

Fairness and Discounts: The Subjective Value of a Bargain

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In this work, we examined the surprising value consumers attach to getting a bargain. Past research has largely understood this phenomenon in terms of the impact discounts have on perceptions of fairness. However, the evidence for this explanation is inconclusive due to a number of viable alternatives as well as issues relating to construct and external validity. The experiments we report here provide clearer evidence for the basic assertion that discounts increase purchase satisfaction due to the nonfinancial rewards that are associated with perceptions of fairness. Furthermore, current notions of fairness in the promotion literature are extended by showing that social cues such as the relative size of the discount received by another customer and the loyalty status of that customer can also have an important impact on fairness and purchase satisfaction. We suggest an integration of transaction utility theory (Thaler, 1985) and equity theory (Bagozzi, 1975) to account for these findings.

Everybody seems to like getting a bargain. From an economic standpoint, the appeal can be understood in terms of the objective monetary benefits. However, simple observation suggests that bargains may be of broader significance to many consumers. For instance, shoppers sometimes expend more time and energy to get a discount than seems reasonable given the financial gain involved. Furthermore, consumers often derive more satisfaction from finding a sale price than might be expected on the basis of the amount of money they actually save. These examples suggest that the subjective impact or importance of a bargain is often greater than would be expected strictly on the basis of economic sources of value. We use the term *bargain* to refer to the subjective experiences consumers have when getting a discount because we believe this term better conveys the true importance of the nonutilitarian sources of value involved.

This investigation was aimed at better understanding the surprising value attached to bargains, especially in terms of the role played by perceptions of fairness. Although researchers have recognized that fairness may be important in

getting a discount (Thaler, 1985; Winer, 1988), there are still a number of issues that need to be more carefully examined. These include (a) a more complete account of other plausible explanations for the psychological value of a bargain, (b) establishing process evidence to directly link the value of a bargain to perceptions of fairness, (c) better evidence for the construct validity of perceived fairness and its effects on purchase satisfaction, and (d) a more complete understanding of the cues that influence perceptions of fairness and satisfaction with a bargain.

We addressed these issues through two experimental studies that provide more conclusive evidence that perceptions of fairness are indeed responsible for the high level of interest consumers often have in bargains. We further show that consumers readily use any available social cues to judge the fairness of the prices they pay according to the well-established rules of social equity theory (Adams, 1965; Bagozzi, 1975). We integrate this idea with the conception of fairness in transaction utility theory (TUT; Thaler, 1985) to provide a more complete framework for understanding the manner in which consumers determine the fairness of prices.

The traditional economic view has been that consumers should be interested in discounts to the extent that the amount

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of money saved exceeds the costs of search (Stigler, 1987). However, empirical research has suggested a more complicated story (e.g., Darke, Freedman, & Chaiken, 1995; Tversky & Kahneman, 1981). In particular, a number of studies have shown that consumers seem interested in getting bargains even when there are few, if any, advantages in terms of the absolute amount of money saved. For instance, Kahneman and Tversky (1984) found that consumers were more likely to make an effort to get a large percentage discount (33% off the price) than a small percentage discount (4% off the price), even though the amount of money saved was \$5 in both cases (see also Darke & Freedman, 1993; Heath, Chatterjee, & France, 1995). These findings seem to imply that consumers value bargains for reasons that go beyond the objective financial gain involved.

The obvious question is what psychological processes might account for the surprising value attached to bargains. Kahneman and Tversky (1984) preferred a strict perceptual explanation in which consumers “spontaneously frame these decisions ... [in a way that is] analogous to that of ‘good forms’ in perception and basic-level categories in cognition” (p. 347). The basic notion is that bargains seem more valuable to consumers because cognitive mechanisms distort the magnitude of the deal. The same \$5 seems more substantial when it is a large percentage of the base price than when it is a smaller percentage. However, another explanation is that consumers may actually be motivated to receive bargains for reasons that go beyond the direct financial benefits. That is, there may be additional nonfinancial rewards that explain why bargains seem so valuable. Kahneman and Tversky briefly acknowledge this alternative explanation saying, “it can be argued that ... it may be more pleasurable to save \$5 on a \$15 purchase than on a larger purchase” (p. 347).

BARGAINS, FAIRNESS, AND TUT

The notion that bargains may provide additional nonfinancial sources of value is consistent with the basic claim of TUT (Thaler, 1985). This states that consumers derive utility not only through the material consequences of exchange (called *acquisition utility*) but also through more psychological aspects of the transaction having to do with the perceived merit of the deal itself. This psychological source of value is referred to as *transaction utility*, and it is said to arise primarily from perceptions of the fairness of the offer. The mental calculus for evaluating fairness involves comparing a price offer (p) to an internal standard of what a fair price would be for the item (p^*) where transaction utility increases to the degree that the price offer meets or exceeds the fair price. Therefore, TUT also involves framing (the price offer is framed relative to a fair price), but it goes much further to suggest that this framing results in a separate, qualitatively different source of value associated with the perception that the deal is fair.

TUT indicates that consumers develop standards for judging the fairness of prices (p^*) in a number of distinct ways. For instance, they may base estimates of a fair price on perceptions of the seller’s costs (Kahneman, Knetsch, & Thaler, 1986) or use past information concerning the typical price of an item. Importantly, consumers may also use the initial price suggested by a price discount to determine p^* , with perceptions of fairness and deal value increasing as the difference between the initial and final price increases. A number of empirical studies have generally supported TUT’s predictions concerning price discounts (Lichtenstein & Bearden, 1989; Urbany, Bearden, & Weilbaker, 1988). These studies show that discounts increase consumer estimates of the fair price, the normal price, and the average price of the advertised product as well as increasing the perceived value of the deal and lowering price search. Overall, these findings suggest that consumers view the same price as more satisfying when it is framed as a discount, presumably because of an increase in transaction utility associated with the perception that the discounted price is fair.

ALTERNATIVE EXPLANATIONS FOR THE PSYCHOLOGICAL VALUE OF A BARGAIN

Although TUT specifically suggests that the perceived fairness of the deal should serve as the basis of transaction utility, there are a number of other distinct mechanisms that could also increase the subjective value of a bargain. The first possibility concerns whether it is even necessary to accept that transaction utility is involved. As mentioned, the value of bargains can be explained by simple perceptual distortions (e.g., perceptual framing) without any reference to transaction utility. This idea might seem to be refuted by the previously mentioned studies that show framing a price offer as a bargain increases the value of the deal. However, it is not clear whether transaction utility or acquisition utility is responsible for these effects. This is because the measures of utility used in those studies either included only general aspects of value without any specific link to fairness (Lichtenstein & Bearden, 1989), or they included fairness measures that were combined with other items relating more to acquisition utility (e.g., excellent buy for the money; Urbany et al., 1988). Perceptual framing can account for the same findings by suggesting that discounts simply magnified the acquisition utility involved and thereby distorted the subjective impact of the financial rewards. It would therefore be useful to fully isolate any effects of transaction utility on deal value (i.e., nonfinancial sources of value derived through perceptions of fairness) in a way that cannot be explained in terms of monetary rewards or acquisition utility.

The smart shopper hypothesis provides another explanation for the psychological value of bargains (Folkes & Kiesler, 1991; Schindler, 1998). It proposes that getting a discount may also satisfy ego-expressive goals. This idea fol-

lows from attribution theory (Weiner, 1986), which states that outcomes should be more rewarding to the extent that they are attributed to internal causes such as one's own skill or effort. Indeed, a great deal of evidence shows that ego-expressive goals have a profound effect on attribution, often causing individuals to take more credit for success than they truly deserve (Zuckerman, 1979) even when success is objectively due to chance (Langer, 1975). Specifically, the smart shopper hypothesis suggests that consumers who receive a bargain are likely to attribute it to their own skill and should thereby experience greater satisfaction with the purchase (Schindler, 1998).

Finally, the lucky shopper hypothesis might also explain why consumers enjoy bargains. This proposes that even attributing a bargain to pure luck might increase purchase satisfaction (Darke & Freedman, 1995). Consumers could like a bargain simply because it makes them feel very lucky. Although the lucky shopper hypothesis is in some ways the opposite of the smart shopper hypothesis, these explanations are not necessarily mutually exclusive. This is because bargains can be attributed to a combination of luck and skill, with both types of attributions leading to higher levels of satisfaction, albeit for different reasons (Darke & Freedman, 1995). Attributions to skill are satisfying due to the pride and accomplishment involved, whereas attributions to luck are satisfying simply because they are a pleasant surprise.

CONSTRUCT VALIDITY AND EQUITY THEORY

In this research, we also examined the construct validity for perceptions of fairness in the context of pricing. *Fairness* is a term that is normally used to describe social interaction (Walster, Walster, & Berscheid, 1978). Although fairness also has intuitive appeal as a description of prices, it seems necessary to show that consumers who describe prices as fair really mean fair per se. In contrast, consumers who say prices are fair might simply mean the price is low or unexpectedly good. This issue relates to the difficulty of dealing with subtle yet potentially meaningful distinctions between different types of price perceptions (e.g., the best price, lowest price, expected price, etc.; Winer, 1988). Sometimes these distinctions are unimportant; however, when it comes to testing TUT, they are crucial. Perceptions of fairness are central to transaction utility and conceptually distinct from other price standards (Thaler, 1985, p. 205). We examined the construct validity of price perceptions concerning fairness by showing that these conform to well-established standards in social exchange—namely the rules of fairness proposed by equity theory (Adams, 1965; Bagozzi, 1975; Walster et al., 1978). The rationale was that construct validity would be demonstrated to the extent that judgments of price fairness and satisfaction with a bargain conform to the principles of equity theory.

Psychologists view fairness as a fundamental concern in social exchange (Cialdini, 1993). Equity theory provides a broad theoretical framework for understanding the manner in which social cues lead to perceptions of fairness (Adams, 1965; Bagozzi, 1975; Walster et al., 1978). In particular, the equity principle states that exchanges tend to be perceived as fair when the ratio of costs and benefits is the same for all participants. Equity theory also suggests that perceptions of fairness have important consequences for the level of satisfaction derived from exchange. Those who are disadvantaged tend to feel unsatisfied or even angered, whereas more equitable outcomes tend to produce greater satisfaction and more positive feelings (Adams, 1965). Overall, there is considerable evidence to support the basic predictions of equity theory in the context of social interaction (for a review, see Messick & Cook, 1983) as well as in service/sales situations (Oliver & Swan, 1989a, 1989b).

EXPANDING ON SOURCES OF FAIRNESS IN SALES PROMOTION: IMPACT OF SOCIAL CUES

Beyond providing a basis for establishing construct validity, the equity approach also offered the possibility of expanding on existing ideas about how consumers typically judge the fairness of prices. As mentioned, TUT suggests consumers judge the fairness of prices on the basis of either external reference prices suggested by the seller, internal reference prices (e.g., past prices), or information about the seller's costs. By extension, equity theory proposes that social cues (such as the price other customers pay as well as the relationship between buyer and seller) should also influence consumer perceptions of fairness in pricing. In practice, the prices that different consumers pay for the same item can vary dramatically. This is partly because marketers frequently offer different price promotions to different consumers. Indeed, such differential or targeted promotions have become very common in recent years. For instance, some people receive temporary discounts, whereas others miss out and must pay full price (e.g., airline seat sales). Regular customers are sometimes offered special promotions (e.g., through loyalty programs) or alternatively, new customers are offered discounts to encourage initial trial (price cuts on long-distance rates for switching phone companies). Each of these strategies makes discounts available to some consumers but not others.

Given that prices (for the same product provided by the same seller) often vary due to differential sales promotion, it seems important to better understand the influence that social comparisons can have on fairness and purchase satisfaction and to integrate these ideas with existing notions of fairness in the pricing and promotion literature. As it is, neither TUT nor any other theories of pricing or promotion include any role for the impact social information seems likely to have on

consumer judgments of fairness. Indeed, the consumer literature has generally failed to recognize the potentially negative consequences of using differential promotion for nontargeted consumers. Based on equity theory, we predicted that consumers were likely to weigh social cues (such as the loyalty status of another customer) against the relative price paid for the same item to determine perceptions of fairness and satisfaction with a bargain.

EXPERIMENT 1

In the first study, we examined the effects of both financial and nonfinancial rewards of a bargain on purchase satisfaction. One of the main interests of this study was to isolate the effects of any nonfinancial rewards on satisfaction. To do this, some participants were allowed to keep the money they saved when they received a discount, whereas others had to return this money to the experimenter. The reasoning was that there were no financial consequences when the money was returned, and therefore any effects of the bargain on satisfaction could only be due to nonfinancial rewards. If so, we could conclude that some part of the value that was attached to bargains was derived from a separate source of utility beyond any perceptual distortion that framing might have on the economic benefits involved.

In accordance with past findings, we made the general prediction that getting a bargain should produce greater satisfaction than no bargain at all. Importantly, we made the specific prediction that purchase satisfaction should increase when getting a bargain (vs. no bargain), even in the absence of economic gain. Although verification that consumers enjoy bargains even in the absence of financial gain would suggest that some form of nonfinancial value was involved, additional evidence is needed to determine whether this is due to the perceived fairness of the deal or some other nonfinancial source of reward. A number of measures were included for this purpose. With these, we examined perceptions of the fairness associated with the bargain as well as attributional measures to test the smart shopper and lucky shopper hypotheses. Despite the fact that we have argued for the importance of noneconomic sources of value, the financial benefits of the bargain should matter as well. Therefore, bargains that involve financial gain should lead to greater satisfaction with the purchase than bargains that do not.

Participants and Design

One hundred and one students from an introductory marketing class at a major northwestern university participated in the study for course credit. Participants were asked to buy a movie video in a real store using money provided by the experimenter. When making the purchase, some participants were offered a discount (high and moderate bargain conditions), whereas others paid the regular price (no bargain con-

dition). In addition, some participants were allowed to keep the change left after making their purchase (financial condition), whereas others had to return the money to the experimenter (nonfinancial condition). These conditions were fully crossed in a 3×2 (Bargain Size \times Reward) between-subject factorial design.

Procedure

Participants were run individually at a well-known shopping plaza just outside the university campus. They were told that the aim of the study was to collect baseline data concerning consumer perceptions of a new video store located in the plaza. Participants were asked to visit the store and spend about 10 min looking around to become fully familiar with it. In addition, all participants were given \$10 and were asked to purchase a movie video of their own choice using only the money provided. The store had a large collection of new and used videos ranging in price from \$11.49 to \$16.24 (tax included). This meant that the sum of money participants had been given was too small to allow them to buy any of the videos regularly available. However, we added a selection of seven experimental videos to the regular collection that were priced at \$9.10 (tax included). Participants therefore had just enough money to buy one of these videos at the regular price. These videos included somewhat older titles that had been available in stores for over a year. The cashier manipulated the size of the bargain when participants attempted to pay for the video they had selected. Cashiers were kept blind as to the hypotheses and the reward conditions used. When participants returned from the store, the experimenter collected the video and the receipt as well as any change left from those in the nonfinancial conditions. Participants were reminded the video would be returned to the store for a refund. This was done to ensure that participants in the nonfinancial conditions understood there were no material consequences for their purchase and to further ensure participants would not think they had saved the experimenter any money by getting a bargain. Participants were then asked to complete the questionnaire containing the dependent measures.

Independent Variables

Bargain-size manipulation. According to random assignment, the cashier at the video store gave participants either a moderate or large bargain, or no bargain at all. In the no bargain condition, the cashier sold the video at the sticker price (plus tax) for a final price of \$9.10. In the two bargain conditions, participants received a sale price when they bought the videos. Each of the experimental videos had either a blue or red sticker attached to it. In the moderate bargain condition, the cashier said, "Okay, the blue [red] dot videos are actually \$2 off right now, so you'll save 25% on your purchase today. That means, with tax, the total is \$6.80." The sticker color (either red or blue) that was on sale was always

the same as the color the participant had selected. In the high-bargain condition, the discount was \$4 off (50%) and a final total of \$4.55 paid. The same bargain condition was used for all participants who completed the study on any particular day (approximately 4 or 5 participants per day). The manipulation was counterbalanced across day of the week. Initial analyses showed no significant effects of weekday.

Reward manipulation. The reward manipulation was done using the money that remained after making the purchase. During the initial instructions, the experimenter told participants in the financial condition they would get to keep any change left after their purchase. In contrast, those in the nonfinancial condition were informed they would have to return any leftover money to the experimenter. Therefore, no monetary benefits were provided in this case.

Dependent Measures

Purchase satisfaction index. Participants were first asked to rate their overall satisfaction toward the purchase using four 11-point bipolar scales ranging from -5 to +5 drawn from previous research (Darke & Freedman, 1995; Spreng, Mackenzie, & Olshavsky, 1996). Items were anchored as follows: *dissatisfied/satisfied*, *unhappy/happy*, *disappointed/delighted*, and *displeased/pleased*. A factor analysis indicated that these items were related to a single underlying dimension, and the scores were therefore averaged to form an overall purchase satisfaction index ($\alpha = .92$).

Purchase attributions. Next participants were asked to make attributions for their purchase using 6-point Likert scales ranging from 0 (*not at all*) to 5 (*a great deal*). Participants indicated which of the following factors were involved in the purchase: skill, ability, luck, chance, effort, hard work, difficulty in deciding what to purchase, and whether the selection made it hard to decide what to purchase. These ratings formed pairs that corresponded to the dimensions typically assessed in studies concerning achievement attributions (Weiner et al., 1972). Each pair was averaged for each of the main dimensions, namely ability ($r = .66, p < .001$), luck ($r = .71, p < .001$), effort ($r = .63, p < .001$), and task difficulty ($r = .59, p < .001$).

Perceived fairness. An overall evaluation of the fairness of the deal was also assessed using a 6-point Likert scale ranging from -3 (*disagree*) to 3 (*agree*). Participants rated the extent to which they thought the price paid was a fair price. To facilitate interpretation, fairness ratings were rescaled from 0 to 5.

Suspicion probe and manipulation checks. Participants also provided a written description of their thoughts about the goals of the study. They then indicated how much they paid for the video as a manipulation check for the bar-

gain size factor. Finally, the experimenter confirmed participants understood the reward instructions during debriefing.

Results

Initial analyses showed participants in the bargain conditions were aware of the reduced price they had received, $F(2, 95) = 1740.65, p < .001$. The debriefing also suggested participants understood the conditions concerning the reward manipulation. No participants reported suspicion about the study.

Purchase Satisfaction Index. Table 1 contains the means and standard deviations for the purchase satisfaction ratings. A 3×2 (Bargain Size \times Reward) between-subject analysis of variance (ANOVA) using the Purchase Satisfaction Index as the dependent measure showed a significant main effect for both experimental factors: Bargain Size, $F(2, 95) = 4.13, p < .05$; Reward, $F(1, 95) = 4.25, p < .05$. Participants enjoyed getting a large bargain ($M = 3.11$) more than a moderate bargain ($M = 2.12$) or no bargain at all ($M = 2.21$). The Reward \times Bargain Size interaction was not significant ($F < 1$), which implied that bargain size increased satisfaction whether financial rewards were received or not. The data also suggested that receiving money was of at least some importance to participants because the significant effect of reward showed financial bargains ($M = 2.81$) were enjoyed more than nonfinancial bargains ($M = 2.16$).

Perceived fairness. The ANOVA for fairness scores showed only a significant main effect for bargain size, $F(2, 95) = 4.28, p < .01$. To test for mediation, we estimated a path analysis including direct paths for the effects of Bargain and Reward on Satisfaction and the indirect paths mediated by perceptions of Fairness according to Baron and Kenny (1986). A significant Bargain-Fairness-Satisfaction path indicated that the effects of getting a bargain were indeed mediated by perceptions of the fairness of the offer (see Figure 1).

Overall, these results provide direct evidence that perceptions of fairness are involved in the satisfaction derived from getting a bargain.

TABLE 1
Experiment 1: Mean Scores on Satisfaction
Measure for Bargain-Size and Reward Factors

Reward	Bargain-Size						Overall
	None		Moderate		Large		
	M	SD	M	SD	M	SD	
Financial	2.48	1.11	2.72	1.48	3.21	1.10	2.81 _a
Nonfinancial	1.96	1.75	1.51	2.40	3.01	1.06	2.16 _b
Overall	2.21 _c		2.12 _c		3.11 _d		

Note. Means labeled with a versus b or c versus d subscripts are significantly different at $p < .05$.

Purchase attributions. To examine the smart shopper and lucky shopper hypotheses, path analyses were also used to test whether attributions for the purchase mediated the observed effects of bargain size and reward on satisfaction. Specifically, the direct paths concerning the effects of Bargain and Reward on Satisfaction and the indirect paths mediated by each of the purchase attributions were estimated (see Figure 2). These analyses showed there was only one effect mediated by attribution, namely a significant Reward–Difficulty–Satisfaction path. Path betas suggested that participants in the financial condition were more likely to attribute their purchases to the difficulty of the task, which was in turn associated with more negative reactions to the purchase. Most important, these analyses did not support the smart shopper hypothesis because neither ability nor effort attributions mediated the effects of the bargain on satisfaction. There was also no support for the lucky shopper hypothesis because luck attributions did not mediate bargain effects either.

Discussion

These results help to better establish the idea that perceptions of fairness are an important, nonfinancial source of satisfac-

tion with bargains. Consistent with TUT, both the financial and nonfinancial rewards of the bargain increased satisfaction with the purchase. Furthermore, path analyses provided direct evidence that perceptions of fairness mediated the effects of bargains on satisfaction. Other findings helped to distinguish the fairness explanation from relevant alternatives. For instance, the fact that bargains increased satisfaction even when no monetary rewards were available cannot be explained in terms of perceptual distortions alone and instead suggests that nonfinancial rewards must be involved in some way. Other results indicated that neither smart-shopper nor lucky-shopper perceptions had much impact on satisfaction. Although it is still possible such perceptions might be important in other contexts, the main point is that smart-shopper and lucky-shopper perceptions cannot account for the bargain effects we observed here, whereas fairness can explain these effects.

Although these results provide some initial evidence that perceptions of fairness can increase the value of a bargain, it is still necessary to better establish the construct validity of the fairness ratings we used. In particular, it is not clear that participants really meant fairness when they used this term to describe their perceptions of a bargain price. For instance, participants who received a bargain might have said the price

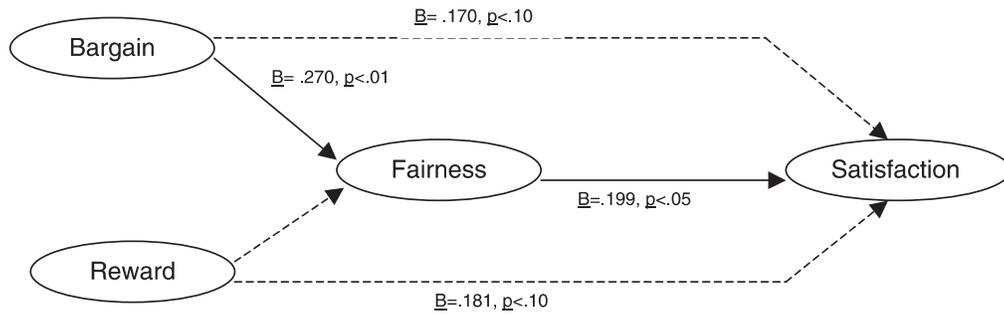


FIGURE 1 Fairness as a mediator of bargain effects. Dashed line indicates nonsignificant path; solid line indicates significant path.

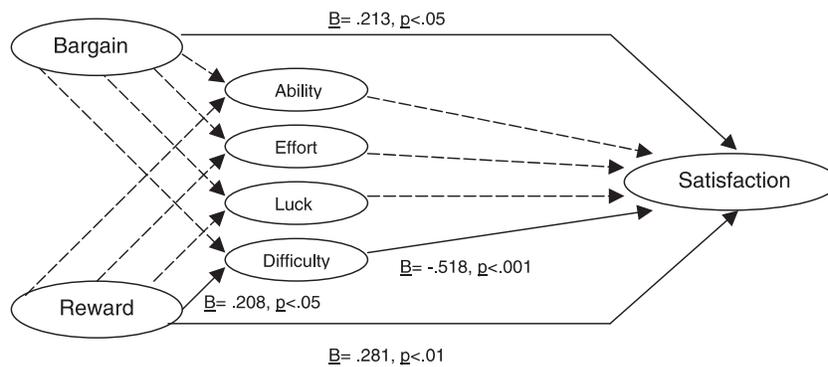


FIGURE 2 Attributions as mediators of bargain effects. Dashed lines indicate nonsignificant path; solid lines indicate significant path.

was fair simply because they paid less money. That is, saying a price is fair may be another way of saying it is lower. This would lead to the rather trivial conclusion that participants were satisfied with bargains simply because they paid a lower price. Indeed, this is a problem for studies that examine price perception, and it reflects the multidimensional nature of this construct (Winer, 1988). However, our second study provided better evidence for the construct validity of fairness perceptions by showing that these conform closely to the well-established standards of fair exchange prescribed by equity theory.

EXPERIMENT 2

In the second experiment, we expanded on the role of perceived fairness in determining the value of a bargain by examining the importance of social cues. When making judgments about fairness, equity theory suggests consumers should compare their discounts to any available information about the discounts or prices that other customers receive (outcomes) and weigh this against any relevant equity inputs. Greater satisfaction should generally result when the relative outcomes match the inputs of each person. In this way, bargains may convey transaction value by influencing purchase satisfaction indirectly through social comparison.

In the second experiment, we employed written scenarios to vary exchange inputs and outcomes using the size of the bargain participants were said to have received relative to another customer. In some cases, participants learned that another customer had received a better discount when purchasing the same item at the same store. This meant that the participant's outcome was lower than that of the other customer, which should be perceived as less fair than if everyone had received the same discount (according to equity theory). In another condition, participants were informed that the person receiving the better deal was a regular customer. Past research has shown that consumers consider the loyalty status of the customer to be a relevant input in determining the fairness of sales transactions (Huppertz, Arenson, & Evans, 1978). The idea was that this input would partially justify the larger bargain they had received. Overall, we predicted (in the absence of additional inputs) better outcomes for another customer should lower the perceived fairness and satisfaction associated with the bargain. However, knowing that the consumer who received a better bargain (greater outcome) was a regular customer (greater input) should provide at least some justification for getting a better deal, and therefore, fairness and satisfaction should be higher than when there is no such justification.

In this second study, we also manipulated the size of the bargain received by the participants themselves to replicate the effects of bargain size observed in Experiment 1. In all cases, participants were said to have purchased an item for themselves using their own money. This meant that each par-

ticipant's bargain involved a mixture of financial and nonfinancial rewards. In contrast, the social cues included in these scenarios provided a relatively pure manipulation of the nonfinancial value associated with the fairness of the bargain. The factorial design of the study meant that any effects of the social cues on purchase satisfaction were independent of the financial consequences of the discount the participants had received themselves.

Participants and Design

Two-hundred three students from an introductory marketing class at a major northwestern university participated in the study for course credit. Each participant read a scenario that described the purchase of a portable stereo from a local retailer. Some participants were said to have received a large bargain, whereas others were given a much smaller discount (bargain-size manipulation). In addition, the relative inputs and outcomes associated with the purchase situation were manipulated by varying the size of the bargain received by another customer (other same bargain or other larger bargain) as well as whether the other person was a regular customer or not. An additional control condition described participants making their purchase in the absence of any social information (self only). The Bargain-Size and Purchase-Situation factors were fully crossed in a 2×4 between-subject factorial design.

Procedure

Participants were run in small groups of 3 to 5. The scenarios suggested that the participant had decided to buy a specific portable stereo model (Sony 3500S), and they were able to determine that the cost should be approximately \$200. The scenario went on to describe a trip to a nearby retail location where participants found the Sony 3500S, tested it out, and determined it was what they wanted. At this point, they asked the salesperson the price of the stereo, and the bargain size was manipulated. The scenario went on to describe a conversation that the participant overheard the next day at school. This was used to manipulate the purchase situation. This conversation involved another student telling a friend that they had been to the same retailer the same day the participant was there and had also purchased a Sony 3500S. The conversation included a statement of the price paid as well as any information concerning whether the other student was a regular customer (purchase-situation manipulation). The entire conversation was excluded from the scenarios for the self-only condition. After reading the scenario, participants were asked to complete a short questionnaire containing the dependent measures.

Independent Variables

Bargain size. All participants were told that the regular price of the stereo was \$199. In the large-bargain condition,

the sale price was \$159 (20% off the regular price). In the small-bargain condition, the sale price was \$194 (2.5% off the regular price).

Purchase situation. The social context was used to manipulate the fairness of the price offer in a way that was independent of the price paid by the participants. In one case, the other customer was given the same bargain as the participant (other-same-bargain condition), whereas in another condition (other-larger-bargain condition), the other customer received a better bargain (40% off the regular price). In the third condition, the other consumer also received a larger bargain; however, this time the other person was a regular customer (regular-customer/larger-bargain condition). Finally, there was a control condition in which no social information about the other customer was provided (self-only condition).

Dependent Measures

Perceived Fairness Index. Participants rated the extent to which they thought the price they paid was fair, questionable, justified, honest, unfair, and a “rip-off.” Each item was rated for level of agreement using a 6-point Likert scale ranging from -3 (*disagree*) to 3 (*agree*). Because an initial factor analysis suggested a single dimension, these ratings were averaged to form an index of perceived fairness ($\alpha = .90$).

Purchase Satisfaction Index. Participants completed the same four items described in Experiment 1. These were averaged to form a purchase satisfaction index ($\alpha = .97$).

Suspicion probe and manipulation checks. Participants again described their thoughts concerning the goals of the study. They were then asked to indicate the size of the discount they had received, the price the other shopper had paid, and whether the scenario mentioned the other student was a regular customer.

Results

Responses to the manipulation checks indicated that participants were aware of the scenario information. Participants were able to identify the size of the bargain they received (91% correct), $\chi^2(2, N = 203) = 178.03, p < .001$; the amount the other customer paid (99% correct), $\chi^2(2, N = 151) = 146.62, p < .001$; and whether the other student mentioned in the scenario was a regular customer (92% correct), $\chi^2(4, N = 151) = 118.69, p < .001$. The suspicion probe showed that participants were unable to guess the true purpose of the study.

Perceived Fairness Index. Mean scores for each dependent variable along with standard deviations and cell sizes appear in Table 2. As expected, a 2×4 (Bargain Size \times Purchase Situation) between-subject ANOVA using the Fairness Index as the dependent measure showed significant main effects for both experimental factors: Purchase Situation, $F(3, 195) = 54.82, p < .001$; Bargain Size, $F(1, 195) = 7.06, p < .01$. Perceived fairness was higher when the bargains received by self and other were the same size ($M = 3.13$) than when the other customer received a better bargain ($M = 1.26$), $t(201) = 9.75, p < .001$. Interestingly, a larger bargain was seen as fairer if that person was a regular customer than if not ($M = 1.78$), $t(201) = 2.71, p < .01$, but perceived fairness was still less than the other-same-bargain condition, $t(201) = 7.00, p < .001$. The self-only condition showed perceptions of fairness ($M = 3.21$) similar to the other-same-bargain condition. Finally, the main effect for bargain size showed that the perceived fairness of a large bargain was higher ($M = 2.52$) than a small bargain ($M = 2.18$).

Purchase Satisfaction Index. An ANOVA using the Satisfaction Index as the dependent measure showed a significant main effect for purchase situation and a marginal effect for bargain size: $F(3, 195) = 116.62, p < .001$, and $F(1, 195) = 2.94, p < .10$. Satisfaction was highest for the self-only condition ($M = 2.84$). The other-same-bargain condition ($M = 2.03$) showed satisfaction ratings higher than both other

TABLE 2
Experiment 2: Means and Correlations for Bargain-Size and Purchase-Situation Effects on Main Dependent Measures

Dependent Measure	Bargain-Size		Purchase-Situation			
	Small	Large	SO	OS	OB	RC
Satisfaction	-0.35 (3.40)	0.11 (3.26)	2.84 _a (1.51)	2.03 _a (2.06)	-3.48 _{b,c} (1.82)	-1.91 _{b,d} (2.58)
Fairness	2.18 (1.36)	2.52 (1.16)	3.21 _a (0.62)	3.13 _a (0.74)	1.26 _{b,c} (1.05)	1.78 _{b,d} (1.28)
<i>r</i>	.82*	.77*	.30*	.37*	.62*	.80*
<i>N</i>	101	102	52	50	51	50

Note. Standard deviations are in parentheses. Means for the Purchase Situation factor labeled with a versus b or c versus d subscripts are significantly different at $p < .01$. SO = self only; OS = other same bargain; OB = other better bargain; RC = regular customer and/or better bargain.

* $p < .05$.

better bargain ($M = -3.48$), $t(201) = 13.74$, $p < .001$, and regular customer/higher bargain ($M = -1.91$), $t(201) = 9.75$, $p < .001$ conditions. However, the negative effects of the other customer getting a better bargain were lessened when the other customer was a regular patron, $t(201) = 3.94$, $p < .001$. Finally, participants generally enjoyed getting a large bargain ($M = 0.11$) more than a small bargain ($M = -0.35$).

Mediation. Table 2 shows that all of the within conditions correlations for fairness and purchase satisfaction ratings were significant. Overall, perceptions of fairness accounted for more than half of the variance in satisfaction ratings ($R^2 = .64$, $p < .001$). Furthermore, when fairness ratings were used as a covariate, there were substantial reductions in the effects of both bargain size ($R^2 = .01$ vs. $.0003$) and the purchase situation ($R^2 = .59$ vs. $.097$) on satisfaction. According to the logic of Baron and Kenny (1986), these findings suggest that the effects of the equity inputs and outcomes on purchase satisfaction were mediated by perceptions of fairness.

Discussion

As predicted by equity theory, the results of this study suggest that social cues had a significant impact on the value attached to a bargain through their effects on perceptions of fairness. In fact, the consequences of finding out that another customer received a better bargain seemed to have a much larger impact on satisfaction than the direct effects of the bargain participants received for themselves. In addition, the fairness and satisfaction measures also indicated that participants saw a better bargain for someone else as more reasonable when the other person was a regular customer. However, loyalty status did not fully compensate for the discrepancies that existed in bargain size. In addition, the observed influence of social cues on satisfaction was independent of any direct monetary benefit that would have been received by the participants themselves, implying that social cues altered the nonfinancial aspects of deal value through their effects on transaction utility. Importantly, the fact that the findings were consistent with equity theory also provides evidence for the construct validity for the measures of perceived price fairness.

GENERAL DISCUSSION

This investigation was aimed at better understanding the surprising amount of value that consumers attach to getting a bargain. The promotional literature has provided a number of plausible explanations for this phenomenon including perceptual framing, smart-shopper attributions, lucky-shopper attributions, and perceptions of fairness. Our studies provided evidence for the fairness view. Experiment 1 isolated the nonfinancial aspects of the deal and results suggest that

part of the reason bargains were enjoyable was that they provided a separate source of psychological value. Path analyses showed further evidence that this was derived from perceptions of fairness rather than alternative possibilities such as smart- or lucky-shopper perceptions. In addition, Experiment 2 manipulated the social context of the deal to alter perceptions of its value in a way that was independent of any financial rewards and results show that purchase satisfaction varied as a function of perceived fairness. Overall, there was clear evidence that fairness is an important, nonfinancial source of value for bargains, which confirms the most basic assertion of TUT.

This research also expands on current ideas about fairness in pricing by showing that social cues serve as an important source of information about the fairness of prices. In Experiment 2, equity outcomes that favored a different customer (getting a larger discount) had the predicted negative effect on fairness and purchase satisfaction, whereas additional inputs (being a regular customer) justified this discrepancy to some extent. These findings were consistent with the predictions of equity theory and suggest that this standard of fairness is also relevant in the context of pricing and promotion. Although TUT does not explicitly include social cues as a source of transaction utility, this idea can be easily integrated into the basic model by simply adding an additional equity term to the formula for utility.

In Experiment 1, we raised concerns about the construct validity for perceptions of fairness in the context of pricing. Although the notion that prices may be described as fair has some intuitive appeal, it seemed necessary to show that consumers really mean that prices are fair per se. Addressing this issue is important to TUT because it is clear that Thaler (1985) considered perceptions of fairness to be conceptually distinct from other price standards and central to the notion of transaction utility. In accordance with this view, the results of Experiment 2 provide reasonable evidence for the construct validity of fair pricing. These studies showed that the fairness associated with prices obeys similar rules to perceptions of fairness typically observed in social interaction (namely the rules of social equity), the latter being a context where it is reasonably clear that perceptions of fairness are meaningful.

These findings also bring attention to a neglected aspect of promotion—namely, the negative impact that differential promotion/pricing can have on nontargeted customers. It is relatively common for some customers to be offered a better deal than others. For instance, marketers often give new customers special deals for making an initial purchase to attract new business. However, our findings show this strategy resulted in the lowest levels of satisfaction for nontargeted customers. Other promotions tend to favor loyal customers as a reward for their continued patronage. Although this strategy proved to be more acceptable to nontargeted customers, these findings suggest that promotional rewards for loyalty still have to be carefully balanced with entitlement.

There are a number of questions about the impact of exchange on fair pricing that should be addressed in future research. One of the more important issues is exactly what kind of social information consumers use to make judgments about price fairness. We provided information about promotions for the same retailer, same salesperson, and the same product purchased on the same day. We did this because consumers are more likely to use social information when it is comparable (Festinger, 1954). However, this raises the question of just how comparable these purchase situations need to be. In addition, further studies should examine what factors consumers consider to be relevant equity inputs in judging prices. This is not always clear, and parties may disagree on what inputs should be considered relevant.

Future research might also address why fairness is so important to consumers. A number of explanations seem plausible. One idea is that consumers may suspect they typically pay too much for regular-priced items (Alba, Mela, Shimp, & Urbany, 1999). This would imply consumers need some reassurance they are not paying too much, and bargains could provide a clear signal that the price is fair rather than inflated. Another possibility is that getting a bargain may convey that the seller takes the consumer seriously or is appreciative of the consumer. In contrast, charging too much for goods may communicate a lack of personal respect. This is consistent with the more recent view that feelings of self-worth depend on the indication that an individual is valued by other people (Baumeister & Leary, 1995).

In conclusion, the studies we described here underscore the need for a broad conception of the factors that produce value in the context of pricing and promotion, a perspective that recognizes the value of fairness as a rather central concern for consumers and includes social cues as an important basis for judging the fairness of prices. As Bagozzi (1975) suggested, "Exchange is more than the mere transfer of a product or service for money. ... [T]he reasons behind the exchange—the explanation of its occurrence—lie in the social and psychological significance of the experiences, feelings, and meanings of the parties in the exchange" (pp. 35–36).

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