Is dynamic pricing the right way to go?

_A quantitative study of dynamic pricing and its effect on brand trust and consumer perceived ethicality_
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__________________________  _____________________________
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Abstract

Course: 4FE15E

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Purpose: The purpose of this thesis is to extend the understanding of Consumer Perceived Ethicality by examining the relationship between dynamic pricing, brand trust and CPE.

Research questions: What relationship does dynamic pricing have with CPE? What effect does brand trust have in the relationship between dynamic pricing and CPE?

Methodology: A explanatory research design with a quantitative approach was conducted. The sample included 101 respondents using a non-probability sampling method.

Conclusion: A positive relationship between CPE, brand trust and dynamic pricing were supported with this research. A positive relationship between brand trust and dynamic pricing could also be seen. As the correlation between brand trust and CPE were lower than dynamic pricing towards CPE, a mediating effect through brand trust could not be seen.

Keywords: Consumer Behaviour, Consumer perceived ethicality, Brand trust, Dynamic Pricing, pricing strategy, ethicality
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1 Introduction

1.1 Background

Pricing has a great effect on the business revenue which makes it a significant marketing tool (Ahmetoglu et al., 2014). Dynamic pricing especially has gained a lot of attention due to its flexibility in a time where the various markets shift in a fast pace (Lu, Zhang & Zhang, 2018). Dynamic pricing could be explained as algorithms that change the price in short time spans in accordance with predetermined conditions or parameters (Blaudow and Burg, 2017). This specific pricing strategy offers a company competitive advantage (Chen, Mislove & Wilson, 2016). The flexibility that a dynamic pricing offer helps attract more consumers which generates higher revenue. On average, retailers can with an employed dynamic pricing strategy increase profit by as much as 25% (Shpanya, 2014). This is done by using more price points and thus attract consumers who have a varied price sensitivity (Xiaoqiang, Lang & Jin, 2017). With the ability to collect real-time data, which has been made possible through the internet (Den Boer, 2015), efficient dynamic pricing algorithms can be implemented which is used by a variety of companies such as travel websites or e-retailers who use personalized pricing or automated competition based pricing (Chen, Mislove & Wilson, 2016). In the e-commerce sector, 35% of employees thought that dynamic pricing was an interesting trend in a questionnaire employed in Germany in 2017, 16% of the respondents thought it to be a "game changer" (Statista, n.d).

There are however not only positive aspects with the usage of dynamic pricing. Chen, Mislove, and Wilson (2016) further claims that there is limited knowledge regarding the behavior of this type of price strategy and that there has been observed examples of unpredictable pricing and algorithms. Faruqui (2010) follows the same argument and states that a major issue with dynamic pricing is the perceived unfairness which relates to the ethical aspect. This, in turn, affects the consumers. Singh, Iglesias, and Foguet (2012) argue that the increasing influence on ethical issues have an impact on consumer behavior. Further, they argue that more companies are concerned about promoting their corporate responsibility as this may affect their profit. Besides the ethical aspect, another aspect that has been proven to be influenced by dynamic pricing is brand trust (Garbarino & Maxwell, 2010; Brunk, 2010; Ahmetoglu et al., 2014). Brand trust is explained as the confidence a consumer has that the brand is reliable and behaves with integrity (Singh,
Iglesias & Foguet, 2012). According to Klink and Wu (2017), there is a connection between sub-components of trust such as fairness (Garbarino & Maxwell, 2010), reliability (Singh, Iglesias & Foguet, 2012) and honesty (Chaudhuri & Holbrook, 2001) which relates to companies business ethics and the response of consumers. These components, within the field of consumer behavior, is of importance to measure since consumer perceived ethicality (CPE) of a brand could affect consumers buying behavior and attitudes towards the brand (Brunk 2010; Klink & Wu, 2017).

CPE is defined as, "consumers aggregate perception of a subject's (i.e. a company, brand, product, or service) morality" (Brunk and Bluemelhuber 2011, p. 134). Singh, Iglesias, and Foguet (2012) describe CPE as honesty, accountability, and responsibility towards various stakeholders. It could be in a positive, negative or a neutral direction, however, it is still representing consumers overall impression of ethicality. Further, this is how consumers perceive a brand or firm to be morally disposed of (Brunk, 2012; Klink & Wu, 2017). Brunk (2010) further explains that marketing executions such as misleading pricing strategies might affect a brands CPE negatively. However, it is of important to note that the perceived ethicality may not reflect the actual behavior of a brand or company (Brunk, 2010). Therefore, it is of importance for companies to understand how their actions affect consumers perceived ethicality.

1.2 Problem discussion

There is a large body of literature that touches upon the area of marketing ethics (Awasthi & Singhal, 2014). The ethicality of pricing is however limited to few sources (Ahmetoglu et al., 2014). Much of the existing literature regarding the relationship between ethics and pricing is according to Ayadi, Parasciv and Rousset (2017) broad in their research and lack any specific research, with examples such as Indounas (2008) who does not cover any specifics. Brunk (2010) reinforce this statement by writing that existing research remains inconclusive and that the relationship between CPE and consumer behavior needs more attention. Ahmetoglu et al. (2014) discuss that pricing strategies influence the perceived fairness and brand trust. Faruqui (2010) and Ayadi, Parasciv and Rousset (2017) have been more specific and touches upon how dynamic pricing influence CPE. In relation to perceived fairness, studies have been made examining the relation between trust, which is built upon the notion of fairness, and CPE (Singh, Iglesias & Foguet (2012), 2012; Garbarino & Maxwell, 2010).
To guarantee fairness in an exchange between two actors there are certain criteria that need to be met according to Martin et al. (2009). The procedural fairness, which implies how the price is calculated is determined, among other things, by consistency and clear and reliable information regarding the procedure. Consistency regards how stable the price setting is over time (Martin et al., 2009) which contradicts the nature of dynamic pricing which is based on frequent changes of the selling price to maximize the sales (Ayadi, Paraschiv & Rousset, 2017). These frequent changes are based on predetermined conditions or parameters that the company chooses (Blaudow and Burg, 2017), which would be contradicting to clear and reliable information that is the other dimension of procedural fairness. When the consumer feels that a company violates any of these dimensions, the perception of the company's honesty and respect is damaged which in turn influence the brand trust in a negative way (Ayadi, Paraschiv & Rousset, 2017).

The reason for the increasing volume of literature regarding CPE is because of the risk of various negative drawbacks if overlooked. This issue and its importance have been highlighted, most notably by Katja Brunk (Brunk, 2010; Singh, Iglesisas & Fouget, 2012). The perception that a brand is unethical or unfair in their way of doing business is stated to generate a faltering image or reputation of a brand and is said to have a harmful effect on consumers attitudes or purchase behavior (Brunk, 2010; Story & Hess, 2010). The perceived unfairness of dynamic pricing (Faruqui, 2010) has been researched and connected with CPE (Ayadi, Paraschiv & Rousset, 2017). Consumers hold the belief that dynamic prices will influence their costs or routines in a negative way. The belief is that they either stay with the same buying pattern with the drawback of higher prices or that sacrifices regarding their routines are required in order to benefit from this type of pricing (Faruqui, 2010). According to Awasthi and Singhal (2014), different types of actions have different effects regarding the perceived ethicality. Consumers respond more to actions that have a direct effect rather than actions that do not affect them in a direct manner, for example changes in prices rather than (Brunk, 2010).
With this in mind and circling back to previous literature, the importance of understanding CPE and underlying factors are clearly visible. However, the relationship between these three areas (CPE, brand trust, and dynamic pricing) is yet to be conducted according to Ayadi, Paraschiv and Rousset (2017) who also suggest that future research should focus on these relationships. Therefore, this study aims to examine the relationship between the three components of CPE, Brand Trust, and Dynamic Pricing.

1.3 Purpose

The purpose of this thesis is to extend the understanding of Consumer Perceived Ethicality by examining the relationship between dynamic pricing, brand trust, and CPE.

1.4 Research questions

Through the purpose of extending the understanding of CPE, two research questions are formulated in order to structure the thesis. With the background within CPE layed out, two questions have been formulated in order to shed light on this matter.

*What relationship does dynamic pricing have with CPE?*

*What effect does brand trust have in the relationship between dynamic pricing and CPE?*

1.5 Delimitations

We have chosen to use Ayadi, paraschiv and Rousset (2017) as precursors for the definition of dynamic pricing. The usage of trust is in line with the definitions of brand trust from the marketing perspective and thus not in accordance with behavioral science or psychology. The definition of ethicality in this study is derived from Brunk and Bluemelhuber (2011). The sample will be gathered from a Swedish population and thus limit the generalizability, this is done in order to increase the efficiency in the sampling method. In contrast there are no delimiting source such as industry group which is beneficial for the generalizability of the study.
2 Theoretical framework

The theoretical framework consists of three main aspects respectively, Consumer perceived ethicality, dynamic pricing and brand trust. The formulated hypotheses and a conceptual framework are also included in this chapter which are based on the theoretical foundation found below.

2.1 Consumer perceived ethicality (CPE)

Ethics within businesses have been widely researched. The perspective of consumers has on the other hand not been as recognized (Awasthi & Singhal, 2014). To understand how to implement ethical approaches, companies first need to understand what consumers deem to be ethical or not (Shea, 2010). Consumer perceived ethicality (CPE) is the perspective of the consumers and is defined as "consumers aggregate perception of a subject's (i.e. a company, brand, product, or service) morality" by Brunk and Bluemelhuber (2011, p.134). CPE is further explained as attributes towards various stakeholders, for example, honesty, accountability, and responsibility (Singh, Iglesias & Foguet, 2012).

It is in a brand's best interest to behave in an ethical way as consumers become more demanding and expect companies to take ethical concerns into consideration (Story & Hess, 2010; Singh, Iglesias & Fouget, 2012). Gaining insights of how consumers think regarding ethical concerns could be beneficial for companies, as a negative CPE could be the root of a faltering brand reputation or image (Brunk, 2010). Brunk and Bluemelhuber (2011) argue for that one specific corporate action that effects CPE in a negative way may be hard to recover from regardless of other activities that effect CPE in a positive way.

Awasthi and Singhal (2014) came to the conclusion that in regards to ethics, consumers tended to be more concerned about things that affected them directly. E.g. if a brand or company acted in an unethical way in relation to pricing, labeling or advertising, the consumers considered stopping buying a brands products if they did not keep what they promise regarding the price for example.
Why this area has surfaced in recent time is due to the difference between the company's perception and the consumers'. The perception of what a company deems to be ethical might not be in line with what consumers perceive as ethical (Galavielle, 2004). The understanding of CPE could save a lot of costs for companies that put efforts into managing their image as responsible and ethical (Brunk and Bluemelhuber, 2011). There is an accepted view that unethical marketing has harmful consequences on the company but as mentioned, what effects various actions actually have is yet to be discovered (Awasthi & Singhal, 2014).

2.2 Dynamic pricing

An increase in the size of databases, decreased management costs together with the applications being online have allowed for a more precise and cost-efficient price projection. This projection can be applied to an individual level and thus create an individual-level price discrimination (Garbarino & Lee, 2003; Ayadi, Paraschiv & Rousset, 2017). This type of price discrimination is called dynamic pricing and can be explained as when a "retailer implements frequent changes of the selling price of a product in order to maximize sales and profit" (Ayadi, Paraschiv & Rousset, 2017, P.50). Ayadi, Paraschiv and Rousset further state that the variation in price depends on different factors such as competitors, demand, customer profile, location and so on.

Previous literature has distinguished three dimensions of dynamic prices; consumer, product and time (Kannan & Kopalle, 2001; Elegido, 2011; Obermiller, Arneson & Cohen, 2012; Ayadi, Paraschiv & Rousset, 2017). The consumer dimension is referred to as the degree of price adaptation depending on the customer profile (Kannan & Kopalle, 2001). This could be that different customer has access to different prices were the price is customized to specific individuals (Obermiller, Arneson & Cohen, 2012; Ayadi, Paraschiv & Rousset, 2017). The product dimension is based on the notion that two products that are referred to be identical are rarely identical due to the contextual difference. The context may differ based on geographical location (where the product is sold), the products life cycle, e.g. new vs end-of-life product or the possibility to exchange the product (Elegido, 2011; Ayadi, Paraschiv & Rousset, 2017). The last dimension time is referred to as the occurrence of price changes, e.g minutes, hours or days according to Kannan
and Kopalle (2001). Further, it also covers price differentiation based on the moment when the transaction itself takes place as well as the frequency of the transaction itself. One example of this could be when an online retailer has a limited price offer which is available to all customers (Ayadi, Paraschiv & Rousset, 2017).

By adopting a dynamic pricing strategy retailer may increase sales and profit, increase customer loyalty and attract new customers (Elmaghraby & Keskinocak, 2003). From the consumers perspective, according to Obermiller, Arneson, and Cohen (2012) dynamic prices do not have to be equivalent to a price increase, it may provide well-being and facilitate consumers access to products as these are now in the prices range for what they are willing to pay for it. Some consumers might benefit from this strategy adopted by retailers as their loyalty towards the vendor may entail a lower price for their commitment (Ayadi, Paraschiv & Rousset, 2017).

However, from another consumer perspective, dynamic pricing can have negative repercussions as it is directly linked to consumers perception of ethics (Elegido, 2011). One example of this was when the online vendor Amazon first deployed a dynamic pricing strategy, they were obligated to apologize to their customer's disadvantage for them and had to repay them the price difference (Ayadi, Paraschiv & Rousset, 2017). According to Brunk (2010) and Gabarino and Lee (2003), it is essential for companies to take into account that price differences might have repercussions on a company's ethical image.

2.3 Brand trust

Brand trust is described as "the willingness of the average consumer to rely on the ability of the brand to perform its stated function" (Sahin, Zheir & Katapici, 2011, p. 1291). It can be divided into two dimensions, the first dimension is reliability which involves the brand ability and willingness to keep what they promise and satisfy their customers needs. The second dimension constitutes the intention of a brand to be good in relation to customers welfare and interest (Garbarino & Lee, 2003; Sahin, Zheir & Katapici, 2011). Singh, Iglesias, and Foguet (2012) also describe brand trust as the confidence a consumer has that the brand is reliable and behaves with integrity. It is further argued by Klink and Wu (2017) that brand trust includes sub-components, such as fairness and honesty. Sincerity is also furthered by brand trust according to Klink and Wu (2017). A trustworthy brand is a brand that keeps what they promise towards their customers within all parts of the product, from the start when it is developed, produced, sold and advertised (Delgado-
Ballerster et al., 2003), this also includes times when a brand is in some kind of crisis (Sahin, Zheir & Katapici, 2011). Within marketing, brand trust has been established as a critical factor in the efforts of companies to create long-lasting relationships with consumers which often are a vital part for a company's success (Garbarino & Lee, 2003). In line with this, Ashley and Leonard (2009) and Sahin, Zheir, and Katapici (2011) argue for that brand trust is one key component when building consumer-brand relationships. Further, a consumer develops trust in a brand based on positive beliefs of their expectation for the organization's behavior and product performance (Sahin, Zheir and Katapici, 2011).

Habibi, Laroche, and Richard (2014) argue that brand trust might be the single most important variable for influencing interpersonal and intergroup behavior. Sung and Kim, (2010) further state that brand trust can positively influence brand recollection and the perceived sincerity of a brand together with a perception of higher quality. In an article by Garbarino and Maxwell (2010), it is found that a higher level of trust would make the consumers feel betrayed when exposed to dynamic pricing, making the company lose trust with the consumers. They also stated that trust increase the perceived fairness. Chaudhuri and Holbrook (2001) discuss that trust is highly relevant in a scenario where the consumer is uncertain. Trust in that scenario then works as a depressant and reduces the insecurity due to the trust the consumer has towards the brand.

2.4 Hypotheses development

Previous research suggests that direct marketing actions, such as pricing, causes more responses from consumers than indirect types (Brunk, 2010; Awasthi & Singhal, 2014). Dynamic pricing, in particular, as a pricing strategy has been gathering attention due to the pointed-out risk of negative responses (Ahmetoglu et al., 2014; Ayadi, Paraschiv & Rousset, 2017; Faraqui, 2010). Unfairness, honesty, and reliability are among these possible responses that could be influenced by dynamic pricing (Chaudhuri & Holbrook, 2001; Garbarino & Maxwell, 2010; Singh, Iglesias and Foguet, 2012; Klink & Wu, 2017). These dimensions are also stated as part of CPE (Faruqui, 2010; Brunk, 2010; Ayadi, Paraschiv & Rousset, 2017). It is also stated by (Elegido, 2011) that dynamic pricing can have negative repercussions as it directly linked to consumers perception of ethics. Fur-
ther, this is in line with the conclusion done by Brunk (2010), who states that price differences might have repercussions on CPE. Hence, a hypothesis 1 is formulated as follows:

**H1: Dynamic Pricing has a negative impact on Consumer Perceived Ethicality.**

Previously, consumers have had little knowledge about price discrimination and differences as it has not been easy to recognize. However, by the use of internet and electronic retail environment, consumers have become more aware of price differences (Gabarino & Lee, 2003). The perception that a price is fair or unfair, which is one of the components of brand trust, is explained as the emotional response from consumers whether the price difference is acceptable, justifiable or reasonable. How consumers perceive a price as unfair is dependent on if they are aware that they are paying more than others in the same customer group for a similar product or service (Xia and Monroe, 2010; Ayadi, Paraschiv, and Rousset, 2017). Consumers might feel some kind of injustice if they are not informed that a brand is using a specific pricing strategy, this phenomenon is referred to as price transparency (Furgerson, 2014). Lack of pricing transparency towards consumers could influence the brand in a negative way and could be seen as dishonest (Ayadi, Paraschiv, and Rousset, 2017) Further, previous research has shown that pricing tactics where a retailer charge different prices to different customers could have an effect on consumer trust in the brand (Gabarino & Lee, 2003; Gabarino & Maxwell, 2010; Grewal, Hardesty & Lyer, 2014). To conclude, if consumers perceive dynamic pricing as unfair, dishonest and non-transparent there could be damage on the brand trust (Cissé-Depardon and N’Goala, 2009; Garbarino and Maxwell, 2010; Ayadi, Paraschiv & Rousset, 2017) Therefore, a hypothesis 2 can be formulated as follows:

**H2: Dynamic pricing has a negative impact on Brand Trust.**

CPE is consumers aggregated perception of a subjects morality (Brunk & Bluemelhuber, 2011) and thus have several dimensions of what constitutes morality. Singh, Iglesias, and Fouget (2012) argue for the fundamentals of CPE being honesty, accountability, and responsibility. These fundamentals can also be seen within brand trust. Klink and Wu
Ayadi, Paraschiv, and Rousset (2017) further strengthen the previous claim that honesty is a feature often associated with trust when judging a brand. Garbarino and Lee (2003) together with Sahin, Zheir, and Katapici (2011) state that one dimension of brand trust is the intention to be good in relation to customers welfare and interests and thus responsible towards their customers. Both CPE and brand trust have common denominators. Therefore, hypothesis 3 is formulated as follows:

**H3: Brand trust has a positive impact on Consumer Perceived Ethicality.**

Several sources, as stated in previous statements, draws a connection between dynamic pricing and brand trust, such as the perception of unfairness, price transparency or unjust strategies (Ayadi, Paraschiv, and Rousset, 2017; Gabarino & Lee, 2003; Grewal, Hardesty & Lyer, 2014; Gabarino and Maxwell, 2010; Cissé-Depardon and N'Goala, 2009). The connection between brand trust and CPE has also been deserted by various authors, mentioning the similar traits such as honesty and responsibility (Garbarino & Lee, 2003; Sahin, Zheir and Katapici, 2011; Ayadi, Paraschiv and Rousset, 2017). Brand trust and CPE share traits and thus influence each other (Singh, Iglesias and Fouget, 2012). It is also reasonable to assume that they would be influenced by the same denominator. With the literature pointing towards brand trust being impacted by dynamic pricing, one can assume that CPE will be influenced by dynamic pricing as well, through brand trust. Therefore, hypothesis 4 is formulated as follows:

**H4: Brand trust mediates the relationship between Dynamic Pricing and Consumer Perceived Ethicality.**

![Figure 1, conceptual model including the independent variable of Dynamic pricing, the mediator of Brand trust and the dependent variable of CPE](image-url)
3 Methodology

The following chapter presents how the study was conducted. Both practical and theoretical implementations of how the study was conducted is described. Reasoning and motives behind the specific choices are included as well.

3.1 Research approach, design and data source

With previous literature and theories to rely on, a deductive research approach was deployed in this research. The theories and literature stood as foundation for this research. They were later used in order to motivate the hypotheses (Bryman & Bell, 2011). In order to be able to test these hypotheses and gain generalizable results, a quantitative approach was used (Hagan, 2014). The theories, converted into measurements through an operationalization were then used in order to quantify the data (Ghauri & Grønhaug, 2005). This was done through statistical tools. With the quantitative approach the aim was to explain the relationships between the variables which resulted in an explanatory purpose. To assure that the data collected was in accordance with our explanatory purpose and research problem (Ghauri & Grønhaug, 2005) the data collected was of primary nature and not gathered from previous studies or secondary sources.

3.2 Data collection method

A questionnaire is used to reach a large sample group in a short matter of time, this is also one of the main advantages with this particular method (Bryman & Bell, 2011). Bryman and Bell further argues that questionnaires are well suited for quantitative studies where the high number of respondents helps to gain generalizable data. Saunders, Lewis and Thornhill (2009) also state that a way to further increase the effectiveness of a questionnaire is to post it online to reach a wider audience and with less time. These arguments served as foundation when the appropriate method for data collection was chosen. To achieve reliable data it is of importance that the respondents answer the same questions and in the same order, it is also of importance that the questions are understood in the same why by all respondents (DeVaus, 2002).
The online questionnaire was posted on Facebook for three days on the authors own network and also sent through email to reach beyond the Facebook network. The use of email also helped in the diversity of respondents. To assure that respondents understood the questions in the same way a short description of the relevant topics was presented. The following part of the questionnaire contained the theory-based questions. The questions regarded Dynamic pricing, CPE in relation to Dynamic pricing and Brand trust in relation to CPE. These questions could be answered through a seven-point likert scale ranging from “Strongly disagree” (1) to “Strongly agree” (7). At the end of questionnaire, control questions were included. Age, gender, occupation, level of education and monthly income were asked for descriptive and demographic purposes. The whole questionnaire can be seen in Appendix 1.

3.3 Sampling

A segment of a population is called a sample (Bryman & Bell, 2011) and since it is impossible to question an entire population, a sample is what is used when gathering data. It is then important that the sample group is adequate for being part of the research (Saunders, Lewis & Thornhill 2009). Bryman and Bell (2011) stresses the importance of having a correct sample in order to be able to generalize the findings and thus having a representative sample. The characteristics of the populations in this research was that it was conducted in Sweden, hence, the sample consisted of Swedish consumers. A non-probability sampling method was used in this study which means that the sampling procedure is not random and therefore does not give equal chance to all individuals to participate. This in turn negatively affects the ability to generalize the results (Saunders, Lewis & Thornhill, 2009; Bryman & Bell, 2011). The advantages of non-probability sampling are the accessibility and time-saving features (Bryman & Bell, 2011). To make the sample more valid a snowball-sampling method was employed as well. This increases the width and the potential number of respondents (Bryman & Bell, 2011) with the limitation of the authors own networks where the questionnaire originally were launched was reduced. The questionnaire was sent out with email and encouraged the respondents to send it to individuals that are Swedish citizens in their own network. This way the sample size increased and the variation between factors such as education, occupation and age increased.
A sample should not have less than 50 respondents according to Voorhis and Morgan (2007). The formula 50+8*M where M is the number of independent variables is proposed by Green (1991). With two independent variables, being brand trust and dynamic pricing, a minimum of 68 respondents can be derived from the formula. The actual number of respondents for this study was a total of 101 respondents.

3.4 Data collection instrument and Operationalization

An operationalization allows the authors of this thesis to make an overview of the theoretical concepts and to test the hypothesis going from concept to variables to make them measureable (Ghauri & Grønhaug, 2005; Bryman & Bell, 2011). According to Bryman and Bell (2011) an operationalization can be applied in order to explain the framework of the data gathered as well as the analysis. Further, the operationalization makes an overview of the theoretical concepts and explains how these were divided into different concepts, that will be measured, examined and show which questions measures which variable (Ghauri & Grønhaug, 2005).

In order to correctly measure each of the variables in this research and keep a high reliability, the questions were derived from previous scientific articles that have tested the variables before. The operationalization table is divided into four columns consisting of: Concept, Conceptual definition, Operational definition and Questions. The different concepts were derived from the theoretical framework and the relationship between these variables that this research will describe. The definition of each concept was taken from the selected theory. The operational definition shows what each theory represents in terms of different types of variables and the question column presents the questions that was used in questionnaire and from what source they were derived from.
<table>
<thead>
<tr>
<th>Concept</th>
<th>Conceptual definition</th>
<th>Operational definition</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPE</td>
<td>Can be defined as, “consumers aggregate perception of a subject’s (i.e. a company, brand, product, or service) morality” (Brunk and Blue-melhuber 2011, p. 134). Singh, Iglesias and Foguet (2012) describe CPE as honesty, accountability and responsibility towards various stakeholders.</td>
<td>CPE is the dependent variable, which will be measured through how consumers perceive a brand to be honest, accountable and responsible.</td>
<td>1. By using dynamic pricing a brand respects moral norms (Brunk, 2012).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2. By using dynamic pricing a brand is socially responsible (Brunk, 2012).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3. By using dynamic pricing a brand is honest (Brunk, 2012).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4. I consider a brand that uses dynamic pricing as being good (Brunk, 2012).</td>
</tr>
<tr>
<td>Brand Trust</td>
<td>Can be explained as the confidence a consumer has that the brand is reliable and behaves with integrity (Singh, Iglesias &amp; Foguet, 2012).</td>
<td>Brand trust is the mediating variable in this research, which captures the extent of the consumer’s confidence in brand’s reliability and integrity.</td>
<td>1. I believe a brand I trust to be sincere (Chaudhuri &amp; Holbrook, 2001).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2. I rely on a brand that is accountable towards their consumers (Chaudhuri &amp; Holbrook, 2001).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3. I view an honest brand as a better brand (Chaudhuri &amp; Holbrook, 2001).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4. I view a brand that I feel safe with as socially responsible (Chaudhuri &amp; Holbrook, 2001).</td>
</tr>
<tr>
<td>Dynamic pricing</td>
<td>Can be explained as algorithms or other factors that change the price in short time spans in accordance to predetermined conditions or parameters (Blaudow and Burg, 2017)</td>
<td>Dynamic pricing is the independent variable, which is a pricing strategy that changes the price in accordance to different parameters or conditions.</td>
<td>1. The usage of dynamic pricing indicates respect for the customer (Garbarino &amp; Lee, 2003).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2. Dynamic pricing favors the customer’s best interest (Garbarino &amp; Lee, 2003).</td>
</tr>
</tbody>
</table>
3. A brand that uses dynamic pricing considers the customer’s welfare (Garbarino & Lee, 2003).

4. I rely on a brand that uses dynamic pricing (Chaudhuri & Holbrook, 2001).

3.5 Data analysis method

The data gathered through the questionnaire for this thesis was analyzed through a multiple regression analysis and descriptive statistics. This was done to test the hypothesis. A multiple regression is a statistical instrument that is used to measure the relationship between the independent and dependent variables (Aaker et al., 2011). Descriptive statistics was used to sum up the data gathered as well as describe and compare variables. The purpose of running a regression is to be able to describe and predict the relationship between the independent and dependent variable (Saunders, Lewis & Thornhill, 2009). According to Hair et al. (2011) when running a multiple regression, it is of importance for the researchers to first see if the model is statistically significant. This is shown through the change in R2, the change should generate a significance level that is lower than 0.1 in order for the researchers to be able to say that the model is statistically significant. This indicates that the linear association between the independent and dependent variables is strong (Hair et al., 2011). The adjusted R2 was also incorporated in the analysis as it describes to what extent the independent can account for the variance in the dependent variable. Hence, the higher the adjusted R2 is, the higher explanatory power it has (Moore, McCabe and Craig, 2009; Hair et al, 2011).

When doing a regression analysis, it is also of importance to look at the beta value as well as the significance level (Aaker et al., 2011). The beta value measures the strength of the relationship between the independent and dependent variable in a regression analysis. It could be positive, negative or zero, if the beta value is zero, it means that the independent variable does not have an effect on the dependent variable and if the beta is positive or negative it means that the independent have an effect on the dependent variable (Aaker et al., 2011). Significance level on the other hand, is the determinant of if the hypothesis can
be rejected or accepted, for a hypothesis to be accepted the significance level needs to be lower than 0.05. The significance level is illustrated by the p-value (Aaker et al., 2011). One advantage by using a multiple regression according to Aaker et al. (2011) is that it measures the relationship between all the independent variables with dependent variables as well as the independent variables individually. This makes it possible to partially accept a hypothesis if the relationship is insignificant when all of the independent variables are tested together. For a hypothesis to be partially accepted, the relationship and change in R2 needs to be statistically significant when tested individually (Hair et al., 2011).

When testing the mediation effect of brand trust on the relationship between dynamic pricing and CPE, there are numerous regressions that need to be conducted according to Baron and Kenny (1986). Further, they state that to ensure that there is a mediation there are four requirements that needs to be met. Firstly, the relationship between the independent (Dynamic pricing) and mediating variable (Brand trust) need to be statistically significant. Secondly, the relationship between the mediating variable and the dependent variable (CPE) needs to be statistically significant. Thirdly, the relationship between the independent variable and the dependent variable need to be statistical significant. Lastly, the last requirement is to test the relationship between the independent, and mediator variable on the dependent variable, and that the dependent does not affect the independent only the mediator. If all requirements are met, mediation can be proven (Baron & Kenny, 1986).

3.6 Quality Criteria for measurement and Pre-test

Before the data was collected a pre-test was conducted. This pre-test included four persons that fit the sample along with two independent professors with good knowledge within the related fields. The pre-test was done to ensure that the questions and phenomenon were understood. The difficulty to find errors within the questionnaire for the researchers is another vital part of the pre-test (Ghauri & Grønhaug 2005; Bryman & Bell 2011). Ghauri and Grønhaug (2005) further states that the pre-test should be performed by three to five individuals to minimize the risk of undetected anomalies.
To ensure that the data gathered for this thesis has sustained an amount of quality the data needs to be valid and reliable (Malhotra & Birks, 2003; Hair et al., 2011; Aaker et al., 2011). According to Hair et al (2011) for the data to be reliable it needs to yield a similar result when repeatedly gathered. When testing the reliability of the data gathered for this thesis, a Cronbach’s Alpha test was used. When running a Cronbach’s Alpha test, the number should not be lower than 0.6 (Malhotra & Birks, 2003) and it should not be higher than 0.9 (George & Mallery, 2003). If the number would be lower than 0.6 or higher than 0.9, one item could be taken out from that specific variable from the analysis in order to solve this problem. George and Mallery (2003) explains that the Cronbach’s Alpha is said to be excellent in terms of reliability if the number is between 0.8 and 0.9.

To test the validity of the data gathered, a correlation analysis was deployed through the help of Pearson's correlation which is a statistical measurement that identifies the strength and direction of the association between variables (Malhotra, 2010). When running the Pearson correlation test, the coefficient should be between -1 and +1, values that are close to 0 is said to have a weaker relationship in relation to values that are closer to ±1 which are said to be strongly related (Ghauri & Grønhaug, 2005). Criterion Validity was incorporated in this thesis by deducing the hypotheses from theory which was critically evaluated and selected according to the guidelines developed by Aaker et al. (2011). The theoretical material was gathered out of its relevance to the research topic and well connected to empirical phenomenon as well as the operationalization, this is how construct validity is established according to Bryman and Bell (2011).
4 Results

The following chapter will present the results from the data gathered for this thesis. It contains presenting explanation and of descriptive data, reliability, validity testing as well as hypothesis testing.

4.1 Descriptive statistics

The total number of respondents of the questionnaire were 101, the distribution among these regarding gender was 49 female (48,5%) and 52 male (51,5%). The table below shows the distribution of age, occupation, income per month in SEK, and the education level of the respondents.

Table 2. Demographics and distribution of the respondents.

<table>
<thead>
<tr>
<th>Age</th>
<th>Number of respondents (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-24</td>
<td>37 (36,6%)</td>
</tr>
<tr>
<td>25-29</td>
<td>28 (27,7%)</td>
</tr>
<tr>
<td>30-34</td>
<td>10 (9,9%)</td>
</tr>
<tr>
<td>35-39</td>
<td>11 (10,9%)</td>
</tr>
<tr>
<td>40-44</td>
<td>4 (4%)</td>
</tr>
<tr>
<td>45+</td>
<td>12 (11,9%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Number of respondents (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student</td>
<td>50 (49,5%)</td>
</tr>
<tr>
<td>Work part-time</td>
<td>14 (13,9%)</td>
</tr>
<tr>
<td>Work full-time</td>
<td>42 (41,6%)</td>
</tr>
<tr>
<td>Unemployed</td>
<td>1 (1%)</td>
</tr>
<tr>
<td>Other</td>
<td>4 (4%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income per month in SEK</th>
<th>Number of respondents (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10 000</td>
<td>28 (27,7%)</td>
</tr>
<tr>
<td>10 000- 20 000</td>
<td>26 (25,7%)</td>
</tr>
<tr>
<td>20 000- 30 000</td>
<td>17 (26,8%)</td>
</tr>
<tr>
<td>30 000- 40 000</td>
<td>23 (22,8%)</td>
</tr>
</tbody>
</table>
40 000 + 8 (7,9%)

<table>
<thead>
<tr>
<th>Highest level of education</th>
<th>Number of respondents (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High school</td>
<td>10 (10,9%)</td>
</tr>
<tr>
<td>Undergraduate</td>
<td>24 (23,8%)</td>
</tr>
<tr>
<td>Graduate</td>
<td>43 (42,6%)</td>
</tr>
<tr>
<td>Masters degree</td>
<td>30 (29,7%)</td>
</tr>
</tbody>
</table>

4.2 Quality Criteria

4.2.1 Cronbach’s alpha test

A cronbach’s alpha test was conducted to test the reliability of the data. The test measures how similar the items are from one another. A value set too low indicates that the items measured are too spread out while a value set too high indicates that the measured items are too similar (Malhotra & Birks, 2003). In accordance to Malhotra and Birks (2003) and George and Mallery (2003) the value should be between 0,6 and 0,9. As can be seen a span ranging from 0,790 to 0,897 can be identified which indicates a nearly perfect value (George & Mallery, 2003) and thus the data gathered can be seen as reliable.

Table 3, Cronbach’s alpha.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Cronbach’s alpha</th>
<th>Number of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand Trust</td>
<td>0,790</td>
<td>4</td>
</tr>
<tr>
<td>CPE</td>
<td>0,889</td>
<td>4</td>
</tr>
<tr>
<td>Dynamic Pricing</td>
<td>0,897</td>
<td>4</td>
</tr>
</tbody>
</table>

4.2.2 Pearson correlation

The pearson correlation was tested to ensure the validity. A correlation test looks at the strength and direction of association between variables and is a statistical measurement (Malhotra, 2010). In simplified terms the Pearson correlation looks at the relationship between variables where numbers closer to +/- 1 indicates a stronger relationship than those closer to 0. As table 4 denotes, two relations are significant. The relation between Brand trust and CPE is at a 95% level while the relation between dynamic pricing and
CPE is at a 99% level. Dynamic pricing and Brand trust did not reach a significant level and even with a 90% level it did not reach a sufficient level even if it was close (0,104).

Table 4, Pearson correlation.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>S D</th>
<th>Min</th>
<th>Max</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Age</td>
<td>1,51</td>
<td>1,68</td>
<td>0</td>
<td>5</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
</tr>
<tr>
<td>2. Gender</td>
<td>0,49</td>
<td>0,500</td>
<td>0</td>
<td>3</td>
<td>0,080</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
</tr>
<tr>
<td>3. Occupation</td>
<td>1,01</td>
<td>1,02</td>
<td>0</td>
<td>4</td>
<td>0,647**</td>
<td>-0,009</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
</tr>
<tr>
<td>4. Income</td>
<td>1,57</td>
<td>1,32</td>
<td>0</td>
<td>4</td>
<td>0,657**</td>
<td>-0,017</td>
<td>0,764**</td>
<td>___</td>
<td>___</td>
<td>___</td>
<td>___</td>
</tr>
<tr>
<td>5. Education</td>
<td>1,94</td>
<td>0,89</td>
<td>0</td>
<td>3</td>
<td>0,034</td>
<td>0,020</td>
<td>0,110</td>
<td>0,207*</td>
<td>___</td>
<td>___</td>
<td>___</td>
</tr>
<tr>
<td>6. Mean Brand trust</td>
<td>5,45</td>
<td>0,81</td>
<td>1</td>
<td>7</td>
<td>-0,108</td>
<td>0,252*</td>
<td>-0,053</td>
<td>-0,095</td>
<td>-0,080</td>
<td>___</td>
<td>___</td>
</tr>
<tr>
<td>7. Mean CPE</td>
<td>4,01</td>
<td>1,25</td>
<td>1</td>
<td>7</td>
<td>-0,153</td>
<td>-0,081</td>
<td>-0,136</td>
<td>-0,170</td>
<td>0,043</td>
<td>0,163</td>
<td>___</td>
</tr>
<tr>
<td>8. Mean dynamic pricing</td>
<td>3,66</td>
<td>1,40</td>
<td>1</td>
<td>7</td>
<td>-0,092</td>
<td>-0,018</td>
<td>0,091</td>
<td>-0,098</td>
<td>-0,006</td>
<td>0,208*</td>
<td>0,796**</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

4.3 Hypothesis testing

In order to test the hypothesis derived for this research, a multiple linear regression was deployed. Table 5 shows the relationship between the independent, mediating and dependent variable. Model 1 shows the control questions relationship with the dependent variable of CPE, model 2 and 3 shows the relationship of the independent variable of Dynamic pricing and the mediating variable of Brand trust separately on the dependent variable. The last column of model 4 shows the relationship of all of the control questions, independent variable and the mediating variable together towards the dependent variable. Model 2 and 3 shows if H1 and H3 can be accepted or rejected and model four shows if the fourth requirement of mediation to be met, hence, if H4 could be accepted or rejected. When looking in model 1, it shows that none of the control variables are statistically significant in relation towards the dependent variable of CPE. In model 2 and 3 one can see that relationship between the independent variable of Dynamic pricing, the mediating variable of Brand trust and dependent variable of CPE is not statistically significant. Hence, H1 and H3 can be rejected.
To estimate how good of a fit the model is, the $R^2$ is a good measurement. It measures the proportion of the variance in the outcome variable that can be explained by the predictors. An issue with the $R^2$ however is the increase of the value when adding predictive variables. To counter this issue a adjusted $R^2$ value is calculated where the number of predictors is taken into account (Hair et al., 2011). As can be seen the dynamic pricing variable (model 2) had a high adjusted $R^2$ value of 0,629 along with the combined model (model 4) which had 0,626. Model 3 with the variable brand trust had a low value of 0,016 when looking at the adjusted $R^2$. As can be seen in table 2 and 3, brand trust had the lowest cronbach’s alpha together with the lowest significance which indicates a combination of minor issues. More predictors would ensure a higher $R^2$ value, this together with a more thoroughly revised questionnaire where the items regarding brand trust would be more closely connected to the theory.

Another value to take into consideration is the Beta value. Both Model 2 and Model 4 had high values of 0,784 and 0,782 respectively. As can be seen, brand trust does not impact CPE in such a high matter with only 18,6% which means that for every 1 unit that brand trust increases, CPE only increases 0,186. Even if it is a low value it is still significant and positive.

Table 5, CPE as dependent variable.

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4 all</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intercepts</strong></td>
<td>4,182***</td>
<td>1,495***</td>
<td>2,611***</td>
<td>1,399***</td>
</tr>
<tr>
<td></td>
<td>(0,341)</td>
<td>(0,295)</td>
<td>(0,940)</td>
<td>(0,588)</td>
</tr>
<tr>
<td><strong>Control variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>-0,049</td>
<td>-0,019</td>
<td>-0,019</td>
<td>-0,017</td>
</tr>
<tr>
<td></td>
<td>(0,106)</td>
<td>(0,064)</td>
<td>(0,105)</td>
<td>(0,065)</td>
</tr>
<tr>
<td>Gender</td>
<td>-0,081</td>
<td>-0,069</td>
<td>-0,131</td>
<td>-0,072</td>
</tr>
<tr>
<td></td>
<td>(0,253)</td>
<td>(0,154)</td>
<td>(0,260)</td>
<td>(0,161)</td>
</tr>
<tr>
<td>Occupation</td>
<td>0,012</td>
<td>0,032</td>
<td>-0,005</td>
<td>0,030</td>
</tr>
<tr>
<td></td>
<td>(0,200)</td>
<td>(0,121)</td>
<td>(0,198)</td>
<td>(0,122)</td>
</tr>
<tr>
<td>Monthly Income</td>
<td>-0,165</td>
<td>-0,120</td>
<td>-0,157</td>
<td>-0,120</td>
</tr>
<tr>
<td></td>
<td>(0,161)</td>
<td>(0,098)</td>
<td>(0,159)</td>
<td>(0,098)</td>
</tr>
<tr>
<td>Education</td>
<td>0,079</td>
<td>0,071</td>
<td>0,094</td>
<td>0,072</td>
</tr>
<tr>
<td></td>
<td>(0,146)</td>
<td>(0,089)</td>
<td>(0,145)</td>
<td>(0,089)</td>
</tr>
</tbody>
</table>
### Table 6

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Mediating variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dynamic pricing</td>
<td>Brand Trust</td>
</tr>
<tr>
<td>0.784 (0.055)</td>
<td>0.186* (0.161)</td>
</tr>
<tr>
<td>0.782 (0.056)</td>
<td>0.012 (0.101)</td>
</tr>
<tr>
<td>R^2</td>
<td></td>
</tr>
<tr>
<td>0.044</td>
<td>0.652</td>
</tr>
<tr>
<td>Adjusted R^2</td>
<td></td>
</tr>
<tr>
<td>-0.007</td>
<td>0.629</td>
</tr>
<tr>
<td>Change in R^2</td>
<td></td>
</tr>
<tr>
<td>0.044</td>
<td>0.608***</td>
</tr>
<tr>
<td>std. error of estimates</td>
<td></td>
</tr>
<tr>
<td>1.26179</td>
<td>0.76567</td>
</tr>
<tr>
<td>F-values</td>
<td></td>
</tr>
<tr>
<td>0.869</td>
<td>29.301</td>
</tr>
<tr>
<td>Degrees of freedom</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

* p<0.1 **p<0.05 ***p<0.01

Table 6 shows the relationship between the independent variable and the mediating variable. Model 1 shows the control questions relationship with the mediating variable of Brand trust in this table, model 2 show the relationship of the independent variable of Dynamic pricing and mediating variable in this table of Brand trust. Regarding the adjusted R^2 value it can be observed that the value is high for the control questions (0.420) and substantially lower when dynamic pricing and brand trust is tested together (0.076). This can be seen as a reverse effect of what is desired when such high percentage of the outcome is explained by the set variables which in this case is the control variables. In contrast, only 7.6% of the variance is explained by the relation between dynamic pricing and brand trust.

In contrast to the previous table, the beta value for model 1 and 2 had gender as a significant control variable. The control variable was however only significant at the lowest level of 90%. The beta value was considerable lower than dynamic pricing towards CPE and the combined model. The only model that was lower than model 2 from table 6 (Dynamic pricing towards brand trust) was brand trust towards CPE. When looking in model 1, it shows that only gender out of control variables are statistically significant in relation to Brand trust. This is the case when tested together with the independent variable as well,
which can be seen in model 2. Further, in model 2 one can also see that relationship between the independent variable of Dynamic pricing the mediating variable of Brand trust is statistically insufficient. Hence, H2 can not be accepted.

*Table 6. Brand trust as dependent variable.*

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intercepts</strong></td>
<td>5.469*** (0.215)</td>
<td>5.015*** (0.301)</td>
</tr>
<tr>
<td><strong>Control variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>-0.160 (0.067)</td>
<td>-0.053 (0.066)</td>
</tr>
<tr>
<td>Gender</td>
<td>0.267* (0.160)</td>
<td>0.270* (0.157)</td>
</tr>
<tr>
<td>Occupation</td>
<td>0.091 (0.126)</td>
<td>0.096 (0.124)</td>
</tr>
<tr>
<td>Monthly Income</td>
<td>-0.038 (0.102)</td>
<td>-0.026 (0.100)</td>
</tr>
<tr>
<td>Education</td>
<td>-0.082 (0.092)</td>
<td>-0.084 (0.091)</td>
</tr>
<tr>
<td><strong>Independent variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dynamic pricing</td>
<td></td>
<td>0.205 (0.056)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.090</td>
<td>0.131</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>0.420</td>
<td>0.076</td>
</tr>
<tr>
<td>Change in $R^2$</td>
<td>0.090</td>
<td>0.041**</td>
</tr>
<tr>
<td>std. error of estimates</td>
<td>0.79727</td>
<td>0.78308</td>
</tr>
<tr>
<td>F-values</td>
<td>1.873</td>
<td>2.364</td>
</tr>
<tr>
<td>Degrees of freedom</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

* * p<0.1 ** p<0.05 *** p<0.01

From table 5 and 6 the mediating effect of Brand trust can be derived. As explained by Baron and Kenny (1986) the first requirement for a mediation to be accepted the relationship between the independent and mediating variable needs to be statistically significant.
This requirement was not met as can be seen in model 2 in table 6. The second requirement was met as the relationship between the mediating and dependent variable is statistically significant as shown in table 5, model 3. The third requirement was not met as the relationship between the independent and dependent variable was proven statistically insufficient, which can be seen in table 5, model 2. However, the fourth requirement, that the mediating variable is more significant when tested together with the independent variable was not met as two of the previous three requirements could not be met. This can be seen in model 4 in table 5. Hence, a mediating effect does not exist and H4 is rejected.
5 Discussion

The following chapter will present a discussion of the data gathered and presented in the result chapter in relation to the hypothesis for this research.

Not until recently did CPE gain attention as a critical aspect to keep in mind when looking at how business is conducted (Brunk, 2010; Singh, Iglesias & Fouget, 2012). CPE has been studied together with various elements, such as pricing strategies (Indounas, 2008; Faruqui, 2010) or brand trust (Singh et al., 2012; Garbarino & Maxwell, 2010). The connections between brand trust and dynamic pricing as a pricing strategy have also been examined by Ahmetoglu et al. (2014) who states a positive connection between these two. However, not together with ethical considerations such as CPE. With several studies that highlight the interconnection between these variables, there is yet to be done a study that examines these together, specifically where brand trust is examined as a mediating variable.

The first part of this study examined the components’ connection with each other in isolation (H1-H3). Out of these three the negative relationships were rejected (H1 and H2). H3 however were accepted as brand trust could be shown to influence CPE in a positive matter.

Previous literature has stated that a pricing strategy such as dynamic pricing has gotten attention due to the negative responses among consumers (Ahmetoglu et al., 2014; Ayadi, Paraschiv & Rousset, 2017; Faruqui, 2010). As stated by Ayadi, Paraschiv and Rousset (2017), Brunk (2010) and, Gabarino and Lee (2003), dynamic pricing can have negative repercussions on consumers perception of a brand being unethical and it is, therefore, essential for a brand to take this into account. This goes against the findings of this research as H1 was rejected. Hence, by deploying a dynamic pricing strategy it impacts consumers perceived ethicality in a positive way, contrary to previous belief.
When looking at the relationship between dynamic pricing and brand trust, previous literature has stated that pricing tactics, such as dynamic pricing, where a brand charge different prices to customers could have an effect on the trust in the brand (Gabarino & Lee, 2003; Garbarino & Maxwell, 2010; Grewal, Hardesty & Lyer, 2014). Underlying factors that could damage consumers trust in a brand are if they perceive a price as unfair, a brand as dishonest or non-transparent (Cissé-Depardon and N'Goala, 2009; Garbarino and Maxwell, 2010; Ayadi, Paraschiv & Rousset, 2017). As H2 was rejected, this contradicts the notion where dynamic pricing affects consumers brand trust in a negative way. Previous literature has pointed out that the fundamentals of CPE constitute of honesty, accountability, and responsibility (Brunk & Bluemelhuber, 2011; Singh, Iglesias & Fouget, 2012). According to Klink and Wu (2017) brand trust share, some of these fundamentals, such as honesty and fairness. Ayadi, Paraschiv, and Rousset (2017) further strengthen this claim, as honesty is a feature often associated with trust when judging a brand. Both CPE and brand trust have common denominators and the results further strengthen this notion as H3 was accepted. Hence, this points to that consumers perceive a brand as more ethical when they trust the brand.

The second part of this study examined brand trust as a mediator towards CPE (H4). As stated by Baron and Kenny (1986) there were four criteria for the variable to be considered as a mediating variable. Only the third criteria were fulfilled and therefore it can not be stated that there is a mediating effect. When isolating the relations, brand trust was at 0.186 regarding the beta value and at the lowest level of significance (90%), this dropped to a beta level of 0.012 when combining all variables, and with a positive increase of 1.2% per unit, it was not significant.

Relating to Singh et al. (2012) who claims that brand trust is increased by a better CPE but also that these two factors share components, a relation between brand trust and CPE was hypothesized and tested, it was significant. As stated the beta value was low for both models which involved brand trust which signifies a weak connection from brand trust to the rest of the model. The adjusted R^2 values of brand trust was also weak where only 1.6% of the variance between brand trust and CPE was explained by brand trust. In model 4 only 7.6% of the variance could be explained by dynamic pricing on brand trust.

Brand trust as a concept contains two dimensions, reliability and intentions of the brand.
There are also traits that work in symbiosis with brand trust, such as sincerity, honesty, and fairness. These traits are the basis for the connection drawn between brand trust and CPE. As the argumentation keeps circling back to these traits that are shared between the two variables, a conflict can be discerned. On one hand, these traits can be viewed within both variables, but on the other hand, they are not enough to draw a complete picture and thus giving a weak connection between these variables. This can be seen in several numbers such as the beta value, the Pearson correlation together with the $R^2$ value and not least the significance level when testing brand trust.
6 Conclusion

In this chapter the conclusion is presented, which answers the purpose and research questions of the research.

The purpose of this research was to examine the relationship between dynamic pricing, brand trust, and CPE. The first part of the research examined the relationship between dynamic pricing, brand trust, and CPE separately. The result show that there was no negative relationship between dynamic pricing and CPE, there was however evidence for a positive relationship between brand trust and CPE. It was also shown that dynamic pricing didn’t have any negative relationship between brand trust either. This tells us that many of the fears companies might have, or potential repercussions discussed by previous literature might be exaggerated or even non-existent. The second part of this research tried to discern a mediating effect through brand trust from dynamic pricing to CPE. This was far from being close to accepted due to all but 1 criteria being unfulfilled.

As brand trust was the only variable that was significant it is of importance to look at what constitutes brand trust. As brand trust is divided into two dimensions, reliability and intentions, a conclusion can be drawn that the perceived intentions do not matter as much as the actual implementations of a company. As CPE is built upon sincerity and transparency it could be pointed out that it is of importance to implement strategies such as dynamic pricing with full transparency and not neglect the importance of consumers perception of the chosen strategy. As the results show, dynamic pricing is not inherently negative as previous research have shown which points towards limited knowledge within this area. As CPE is built upon being honest and responsibility it would be counterproductive to be excluding towards stakeholders and shutting them out which also leads to the notion of being transparent. The same goes for brand trust, which is based on honesty. By being open with the business model and strategies, brand trust will be furthered.
7 Research implications

This chapter presents the theoretical and managerial implications from this research as well as the limitations of this research and suggestions for future research.

7.1 Theoretical implications

This research complements the field of research in numerous ways. Firstly, this research looks the relationship between dynamic pricing, brand trust CPE with a quantitative research approach. Previous research has studied these three theories separately and in relation to one or the other, however not in this setting (Brunk, 2010; Brunk & Bluemelhuber, 2011; Singh, Iglesias & Foguet, 2012; Awasti & Singhal, 2014). This research presented that dynamic pricing does not affect consumers perceived ethicality and brand trust in a negative way. Secondly, this research also tested the mediating effect of brand trust in relation to dynamic pricing and CPE. However, mediation was not proven statistically significant. Lastly, even though brand trust did not mediate the relationship, when tested separately it showed that brand trust has an impact on CPE. With this new knowledge it is crucial to take a step back to reevaluate dynamic pricing and its effects. As this study contradicts previous research, or rather, does not agree with previous research, a shift within the consumers can be seen. As consumers change, so must the theoretical foundation, what sources that are for dynamic pricing might be obsolete already which is argument enough to take a look at dynamic pricing as a sole concept.

7.2 Managerial implications

From the findings of this research, different managerial implications can be drawn. The fear of dynamic pricings negative effects might be exaggerated, which makes this controversial kind of strategy more accessible for companies. As it is of importance now, more than ever, to create an image that is responsible and ethical it is worth noting that brand trust is a viable path to strengthen the CPE. This opens up for more versatile strategies that affect several components simultaneously instead of being forced to choose one area at a time. By using strategies that affect both consumers brand trust and the ethical perspective the return on investment should be significantly higher. As stated by previous research, dynamic pricing could have positive effects for the consumer as well (Obermiller, Arneson & Cohen, 2012; Ayadi, Paraschiv & Rousset, 2017), but it is a matter of
perception that needs to be addressed, which an increased level of transparency would help to resolve.

7.3 Limitations and future research

This research did not focus on any specific retailer or market, which could have influenced the results of this study as the respondents were given a wide picture of the implementation of dynamic pricing. Different markets use dynamic pricing differently which would generate various results. Therefore, future research could focus on a specific market or retailer that uses dynamic pricing to extend the understanding of this pricing strategy and its relationship with CPE and brand trust. As the sample was collected through a non-probability technique, the generalizability of the study is limited as well.

As of now, we know that fairness, honesty, and sincerity are shared components between CPE and Brand trust. Nonetheless, the knowledge of the driving forces behind CPE is still limited. With deeper insight of CPE, it would be possible to determine antecedents and thus be able to affect CPE with the usage of brand trust. Therefore, an exploratory study is suggested in order to examine the relationship between brand trust and CPE in greater depth and detail. A low R^2 value, which brand trust had overall, does not necessarily mean that the results are invalid. It does, however, require a larger sample to verify it. This enforces the need of conducting more research between brand trust and CPE. A suggestion would be to follow the two-dimensional model of brand trust in order to go into greater detail of how brand trust is formed, see Garbarino and Lee, (2003) and Sahin, Zheir and Katapici (2011) for examples of this model. As this study did not strengthen previous findings, a step back should be taken and yet again look into these variables in isolation to determine if there in fact has been a change within consumers and if dynamic pricing as of today isn’t seen as negative as previously thought. The items in the operationalization contained two explanatory variables which raises the issue of measuring the relations. This was because of how the questions were formulated in already existing research. The questions was altered to a minimum to keep a high reliability.
8 References


Dynamic pricing

Hello!

We are two marketing students from Linnaeus University in Växjö who are writing our master thesis and need your help by answering this survey that will take a maximum of 5 minutes to complete.

In this thesis we are about to examine the relationship between Dynamic pricing, Brand trust and CPE (Consumer Perceived Ethicality). We highly appreciate your participation. Please note that your answers will be kept anonymous and solely used used for the purpose of strengthening our study.

If you have any questions, please contact us at:

hn222ff@student.linu.se
hk222hx@student.linu.se

Kind regards
Hugo Nyberg & Herman Kempe
I believe a brand I trust to be sincere

Strongly disagree

1 2 3 4 5 6 7

Strongly agree

I rely on a brand that is accountable towards their consumers

Strongly disagree

1 2 3 4 5 6 7

Strongly agree

I view an honest brand as a better brand

Strongly disagree

1 2 3 4 5 6 7

Strongly agree

I view a brand that I feel safe with as socially responsible

Strongly disagree

1 2 3 4 5 6 7

Strongly agree
Dynamic pricing

*Please read the following definition of Dynamic pricing before you answer the questions*

When a retailer changes the price multiple times depending on different factors it's called dynamic pricing. These factors could be dependent on demand, competitors, location or your own consumer profile.

- Airlines use this type of pricing as well when consumers search for flights online. If you search several times for the same destination the price will increase as you display a higher level of willingness to pay.
- Uber also uses dynamic pricing which is based on how many taxi drivers that are available and how many that wishes to use the service.

By using dynamic pricing a brand respects moral norms *

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By using dynamic pricing a brand is socially responsible *

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By using dynamic pricing a brand is honest *

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I consider a brand that uses dynamic pricing as being good *

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The usage of dynamic pricing indicates respect for the customer

Strongly disagree | 1 | 2 | 3 | 4 | 5 | 6 | 7 | Strongly agree

Dynamic pricing favors the customer’s best interest

Strongly disagree | 1 | 2 | 3 | 4 | 5 | 6 | 7 | Strongly agree

A brand that uses dynamic pricing considers the customer’s welfare

Strongly disagree | 1 | 2 | 3 | 4 | 5 | 6 | 7 | Strongly agree

I rely on a brand that uses dynamic pricing

Strongly disagree | 1 | 2 | 3 | 4 | 5 | 6 | 7 | Strongly agree
Avsnittsrubrik (valfritt)

Beskrivning (valfritt)

Age *

- 20-24
- 25-29
- 30-34
- 35-39
- 40-44
- 45+

Gender *

- Male
- Female
- Other

Occupation *

- Student
- Work half-time
- Work full-time
- Unemployed
- Other
Income per month in SEK *

- 0.10 000 SEK
- 10 000-20 000 SEK
- 20 000-30 000 SEK
- 30 000-40 000 SEK
- 50 000+ SEK

Highest level of education *

- High School
- Under graduate
- Graduate
- Masters degree
- PhD