



Why do customers perceive “deep discounts in exchange for stricter conditions” as fair?

What makes insignificant discounts combined with strict cancellation policies unacceptable?

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1. Why customers perceive “deep discounts in exchange for stricter conditions” as fair

(a) Fairness based on equitable exchange

According to equity theory in consumer behavior, people evaluate fairness by comparing what they give up with what they receive. Customers assess whether the outcome of a transaction is balanced and justified. When a company offers a large discount but imposes restrictions—such as non-refundable tickets, advance booking requirements, or limited flexibility—customers tend to see the exchange as fair because there is a clear trade-off.

In this situation, consumers sacrifice certain benefits like flexibility or the option to cancel, but they gain a significant monetary saving. If the discount is large enough, customers feel that the inconvenience is adequately compensated. As a result, the transaction appears balanced and reasonable.

For example, airlines frequently offer non-refundable or “basic economy” fares at lower prices. These tickets may not allow changes or refunds, yet many travelers willingly choose them because the price difference compared with flexible tickets can be substantial. Customers therefore perceive the lower price as fair compensation for the loss of flexibility.

(b) Dual entitlement theory: both sides receive something

Another explanation comes from the dual entitlement principle, introduced by Kahneman, Knetsch, and Thaler. This theory states that consumers believe both buyers and sellers have legitimate rights in a transaction. Customers feel entitled to a fair price, while firms are entitled to earn a reasonable profit.

When strict conditions are paired with deep discounts, consumers often believe the company has a legitimate reason for the price reduction. For example, companies may impose stricter policies to reduce uncertainty, secure demand in advance, or minimize operational risks. In return for accepting these restrictions, customers receive a lower price.

Because both parties appear to benefit—the firm gains certainty and the consumer gains savings—the transaction is perceived as fair. Customers recognize that they are voluntarily accepting stricter conditions in exchange for a tangible economic advantage. Therefore, the exchange reflects a balanced relationship between the company and the consumer.

(c) Reference price and perceived gain

Behavioral pricing research shows that customers evaluate prices relative to a reference price, which is the price they expect to pay based on past experiences, market norms, or competing offers. When the offered price is significantly lower than this reference point, consumers perceive a strong economic gain.

Deep discounts therefore create a feeling of getting a good deal. Even if the product or service comes with limitations, the large difference between the discounted price and the expected price creates a sense of value. This perceived gain often outweighs the disadvantages associated with strict conditions.

For example, if a hotel room normally costs \$200 per night but is offered for \$120 with a non-refundable policy, many customers perceive the \$80 saving as a worthwhile benefit. The large discount relative to the reference price makes the restriction seem acceptable.

(d) Transparency and voluntary choice

Another factor that contributes to fairness perceptions is transparency. Customers tend to view pricing practices as fair when the conditions are clearly communicated and when they have the freedom to choose among alternatives.

In many markets, firms provide multiple pricing options. For instance, consumers may choose between a fully flexible ticket at a higher price and a restricted ticket at a lower price. Because customers are aware of the restrictions beforehand and voluntarily select the cheaper option, they feel that they have control over the decision.

Research shows that price discrimination strategies are perceived as fairer when they are based on customer behavior, such as early booking, bulk purchasing, or accepting limited flexibility. Since customers actively decide whether to accept these conditions, the pricing structure appears transparent and justified.

Overall, deep discounts combined with strict conditions are perceived as fair because they offer a clear and understandable exchange: customers give up flexibility but receive meaningful financial savings.

2. Why insignificant discounts combined with strict cancellation policies are unacceptable

When companies impose strict conditions but offer only small discounts, the balance between sacrifice and reward disappears. In such cases, customers often perceive the pricing practice as unfair or exploitative.

(a) Violation of proportionality expectations

Consumers generally expect the benefits they receive to be proportional to the sacrifices they make. If a company imposes strict policies—such as non-refundable purchases, high cancellation fees, or rigid booking requirements—customers expect a significant price reduction as compensation.

When the discount is small or insignificant, the transaction no longer appears balanced. Customers feel that they are giving up too much flexibility for too little financial benefit. This violates the principle of proportionality that consumers use when judging fairness.

For instance, if a flight ticket with strict cancellation rules is only slightly cheaper than a flexible ticket, many consumers will perceive the pricing as unreasonable. The inconvenience and risk associated with the restriction are not adequately offset by the small price difference.

(b) Inequity and unfair comparison

Customers also evaluate fairness by comparing the offer with alternative options available in the market. If similar products or services offer better flexibility for nearly the same price, the restricted option appears inferior and unfair.

Such comparisons create a perception of inequity, where consumers believe they are receiving less value than others for a similar price. When a strict policy is combined with only a minor discount, customers may conclude that the firm is shifting risk onto them without offering meaningful compensation.

This perception can significantly reduce customer satisfaction and discourage purchase decisions. Consumers may feel that the company is treating them unfairly or attempting to take advantage of them.

(c) Suspicion of opportunistic motives

Fairness perceptions are strongly influenced by the perceived intentions of the company. If customers believe that a firm's pricing policy is designed mainly to maximize profit at the expense of consumers, they are more likely to perceive the practice as unfair.

Strict cancellation rules combined with minimal discounts may signal to customers that the company is attempting to lock them into unfavorable terms or protect its revenue without providing real value in return. Such policies can appear opportunistic rather than justified.

When customers suspect opportunistic motives, their trust in the company declines. This can damage long-term relationships with customers and reduce the likelihood of repeat purchases.

(d) Negative emotional reactions and loss aversion

Behavioral economics also explains these reactions through the concept of loss aversion. People tend to experience the pain of losses more strongly than the pleasure of equivalent gains.

Strict cancellation policies increase the risk that customers might lose money if they need to change their plans. Because of this risk, consumers expect significant financial compensation in the form of lower prices.