



The Ethical Pricing Project: Findings From An Online Survey Into Consumer Perceptions Towards Ethical Pricing Practices

Below is an article from Alan Cooper of Managing Change SIM Ltd and Jon Manning of Sans Prix Pty Ltd (jon@sansprix.com.au). Here they present their findings from a project done on the opinions of consumers concerning ethical pricing practices.

This project, which was conducted in October of 2004, has embarked upon many respondents to the online survey. The following gives pricers the opportunity to step into the minds of their consumers when placed in different pricing scenarios and also allows the consumer to think as a pricer. E.M.

Introduction

On the 1st October 2004, Managing Change SIM and Sans Prix launched the Ethical Pricing Project, an online survey into consumer attitudes towards ethical pricing practices.

Since then, over a thousand people have visited the website (www.ethicalpricing.info) and just over 300 people completed the online survey, yielding over 250 usable responses.

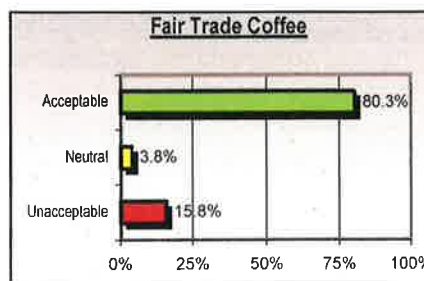
This paper summarizes the preliminary findings of the research that so many respondents expressed an

interest in. Below, we focus on the key findings to the 10 ethical pricing scenarios.

Scenario 1

A new coffee shop chain is about to be launched, selling only "fair-trade" coffee. Fair-trade coffee guarantees third world coffee bean growers a fair price for their coffee beans. However, to do so, the new coffee shop chain will charge prices 10% - 25% higher than other coffee shops.

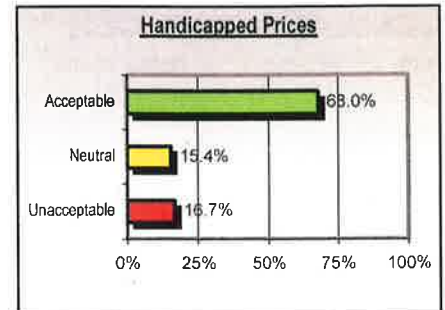
Just over 80% of respondents viewed this scenario as acceptable, second only to Scenario 3 on early-bird pricing by restaurants:



Scenario 2

Often, the only thing handicapped people want is to be treated the same way as able-bodied people. If a company decided to extend this thinking to its pricing policy, and charge handicapped people the same prices as able-bodied people, what is your view on this initiative?

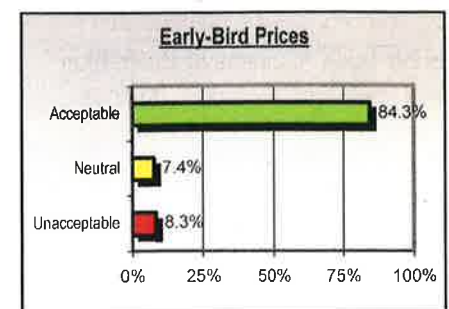
This scenario also had a high level of acceptability (68%) among respondents:



Scenario 3

Your favorite restaurant has just launched an early-bird special: dine between 11:00am and 12:00 noon, and for \$50 a head you get your choice of entrée, main course, desert and coffee. If you dine between 12:00 noon and 2:00pm, the choices are identical but the price is \$75 per head.

With 84.3% of respondents indicating some level of acceptability on this scenario, it was the most acceptable of all the ten scenarios put to respondents:

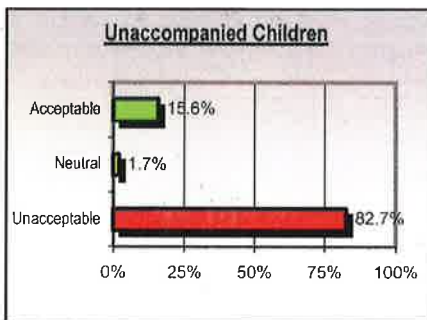


Scenario 4

You want to send your 13 year old daughter to her grandparents for the summer holidays. You ring your favorite airline, who tell you your daughter, being over 12 years of age, is no longer entitled to a children's fare and must pay an adult fair, which you book.

The reservation agent then tells you that, because your daughter is traveling on her own, there is a \$300 surcharge for unaccompanied minors.

An overwhelming majority (82.7%) of respondents expressed a degree of unacceptability with this scenario, second only to Scenario 10:

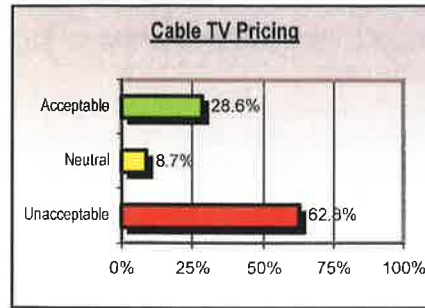


Scenario 5

You're a big sports and movies fan and decide finally to subscribe to a cable/satellite television service. You are only after two of each type of channel, but you are forced to choose between packages that contain 25, 50 and 75 channels for \$50, \$70 and \$95 per month respectively.

At the time of launching the Ethical Pricing Project, there was much discussion in America on this very topic. Although it would be hard to draw any conclusion from the finding below (due to the small number of North American respondents who had completed the survey at the time of writing), clearly

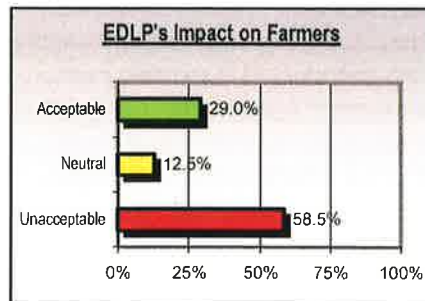
a large majority (62.8%) don't like the practice:



Scenario 6

Your local supermarket operates an 'Everyday Low Pricing' policy, where its prices are discounted day-in, day-out. You've recently read that farmers supplying this supermarket chain are getting less and less money for the milk they are supplying this supermarket chain.

This was one of only four Scenarios where over 10% of respondents were neutral. The Scenario was acceptable to almost 30% of respondents, but unacceptable to 58.5%:

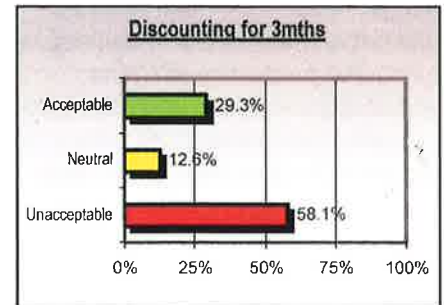


Scenario 7

Fair trading laws in your country say that a company can offer a discount (e.g. 25% off) on its products for up to 28 days, after which time product is deemed not to be discounted and the discounted price becomes the full price of the product. You notice that your local pharmacy has been advertising your favorite perfume at 10% off for the past 3 months.

This Scenario shared similar results to the foregoing Everyday Low

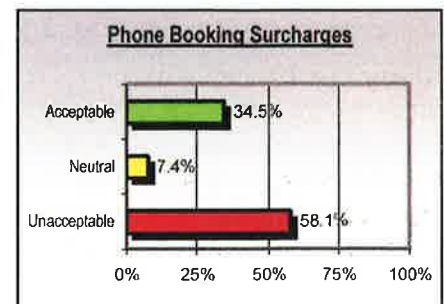
Pricing Scenario. Respondents expressed the highest degree of neutrality towards this question (12.6%), with the remaining 29.3% suggesting it was acceptable, and 58.1% finding it unacceptable:



Scenario 8

You're booking flights for your summer holiday. You are going to fly from London to New York, catch the train down to Washington, and then return to London from Dulles International Airport in DC. You know the cheapest fares are on the internet, but when you try to book, you can only book a return flight to New York or Washington. You ring the airline and are told that they can book the flights over the phone, but it will cost an extra \$55 to do so.

The practice of surcharging has proliferated rapidly over the past couple of years, in many industries and parts of the world. The differential between acceptable and unacceptable responses may suggest that consumers are accepting the fact the internet-based transaction are more cost effective for a company than those conducted face-to-face or over the phone:

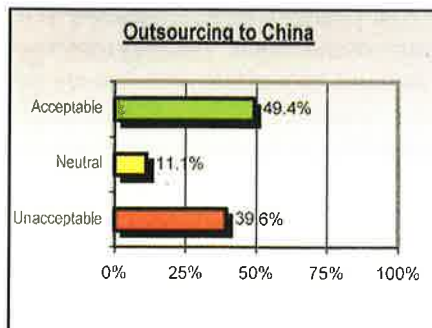


Scenario 9

A tailor in Savile Row (London's exclusive street of men's tailors) sells the highest quality, hand-crafted and made-to-measure suits at prices typically 200% above off-the-hanger suits from other retailers and department stores. It decides to outsource production to China, where costs are 10% of those in London. The quality of the suits does not change, and neither does the price.

Again, the topic of outsourcing production to low-cost countries, such as China and India, was often in the press during the survey period (particularly during the first month, which coincided with the last month of the US Presidential election campaign, one candidate having particularly strong views on the topic). In the UK, a number of financial services companies announced that thousands of jobs would be moving offshore, predominantly to India.

The gap between acceptability and unacceptability was the narrowest of all 10 scenarios, with 49.4% saying this practice was acceptable, and 39.6% finding the practice unacceptable:

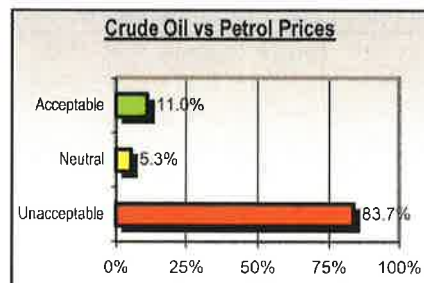


Scenario 10

When the price of crude oil increases, most petrol/gas stations immediately increase the retail price of petrol/gasoline, even though the supply chain has many weeks of older and cheaper priced fuel in

the system. However, when the price of crude oil decreases, petrol/gas stations take much longer to pass these cheaper prices on to consumers.

Once again, this scenario was highly topical during the period the survey was run, with oil prices coming off an all-time high just two months prior to the launch of the survey. This scenario was clearly the most unacceptable of the 10, with 83.7% of respondents finding the practice unacceptable:



Further Analysis

For reasons of brevity, we have limited this summary to the key finding (to date) from the Ethical Pricing Project. Further analysis is currently being conducted, exploring such avenues of enquiry as:

- The differences in responses across various regions of the world;
- How the responses of those who have responsibility for setting prices and pricing policy differ from those who do not;
- Respondents views on the principle of dual entitlement, and the three related questions (on whether it is fair for companies to raise price to maintain profits, whether it is unfair for companies to raise prices to increase profits and whether, if costs decrease, it is fair for a company to maintain prices) and;
- The learnings and implications of the research.

The response to the survey has been extremely positive and clearly touched a nerve or sparked the interest of many respondents. Here are just a few of the comments respondents had to say about the survey:

- "Interesting survey" - Respondent # 86
- "Very enjoyable survey - thought provoking" - Respondent # 164
- "A wonderful survey" - Respondent # 184
- "Good Idea. Hope you are able to do something with it" - Respondent # 223
- "This is a very good and thought-provoking survey" - Respondent # 230
- "Thought-provoking scenarios" - Respondent # 262
- "Interesting stuff. Will be very keen to see the results" - Respondent # 266
- "Good topic" - Respondent # 288
- "Good project - when will you publish [your] findings" - Respondent # 304

The survey is still live on the Ethical Pricing website (www.ethicalpricing.info) and welcome more responses, particularly from North America. □