) scale. Trust was measured through a three-item scale by Grewal et al. (2004), while to measure satisfaction we have used a three-item scale from Oliver and Shor (2003). Finally, to measure (re)purchase intention, one item from Grewal et al. (2004) was used ("How likely are you to buy from the health club in the future?", with possible responses ranging from Very Unlikely to Very Likely). Finally, participants completed a manipulation check regarding inequality in relation to the advantaged or disadvantaged conditions. Main results are shown in the following section.

5. Research findings

The majority of the respondents (60.7%) were female, with 69% between 20 and 40 years old, and most of whom also had a bachelor's degree (49.8%). The difference between scenarios in terms of inequality conditions (20% vs 10% off) was statistically significant and therefore the manipulation was successful in having the intended effect.

Composite measures of identified factors were unidimensional and demonstrated good scale reliability according to accepted standards (Nunnally 1978). One of the items measuring perceived unfairness reduced scale reliability and was thus removed. Internal reliability tests of the identified factors showed strong Cronbach's alpha (ranging from .886 to .984), composite reliability (above .90), Composite Reliability and Average Variances Extracted, with all CR and AVE estimates above 0.80 (Fornell and Larcker, 1981; Hair et al., 2006). In addition, evidence of the measures' validity is provided by the fact that the scales exhibit high levels of internal consistency (Table 1).

All factor loadings for indicators measuring the same construct were statistically significant ($p < 0.01$), supporting convergent validity. Moreover, estimated pair-wise correlations between factors (i) were significantly less than one (Bagozzi and Yi, 1988); and (ii) the square root of AVE for each construct was higher than the correlations between them (Fornell and Larcker, 1981; Anderson and Gerbing, 1988), thus supporting discriminant validity (Table 2).

To verify H1, we performed a series of 2 (current vs new

Table 1
Measurement scales, reliability and dimensionality statistics.

Measures	Loadings	α	CR	AVE
Perceived unfairness		.96	.970	.888
How fair do you consider the offer made to you by the health club to be?	.939			
Compare to the offer made to your friend, do you agree that the price offered to you is fair?	.933			
How acceptable do you consider the offer made to you by the health club to be?	.949			
How reasonable do you consider the offer made to you by the health club to be?	.949			
Satisfaction		.98	.989	.968
I am satisfied with my purchase	.983			
The price I paid was better than I had expected	.989			
I feel I could become loyal to this store	.980			
Trust		.89	.929	.814
Even if not monitored, I would trust the health club to do its job properly	.910			
I think the health club is credible	.901			
I think the health club is reliable	.895			

Table 2
Latent variables squared correlation matrix.

Dimensions	Unfairness	Satisfaction	Trust
Unfairness	.942		
Satisfaction	-.826	.984	
Trust	-.866	.819	.902

Notes: Entries under the diagonals are the latent construct correlations. Entries on the diagonal are the square root of AVE; $p < 0.01$ for all correlations.

customers) $\times 2$ (advantaged inequity vs disadvantaged inequity) ANOVA, using unfairness perception, satisfaction and trust as dependent variables.

Results show that there was a significant main effect on differential pricing ($F=105.1$; $p < .000$) and a significant two-way interaction effect ($F=94.6$; $p < .000$) on perceived unfairness. The effect of differential pricing on perceived unfairness was different for current and new customers: new customers were unaffected while current customers showed higher (lower) perceived unfairness when facing a disadvantage (advantaged) inequality condition (Fig.1). Supporting H1, a further examination of the mean values revealed that when facing the disadvantaged

inequality condition, current customers' unfairness perception was higher ($M_{dis}=.845$) than that of new customers' ($M_{dis} = -.007$). When facing the advantaged inequality condition, current customers' unfairness perception was lower ($M_{adv} = -.788$) than that of new customers' ($M_{adv} = -.050$).

Results also show that there was a significant main effect of differential pricing ($F=118.7$; $p < .000$) and a significant interaction effect ($F=92.6$; $p < .000$) on satisfaction. As shown in Fig. 2, the effect of differential pricing on satisfaction was different for current and new customers: new customers are unaffected while current customers showed significantly lower (higher) levels of satisfaction when facing a disadvantaged (advantaged) inequality condition. Supporting H1, a further examination of the mean values revealed that when facing the disadvantaged inequality condition, current customers' satisfaction was lower ($M_{dis} = -.772$) than that of new customers' ($M_{dis} = -.108$). When facing the advantaged inequality condition, current customers' satisfaction was higher ($M_{adv}=.887$) than that of new customers' ($M_{adv} = -.006$).

Finally, results showed a significant main effect of differential pricing ($F=43.7$; $p < .000$) and a significant interaction effect ($F=115.9$; $p < .000$) on trust. The effect of differential pricing on trust was different for current and new customers: current customers showed significantly lower (higher) satisfaction when facing a disadvantaged (advantaged) inequality condition (Fig. 3). Supporting H1, a further examination of the mean values revealed that when facing the disadvantaged inequality condition, current customers' trust was lower ($M_{dis} = -.674$) than that of new customers' ($M_{dis}=.116$). When facing the advantaged inequality condition, current customers' satisfaction was higher ($M_{adv}=.794$) than that of new customers' ($M_{adv} = -.235$).

Interestingly, a closer look at new clients shows that they tend to place more trust in the health club when facing the disadvantaged rather than the advantaged price condition ($M_{dis} = .116 > M_{adv} = -.235$). When benefiting from a higher discount than current customers, new clients are satisfied because they receive a better than expected price offer and may even become loyal members (Fig. 2). However, they consider the health club less reliable because of the disadvantaged way in which it treats existing customers (similar others), which indicates the organization is capable of betrayal. Gelbrich (2011) has studied the ambivalent consequences triggered in consumers by advantaged price inequality. Though advantaged price inequality increases transaction value for new customers, another person's disadvantage (in this

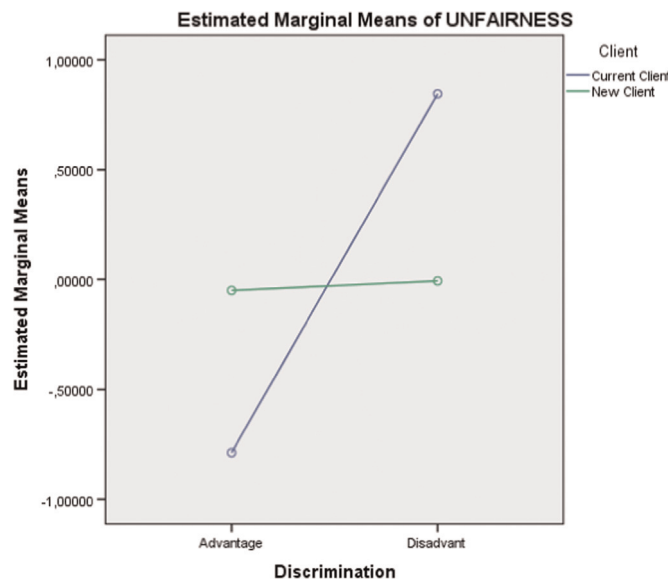


Fig. 1. H1 testing results: the effect of customer types and conditions on perceived unfairness.

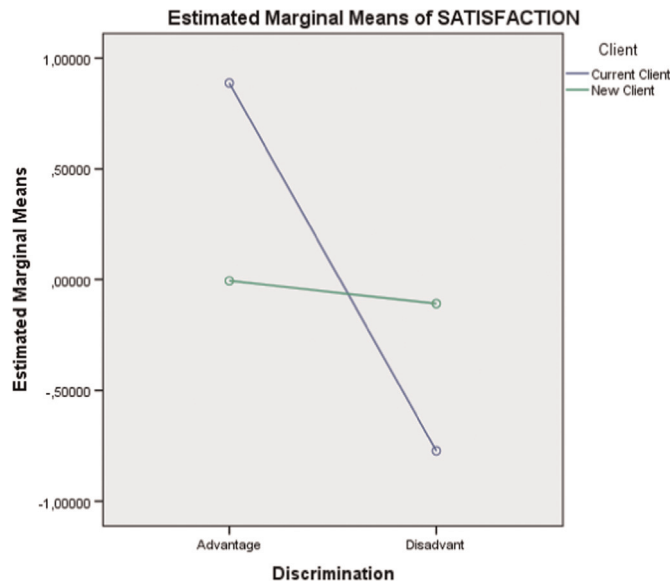


Fig. 2. H1 testing results: the effect of customer types and conditions on satisfaction.

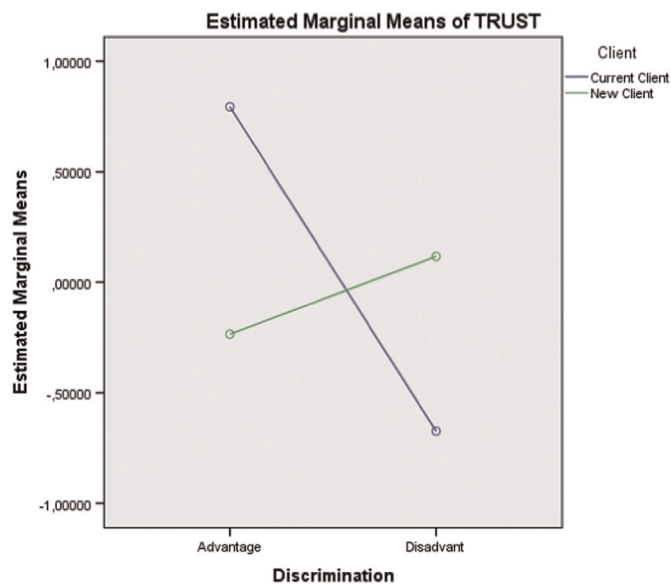


Fig. 3. H1 testing results: the effect of customer types and conditions on trust.

case, that of existing customers') may cause negative reactions, such as outrage (Frijda et al., 1989). New customers may feel that by favouring them instead of existing customers, the firm has performed a blameworthy action (Ortony et al., 1988), by putting loyal clients in a critical position. Such other-focused outrage may be less intense than the ego-focused (such as that felt by existing customers facing the disadvantaged condition), but may also be salient (Gelbrich, 2011). Moreover, according to Garbarino and Maxwell (2010), trust is sensitive to normative effects. Social norms are tacitly understood rules of a society. Society expects a price to be paid for adhering to the social norms of equity, equality, and need (Maxwell et al., 2009). E.g. Nguyen and Klaus (2013) found that customers may find differential treatment acceptable, as long as it rewards loyal customers, because "it is the way business is done". However, if in a society people feel that a pricing tactic is against the norm, they might react negatively regardless of whether they were offered the higher or the lower price

(Garbarino and Lee, 2003). Grewal et al. (2004) argue that pricing tactics contrary to the social norm, such as charging a regular customer more, engender less trust than pricing tactics consistent with norms, especially benevolence trust (Garbarino and Maxwell, 2010). Firms that fail to meet these social expectations are often accused of exploiting the consumer and are treated with suspicion (Maxwell et al., 2009). Current customers may respond more negatively to norm violation due to their higher sense of betrayal (Grégoire and Fisher, 2008). But new customers may also infer that the same could happen to them, as future members of the health club, considering it untrustworthy and as in need of monitoring. Thus, differential pricing favouring new clients may jeopardize the trust both of existing and new clients.

Hypothesis 2. was also supported (Table 3). 57.6% of the variability of repurchase intentions is explained by perception of price unfairness. Knowledge of prices available to others for an identical

Table 3
H2 testing results: correlation between unfairness perception and repurchase intention.

	R ²	F	Sig.
Coefficients (Constant)	.576	543.894	.000
Unfairness perception	Beta -.759	T-Value 60.482 -23.322	Sig. .000

product influences consumers' purchase decision (Santos and Basso, 2012). Customers' unfairness perception has a direct negative impact on intention to repurchase (Beta = -.759). When new and current customers are compared, results show that correlation is significantly stronger ($p < .000$) for current members ($R^2 = .694$) than new ones ($R^2 = .471$).

Hypotheses 3 and 4 posit that perceived unfairness will influence purchase intentions through satisfaction and trust. To test Hypotheses 3 and 4, we conducted a bootstrap analysis using structural equation modelling in AMOS. Following Preacher and Hayes' (2004) recommendations, the bootstrapping procedure has been used to counteract the assumption of normality of the sampling distribution of the indirect effect required by regression analysis. According to Zhao et al. (2010), the indirect effect is significant if the confidence interval resulting from bootstrap analysis excludes zero, and if the direct effect is non-significant, supporting full mediation. To test H3 and H4, 2000 bootstrapped samples were requested. Based on bootstrap analysis, with a 95% confidence interval, the indirect total effect of price unfairness on repurchase intention through trust and satisfaction ranges from -1.846 to -1.239, and is thus significant. Moreover, the direct effect is non-significant ($p = .608$), indicating full mediation. Price unfairness negatively affects satisfaction ($a_1 = -.866$, $p < .00$), while satisfaction shows a positive effect on repurchase intentions ($b_1 = .323$, $p < .00$). Price unfairness also negatively affects trust ($a_2 = -.826$, $p < .00$), while trust shows a positive effect on repurchase intentions ($b_2 = .625$, $p < .00$). The model finds a negative and significant indirect total effect of price unfairness on repurchase intentions ($ab = -.796$, $p < .00$), providing support for H3 and H4. Fig. 4 shows the standardized path coefficients for this mediation analysis.

Thus, price unfairness perceptions will also exert an indirect effect on repurchase intentions through trust and satisfaction. As posited, differential pricing may undermine trust in an organization, generating a sense of betrayal (Weisstein et al., 2013). According to the trust violation (Wang and Huff, 2007) and unethical marketing (Leonidou et al., 2013) literature, the depletion of trust leads individuals to action, which may include lower repurchase intentions (Sirdeshmukh et al., 2002; Martin et al., 2009). Furthermore, consumers exhibit low satisfaction when they perceive price unfairness (Hermann et al., 2007; Haws and Bearden, 2006) and satisfaction, for its part, relates to future purchase intentions (Oliver and Shor, 2003).

6. Conclusion

The concept of fairness has received considerable attention in consumer behaviour research lately (Nguyen and Klaus, 2013). Questionable marketing tactics to attract and retain customers, such as differential treatment, favouritism and data use, raise concerns about the fairness consumers experience from retailers (Frow et al., 2011). However, despite the importance of fairness being recognized in buyer–seller relationships, few studies have linked fairness to a firm's differential treatment of its customers, and even fewer have focused on its effect on repatronage and on the role of trust and satisfaction. This paper assesses negative effects resulting from positive price discrimination of new vs existing customers, adding empirical evidence in the consumer services context. We argue that existing customers may perceive offers that favour new customers as unfair, prompting negative attitudinal and behavioural consequences, in particular with regard to satisfaction, trust and intention to repurchase. The results of our research make it empirically plausible that, given discriminatory pricing practises, new and existing customers hold different perceptions about unfairness. Our findings show that unfairness perception is less significant for new clients and more pronounced for existing ones, prompting negative attitudinal and behavioural consequences when the latter are exposed to disadvantaged conditions in relation to the former. Different unfairness perceptions result in different consequences in terms of satisfaction and trust which will then mediate the impact on repurchase intentions. In the case of trust, we further concluded that differential pricing favouring new customers may jeopardize the trust of both existing and new clients, since a violation of society norms is a source of distrust.

Hence, this study provides additional information regarding the different judgments made by new and existing customers, and its impact on their perceptions of price unfairness, satisfaction, trust and repatronage. Our research makes several contributions. First, although the issue of price discrimination has received substantial theoretical attention in the economics and operations literature (Garbarino and Lee, 2003), few studies have linked differential treatment practised by firms with customers' perceptions of unfairness (Nguyen and Klaus, 2013), especially as regards services (Bolton and Alba, 2006; Martín-Ruiz and Rondán-Cataluña, 2008). Furthermore, not only do we highlight the direct impact of unfairness on intention to repurchase, but we also demonstrate the significance of trust and satisfaction as mediators. The examination of a mediating role of trust and satisfaction expands knowledge in this research area, since the role of trust in the relationship between fairness perceptions and repurchase intentions remains under-investigated (Santos and Basso, 2012), while fairness and satisfaction have mainly been studied in isolation (Homburg et al., 2005). Moreover, little research focuses on the consequences of offering different prices to prospective as opposed to current customers taking both perspectives into consideration (e.g. Feinberg et al., 2002; Grewal et al., 2004). Most research focuses on self/self-comparison (e.g. Campbell, 1999), ignoring self/other-comparison, which is the focus of our study. In methodological terms, our experimental design includes true

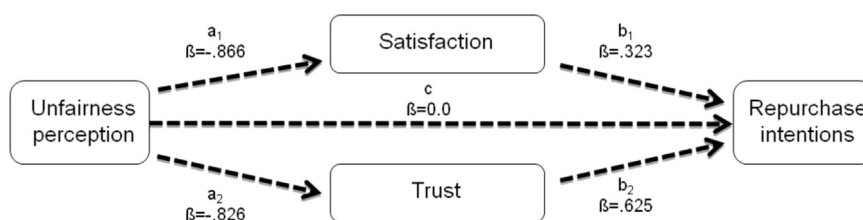


Fig. 4. H3 and H4 testing results: bootstrap results and standardized path coefficients for mediation analysis.

customers, while most empirical research has focused on student samples as primary sources of data. Finally, we contribute to a better understanding of potential interaction effects between new client acquisition and retention efforts of existing customers, through differential pricing.

In managerial terms, our paper aims to assist service firms in better designing and implementing their customer management strategies when using price segmentation practices. Firms are making simultaneous efforts towards generating a constant flow of new customers while at the same time strengthening bonds with their loyal patrons. Our results underline that neither activity is independent of the other. In effect, favouring new customers in order to drum up new business can reduce existing customers' satisfaction, trust and repurchase intention, and may even jeopardize new customers' trust in the organization. These findings have implications for the design and implementation of customer management strategies, highlighting the importance of closely coordinating new customer acquisition and retention activities within a firm. For instance, when offering an attractive price to new customers, firms can minimize negative effects on current customers by building differentiated offers for them such as service levels (Grewal et al., 2004). This may lead them to evaluate their outcomes better and also render it more difficult for them to make direct comparisons with new customers' outcome to input ratios. Along with the outcome, the input, e.g. a free gift, may also be less comparable. However, further research is needed to evaluate these alternative strategies (Weisstein et al., 2013).

One major limitation of this study is that it uses only one type of differential treatment. Other practices, such as dynamic pricing or other monetary (e.g. different levels of discount) or non-monetary (e.g. free gifts, as mentioned) types of customization also need further attention. Furthermore, our research could be extended to include other potentially relevant variables, such as emotion or demographic characteristics, and move beyond behavioural intentions to actual behaviours. Research also needs to better understand the impact of consumers' negative responses to differential treatment, e.g. boycotts, complaints or negative word-of-mouth. Finally, though the experimental approach is widely used in similar studies (Guiltinan, 2006), has long been recommended for fairness research (Maxwell et al., 2009) and reduces bias (Grewal et al., 2004), it suffers from questionable external validity; future research could focus on real life situations instead of experimental scenarios in assessing unfairness perceptions.

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