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When using a broker leads to a “bad deal” illusion:

Opportunity costs, price satisfaction and recommendation intentions

Consumer satisfaction and recommendation have become key factors for success in businesses, including for supposedly non-repeated transactions such as real estate. Brokers and agents face the challenge to build a good reputation selling nothing else than the possibility for a deal to be closed, in a world where online technology enables direct transactions easily. In this paper, we show that using a broker (compared to a direct transaction) negatively influences clients’ price perception despite leading to higher outcome satisfaction for a similar price: it generates a “bad deal” illusion. Applied in the French housing market, the results of a field study among 1,954 real estate buyers were replicated with 1,797 real estate sellers. Employing the opportunity cost concept, which is directly materialized by the commission fees, we first show that using a broker decreases price satisfaction which in turn downgrades recommendation intentions. Second, drawing from agency theory and the associated information asymmetries, we found that this effect is strongly strengthened by general Broker’s Redundancy Beliefs (BRB) regarding skills and effort. This research hence reveals the crucial role of perceived opportunity costs as a structural issue in agency context. These costs are rendered salient and negatively influential for the fees payers and when pre-existing BRB are high. This research reveals structural determinants in price satisfaction and behavioural intentions and highlights the drivers of brokers’ reputation.

Key words: Brokerage service; Commission; opportunity cost; agency theory; consumer market beliefs; price fairness; satisfaction; real estate.

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Innovating with communities: which ones to involve and in what stage of the innovation process? The case of the outdoor sports industry