Switching from Free to Fee: More than Just a Price Increase? An Abstract

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Abstract This research investigates customers' reactions to free-to-fee switches (i.e., price introductions for products or services that were previously available for free). Specifically, it compares a free-to-fee switch to a conventional price increase, where the initial price was not zero. Building upon cognitive appraisal theory and drawing from 18 qualitative in-depth interviews, a conceptual model is developed and tested in a field experiment. Findings demonstrate that compared to price increases at different levels, a free-to-fee switch leads to higher perceived betrayal and anger and, subsequently, fewer actual purchases. Moreover, providing a justification for the price change is identified and tested as one moderator. While providing customers a justification reduces the feeling of perceived betrayal and anger, and lead to more purchases, it also interacts with the type of pricing decision, such that providing a justification is more beneficial in a free-to-fee switch compared to a price increase. Overall, the findings provide insights into the mechanisms of customers' response to free-to-fee switches as well as how they differ from conventional price increases.

References Available Upon Request

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