

## 10.7: Ethical Considerations in Pricing

### Learning Objectives

By the end of this section, you will be able to

- Identify ethical issues related to the pricing of products and services.
- Describe the different types of unethical practices.

### Price Fixing

Recall that *ethics* is defined as behaviors based on values and beliefs regarding right and wrong. In marketing, unethical behavior can have catastrophic consequences. If a customer's trust is broken with a product, their likelihood of continuing to do business with that company dramatically decreases. Companies practicing unethical behavior run the risk of not only losing customers and profits but also facing legal consequences. Let's explore some unethical (illegal) practices related to pricing.

Price fixing occurs when two or more competitors agree to set prices at a specific level. The practice of price fixing forces customers to pay higher prices than normal with no substitute alternatives. Consumers who purchased or leased certain automobiles were part of a class-action lawsuit involving several automobile manufacturers. The brands, including Audi, BMW, Buick, Chevrolet, and many others, agreed to pay into the settlement after being accused of conspiring to artificially inflate the prices of various auto parts (Top Class Actions, 2019).

### Deceptive/Illegal Price Advertising

Deceptive price advertising is an unethical pricing practice in which the advertised price of a product is misleading to consumers. For example, let's assume a company advertised a product with a "suggested retail price" of \$9.99 but is offering the same product for the "low price of only \$4.99." If the same product is actually priced in a market in the same country for \$9.99, it is not considered deceptive. However, if the product is not priced at \$9.99 in any other market, it is considered deceptive.

Say you sell hats for \$29.99, but sales are sluggish. You decided to offer your hats "buy one get one free," but just before the sale starts, you raise the price of one hat to \$59.99. Is this deceptive price advertising? Yes. This is not a bargain for consumers and is considered deceptive, according to the Federal Trade Commission (FTC).

### Predatory Pricing

Another unethical (and usually illegal) pricing strategy is predatory pricing. Predatory pricing occurs when a company prices goods or services so low that other companies cannot compete. Predatory pricing often entails a company selling products below its cost with the intent of driving out competition and creating a monopoly situation. Once competition is eliminated, the company will often increase the prices exponentially—not only to recuperate losses from the lower prices but also to make more profit. Under various antitrust laws, this practice is illegal when it seeks to drive out competition and makes a market susceptible to monopolies (Kenton, 2022). In 2000, Walmart was accused by the Wisconsin Department of Agriculture, Trade, and Consumer Protection of predatory pricing practices. The complaint stated that the company was selling staple goods such as butter and milk below cost with the goal of driving out competition and creating a monopoly (Mitchell, 2000). In short, predatory pricing undermines the free market, where supply and demand sets prices.

### Price Discrimination

Price discrimination is a pricing strategy that charges different prices to customers based on what the seller believes it can get them to agree to. This pricing strategy is not illegal so long as it does not cause specific economic harm. But marketers should be wary of using this price tactic, as it could lead to disloyal customers if they feel they are not getting the best price.

### Monopoly Gouging

Monopoly gouging is when a seller increases the prices of goods and services that are not considered fair or competitive. If there are no or very few substitutes, a company may be enticed to force buyers to pay a much higher price, leaving them no options. When there are few competitors in a market, such as utilities, the industry is highly regulated by the government. For example, your electric company cannot choose to randomly increase prices to increase profits; it must follow a regulated process when increasing prices.

During the winter of 2020–2021, Texas experienced much colder and snowier conditions than usual. Millions were left without power, and dozens lost their lives. As hotels began to fill up, prices skyrocketed. A Super 8 motel was shown on Hotels.com at nearly \$400/night, exponentially higher than in ordinary times. Identifying price gouging is a bit more complicated than it seems. While basic economics would expect higher demand to equal higher prices, the practice of price gouging is not only unethical but also illegal in many states when a disaster is announced (Compton, 2021).

#### Companies with a Conscience: Warby Parker

Warby Parker sought to solve the problem of expensive eyeglasses—a medical necessity for many people. The company stated that “the eyewear industry [was] dominated by a single company that has been able to keep prices artificially high while reaping huge profits from consumers who have no other options” (Warby Parker, 2022). Warby Parker set out to change how glasses were offered to consumers. The company’s direct-to-consumer approach and a uniform pricing strategy have made waves in the eyewear industry.

All of Warby Parker’s eyeglasses are not only priced lower than its competitors but are priced the same: \$95. The average cost of eyewear was \$263, making it difficult for some consumers to afford the needed glasses and making it difficult for people to distinguish the value between a \$200 pair of glasses and a \$400 pair of glasses (Knowledge@Wharton, 2013).

The company bypassed traditional supply chains and began making glasses in-house. It also talked directly to customers to understand the needs of the market and, in turn, has been able to offer prescription eyeglasses at a fraction of the cost. In addition, it saw a global problem: too many people need glasses but cannot afford them. That’s why the company donates one pair of glasses for every pair sold.

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