UNDERSTANDING DIFFERENCES IN CUSTOMER WILLINGNESS TO PAY (WTP): CONTEXT EFFECTS, ATTRIBUTE FRAMING, AND PERCEPTIONS OF FAIRNESS

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ABSTRACT

Researchers in marketing have studied customer willingness to pay (WTP) for a variety of goods and services extensively. However, to date there has been limited empirical investigation of environmental factors such as *need urgency* (demand-driven or circumstantial scarcity of a desired good or service) and *agency* (whether the purchaser is spending her own money to make the purchase, or money provided by someone else, such as an employer). In addition, factors such as the way price information is framed may have an effect on customer WTP, as might the presentation of incidental price information. In addition, the perceived fairness of a price, or of a change (particularly an increase) in price, may have an effect on customer WTP under some circumstances. Understanding the effect of need urgency, agency, framing, reference pricing, and perceived fairness on customer WTP could help managers optimize pricing and (in the case of fairness) firm reputation.

In series of exploratory quasi-experimental surveys conducted in 2008, we manipulated the price of vending-machine and/or concession-stand soft drinks in response to ambient outside temperature, increasing the price as ambient outside temperature increased. In the first quasi-experiment, we manipulated agency and urgency (two levels of each, a "present" and an "absent" condition), asking respondents to indicate willingness to pay for soda using a "brackets" procedure. We found that WTP declined significantly with age.

In subsequent quasi-experiments we manipulated framing information, increasing price from a low "regular" price in the negative condition and decreasing the price from a high "regular" price condition (in the no-attribute-frame condition, no "regular" price was displayed on the machine). We also manipulated reference pricing, using narrow (many small increments of price change) and broad (a few large increments) reference ranges. Finally, we measured perceived fairness under all three frame conditions (negative, positive, and no frame); a second fairness question in the no-attribute-frame condition asked respondents to report perceived fairness when an explanation for price change was provided.

As expected, descriptive statistics indicated WTP tended to decline as price (along with temperature) increased. In Experiment 2 (manipulation of attribute framing condition only) significant within-subjects effects for WTP for prices and conditions compared to the baseline of 70 degrees and no attribute frame were seen, as was a significant between-subjects effect for WTP and perceived fairness. We also observed significantly greater perceived fairness when an explanation for the price change was provided.

References Available on Request.