

FAIRNESS PERCEPTION OF DEMAND-BASED PRICING FOR RETAIL APPAREL IN THE PHYSICAL STORE

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ABSTRACT

Purpose – Fear of missing revenue targets, losing market share and losing customers is contributing to expanding inventory in retail apparel. Apparel items are either sold to willing buyers or sit on retailer shelves until they are removed to make room for new seasonal items. While efficient price strategies exist to manage inventory items before they are replaced, most firms in retail apparel still use old price strategies in the physical store, which can result in significant financial and environmental costs. The reason firms do not attempt to adopt more efficient price strategies is fear of angering customers which could impact future revenue. Fairness is the root of customer's anger, and while research has focused on fairness perception in other industries, the topic has been neglected for apparel in the physical store. This report will fill that gap by focusing on the fairness perception of demand-based price strategies in the physical store.

Design / Methodology / Approach – This study compares the fairness perception of demand-based price changes in the physical store using economically equivalent scenarios phrased as a discount to one group and as a premium to another group to control for wording bias. Scenarios focus on the fairness of two situations: 1) demand-based pricing applied to blue jean inventory 2) demand based-based pricing applied to individual sizes for each blue jean style. The independent t-test was used to compare the means of each scenario and the results were analyzed to determine the significance of scenarios worded as a premium and as a discount. Additionally, a Chi-squared test was used to determine if there were any associations between demographic groups and fairness perceptions.

Findings – The results show that price changes, for each pair of blue jeans, communicated as discounts are perceived to be fair, while the same price changes communicated as a premium were perceived to be unfair. Additionally, these differences were found to be significant when applied to both, total blue jean inventory, and blue jean sizes within each style. Furthermore, the results do not show any association between demographics and fairness scores.

Implications – The results of this report contribute to existing knowledge by showing that consumers find demand-based pricing in the physical setting to be fair. Researchers can build on findings in this report by conducting field tests to determine fairness of demand-based pricing strategies, while managers in retail can plan more progressive pricing strategies based on demand for each article to reduce environmental and financial costs.

Keywords- Pricing, Demand-based, yield management, fairness perception, excess inventory, retail apparel