Consumer Reactions to Exaggerated Prices in AI-Driven Online Retail

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Artificial Intelligence (AI) has sparked the development of new products that could help improve productivity and has led to changes in how companies relate to their customers. In consumer retail, especially online commerce, AI has increased, allowing these online stores to provide dynamic and personalized responses to consumers. The benefits of utilizing AI in this field are that it has allowed these businesses to become as efficient as possible, as they can respond to customer inquiries immediately, which ensures that they are capable of addressing the customers' issues, which leads to a purchase, which has led to increased revenue. However, with the adoption of AI on these online platforms, it has meant that these AI systems respond to market changes immediately, such as an increase in the price of goods when demand increases, which has perturbed consumers who feel that these prices are exaggerated, which eventually diminishes trust between the consumer and the online retailer. The use of AI in this manner has sparked a conversation about regulatory control of the use of AI in this sector to ensure consumer rights are protected.


AI in Retail Market Share by Application (2024)

From Artificial Intelligence in Retail Market Size, Share Report 2030 by Grand View Research

The pricing of goods by AI is a novel approach that online retailers have taken advantage of because of its dynamic response to consumers at any point. In the past, the price of a good remained relatively the same even if demand increased and supply decreased, which benefited consumers (Vomberg et al., 2024). However, using AI has allowed for a dynamic response where the price adjusts based on the demand and supply. Additionally, through AI, the goal of providing personalized service to consumers has increased, allowing these online retailers to tailor prices to consumers. The AI system is aware of the various products available and knows that if a consumer finds one product pricier, they will shift their attention to substitutes to ensure that they can still satisfy their need based on a comfortable price (Maia et al., 2019). The AI understands these shifts in consumer behavior and ensures that, despite these occurrences, it can make changes to

ensure revenue optimization even as consumer preferences shift to substitutes. Moreover, because these AI systems receive real-time information, it is likely to observe what competing retailers are doing and adjust their pricing strategy to ensure that they do not lose customers or take advantage of shortfalls in the market due to decreased supply. The pricing of these products has made consumers feel shortchanged, as in the past, they have often turned to online retailers, as they provide greater discounts and better pricing than physical stores.
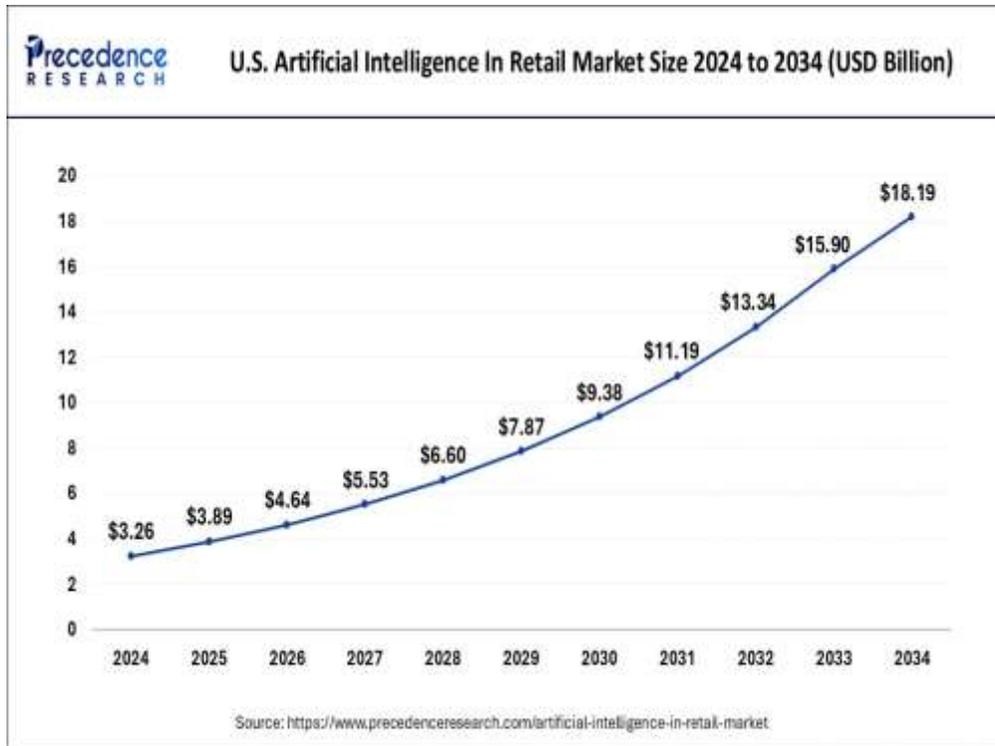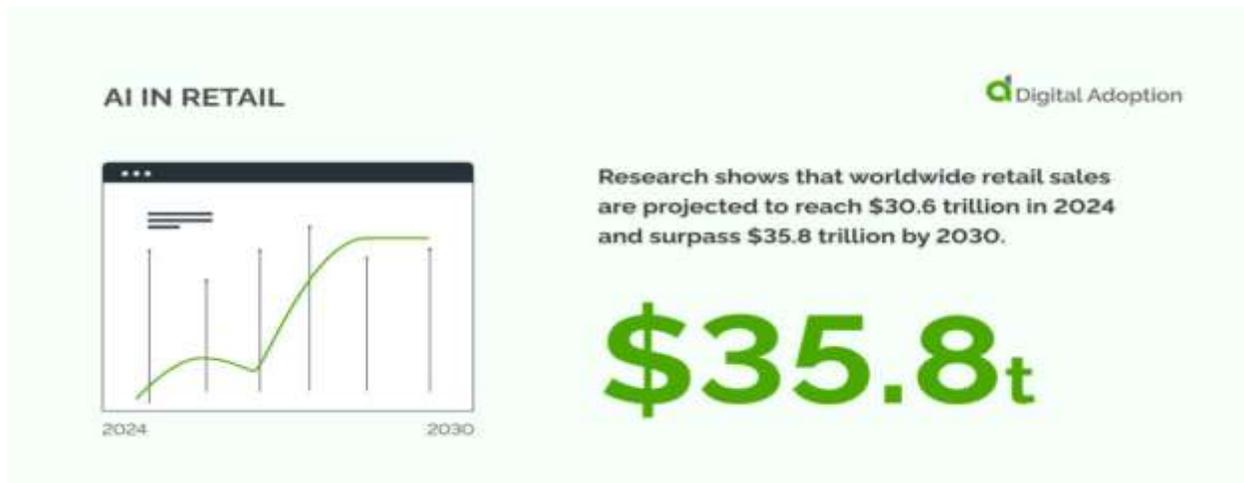

From AI Examples in Industry by Sekiri (2025)

These online retailers saw that AI could help them deal with the massive influx of consumers preferring to purchase online rather than go to physical stores. They could get better deals and the conveniences they provided, such as same-day shipping. The lack of transparency by online retailers in how they have applied AI in their online stores is the reason behind the backlash they are receiving, especially regarding the pricing of goods. Consumers need to be informed as to why the price of a good suddenly varies, especially when they go online to research a product before making their final purchase decision (Wagner & Eidenmueller, 2018). By the time they return to do so, they see that the price of the good has increased significantly over a short period compared to the baseline price of the product.

Based on the consumer's need, they might still purchase, but do so unwillingly. In this scenario, as with many others, the retailer benefits more than the consumer when the prices shift suddenly, leading to accusations of price gouging (Vomberg et al., 2024). These AI systems only assess metrics such as supply and demand to aid in determining prices, which is sometimes unnecessary, primarily when the demand is driven by an emergency, which tends to leave individuals in desperate need of these products. This aspect further erodes the trust between the consumer and the retailer, as they want to purchase a product, and the retailer will be perceived as having acted in bad faith and used that opportunity to maximize profits.
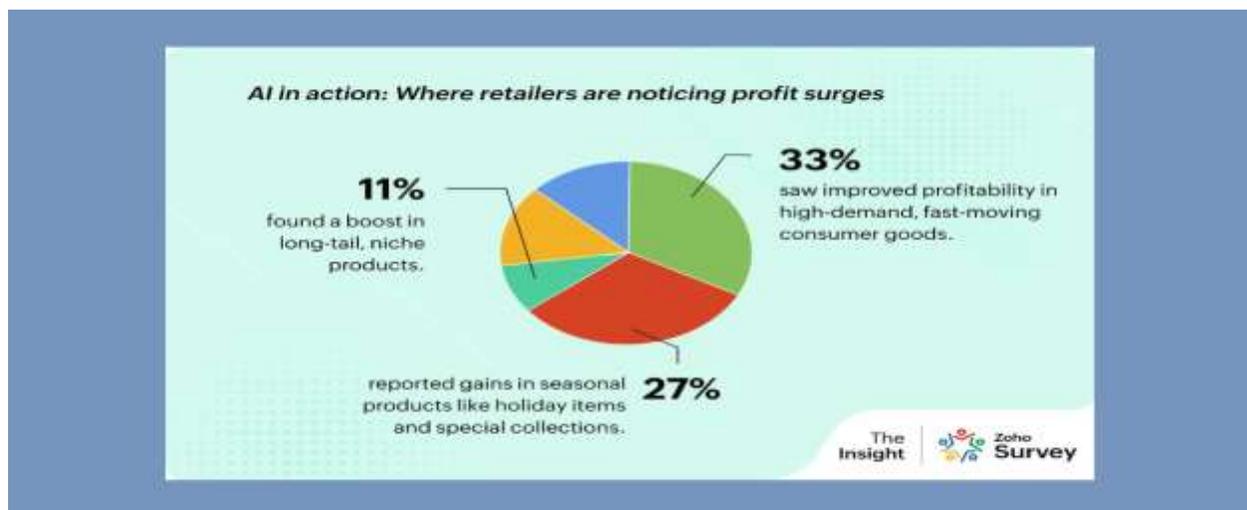
For decades, online retailers have sought ways to improve productivity, reduce operating costs, and increase sales to maximize profit. With the advent of AI, many of these goals have become possible. Still, how these companies have applied it in their operations has caused consumers to feel they are not getting a fair deal based on the efficiency gains the technology has delivered. When they make purchases, consumers often look for bargains to ensure they get as much utility as possible from the money they spend on a product. Therefore, when these retailers use AI to create variations in pricing by monitoring the changes in demand and supply without considering the reasons behind such increases, consumers feel that these online retailers are profit-motivated rather than customer-centric in their approach to business (Maia et al., 2019). This disconnect between the business and consumers has led to a decrease in trust as the unfair pricing strategies have influenced a drop in consumer purchasing intent. At the same time, it immediately pushes these consumers away from the company to look for alternatives.

AI IN RETAIL

Research shows that worldwide retail sales are projected to reach $30.6 trillion in 2024 and surpass $35.8 trillion by 2030.

$35.8t

From AI reshaping retail: Emerging trends and challenges by Sophy (2024)

Ultimately, the use of AI has created a wedge due to this strategy that companies have applied, leading to decreased consumer loyalty and ultimately the failure of the online store. In the past, when companies engaged in unfair pricing strategies, it led to blowback from consumers and regulators who sought to protect consumer rights (Vomberg et al., 2024). The intervention of regulators in the market has led to the development of stringent rules to ensure that companies do not take advantage of consumers to make exorbitant profits. Bodies like the Federal Trade Commission (FTC) were created to protect consumers from fraud and unfair business practices. One of the areas that the FTC has looked into recently is surveillance pricing, as companies have used consumers' personal data to determine the product's price before they make a purchase (Wagner & Eidenmueller, 2018). Consumer watchdogs have banned this practice as it unfairly targets consumers by giving them an alternative price rather than the product's market price. The use of AI in price determination applies the same techniques as it examines consumer behavior and uses personal data to determine the price of a product. While it is apparent that the use of AI in price determination has helped boost the revenues of these online retailers, it has led to increased backlash from consumers due to its unfairness.

These AI systems are integrated into the firm's software architecture and can access various information, such as product specifications and consumer data. These AI systems can use this information to look for ways to enhance efficiency and attract consumers to these products. These retailers have given these AI systems the ability to determine prices as they can track data in real time and decide how best to price a good based on the information it has collected. Despite the benefits it has provided, these online retailers and these mechanisms in price determination have led to an increase in unfairness when it comes to pricing (Pohrebniyak, 2025). This aspect has made consumers display moral anger, which is often displayed on social media platforms towards these companies as they perceive that they are not acting appropriately, especially regarding basic consumer goods. Consumers have often lost trust in these online retailers as they are disappointed by these business practices that seek to generate the most out of consumers due to increased demand, despite being driven by emergencies.

AI in action: Where retailers are noticing profit surges

33% saw improved profitability in high-demand, fast-moving consumer goods.

27% reported gains in seasonal products like holiday items and special collections.

11% found a boost in long-tail, niche products.

From Artificial intelligence in retail market size, report by 2034 by Zoting (2025)

Allowing AI systems to control price determination entirely is a risky strategy that these online retailers have adopted, as it fails to ensure that these systems act in the business's best interest, despite bringing about increased efficiencies and revenue increases. These systems should not have been allowed to operate independently, as with most systems, and having a human in the loop monitoring the decision-making ensures that these systems make the right decisions that do not have a long-term adverse effect (Richards et al., 2015). Using these systems without a human auditing the pricing strategy has led to a massive loss of trust among consumers, as they have shifted to other platforms that do not apply the same approach in pricing. Although beneficial in some instances, these AI systems have caused a long-term decline in consumer retention. They have lost consumer trust, as they prefer to make profits over providing value to consumers. This loss of trust eventually leads to declining profits as consumers go to other platforms.

The lack of transparency is a key driver in consumers' mistrust of these online retailers and their new pricing strategies. These companies should have engaged in an awareness campaign or provided clarity to consumers when prices changed and the reason behind it, to demonstrate that there is reasoning behind it, rather than leaving it up to the consumer to speculate on why the price has suddenly changed (Yamase, 2025). The lack of transparency in pricing has left consumers feeling confused by the abrupt changes in price, and made them wonder what is driving it, especially after they already saw the price at a lower price or did their research and saw it at a lower price. In such cases, the consumer assumes that the online retailer is engaging in exploitative practices because they see that the consumer desperately needs the product and raises prices while ensuring they get the maximum profit possible.

Social media has become the outlet through which people share personal stories about their life experiences, especially regarding the products they buy. These platforms have enabled the shift of power from the business to the consumer, as unfair trade practices are exposed to existing and potential customers. This aspect has ensured that companies respect consumers' wishes while meeting their revenue targets (Richards et al., 2015). Thus, with the use of AI in pricing, which has led to exorbitant pricing, many consumers who use these online retailers have expressed their dissatisfaction on social media to inform others of the practice, leading to even more growing dissatisfaction among other consumers to avoid these companies. The net impact this practice has had on these companies is that they have lost many valuable customers and had their reputation tarnished for using this technology without appropriate oversight.

Amazon Inc. is one of the world's largest online stores, selling various products to consumers. The company has often been at the forefront in utilizing new technology to improve efficiency, such as using robots in its fulfillment centers to increase delivery time and reduce costs (Yamase, 2025). Therefore, when the company saw AI's usefulness in enhancing efficiency, it used this technology to price goods. Still, it failed to identify some of the concerns consumers could have had when using this technology. In one case, a regular consumer who had previously bought a particular product noticed a 30% increase in the price, was shocked by the sudden change, and reported it on social media (Vomberg et al., 2024). This exorbitant pricing gathered the ire of consumers, which eventually led to a lawsuit by the FTC, which later revealed that the company adopted a new algorithmic system that led to a surge in pricing, resulting in the company making $1 billion in revenue. After consumer backlash, Amazon ditched the use of the technology, but the damage was already done. This case highlights how online retailers like Amazon do not include consumer participation in adopting new technologies and the damage it can have on their brands.

The case of Amazon highlights various aspects that the management of these online retailers must examine before deploying these AI systems into the pricing strategy. It is clear that despite the increase in revenue that this dynamic pricing strategy can generate, it should not come at a cost to the company in terms of reputation loss and lower consumer retention rates (Richards et al., 2015). Online retailers must maintain trust for long periods as they thrive on repeat business, and losing trust makes consumers move to other online stores. Therefore, in an online store's pursuit of increased revenue, it should weigh the implications of using new technologies that directly affect its perception among its customers and ensure that its customers are involved in its implementation to reduce friction.

Online retailers should adopt various best practices to ensure they do not receive unnecessary backlash from their consumers. One key practice these firms should implement is transparency. Sudden price changes without clear explanations breed distrust between consumers and retailers. Therefore, these companies should endeavor to explain to consumer what might be driving the price increase without letting them figure it out on their own or expressing their frustration on social media (Vomberg et al., 2024). Providing a notification to the consumer when the price of a specific product has experienced a sudden increase due to certain factors could give the consumer pause on whether to respond with anger online.

Online retailers should engage their consumers to employ various strategies to cushion them from sudden price increases through discount offers or allowing them to utilize their loyalty rewards. These initiatives help illustrate to the consumer that the online retailer is concerned about protecting them from sudden shifts in market price, not just passing down the cost to consumers (Vomberg et al., 2024). Thus, the consumer will see that despite the price increase, the online retailer wants to ensure fairness in pricing by employing mitigating measures to soften the impact they might have on their purchasing power. This approach will likely ensure that the consumer maintains their loyalty to the brand and participates in programs that the retailer has to provide them with more value.

The online retailer's choice to implement AI in price determination shows the clear advantages of such a system in terms of long-term cost efficiencies and revenue generation. However, this should be done in concert by applying constraints on how high the price of goods can go (Alderighi et al., 2022). Creating a cap is essential to ensure that the company does not let prices run wild despite demand and supply constraints, because this might cause consumers to perceive it negatively. Therefore, with a price cap, limiting prices from rising incredibly and preventing consumer backlash in return is possible. This safeguard ensures fairness in pricing as it balances out the need for the vendor to sell it reasonably, while also ensuring that the consumer is not punished for the sudden price increase.

A key component in implementing a new system, especially in an activity directly affecting consumers, is that it should not be allowed to operate independently. A human should constantly monitor and evaluate the AI system in the online retailer store that regulates pricing. A human operator might add more context to the pricing decisions and review price changes to ensure fairness. The pricing decisions should be recorded in a log and audited regularly to discover anomalous decisions and provide corrective measures, such as customer rewards for the price discrepancies (Heider et al., 2024). Reviewing these decisions provides a clear-cut way through which consumers can remain protected from discriminatory pricing, which can further enhance trust if the corrective measures are applied appropriately. Moreover, having such a log ensures that when a regulator such as the FTC seeks to investigate the online retailer's pricing practices, it can show that the firm took measures to address concerns and institute corrective measures.

With any new technology, the implementation process should not be shrouded in secrecy, especially if it significantly impacts the company's business. AI has demonstrated that it can significantly benefit a firm's bottom line through cost efficiency and improved revenue generation. Thus, their implementation of this AI system in the pricing strategy for online retailers should be conducted incrementally while observing its impact on consumer sentiment (Alderighi et al., 2022). From this standpoint, these businesses can determine which aspects consumers resonate with and what complaints they have. It should be rolled out to a small group of loyal consumers who have been informed of the benefits and downsides of the technology. The feedback from the consumers who choose to deploy this technology should be considered when making iterations on the system to prevent these complaints from becoming long-standing issues (Kerwin, 2023). The goal of implementing this system should not be focused solely on a short-term view of generating profits for the retailer, but to ensure that it creates increased value to the consumer that retains them over an extended period. The AI system should incorporate aspects that ensure that the consumer benefits greatly for their loyalty, as this will ensure that the firm generates greater revenue in the future.

Regulators have always played a key role in ensuring that consumers are protected from fraud and unfair business practices by monitoring the behavior of companies. An emerging behavior in the recent past among retailers is the use of surveillance pricing to gather more information, including personal data, to gauge how best to price certain products based on the consumer's spending habits (Heider et al., 2024). These retailers' access to consumer personal data is a breach of their privacy, as these consumers did not consent for their data to be used in such a manner, and without notice. Developing targeted pricing based on this personal data infringes on consumer rights, as they are not afforded the right to choose between the market price and the personalized pricing.

The use of AI to create individualized pricing has raised concerns among regulators as they perceive that this behavior violates online retailers' transparency obligations towards their customers. These online retailers should not hide the fact of how they determine the price of a particular good. They should disclose to consumers the data they used to determine this pricing and whether consumers want to opt out of using their data in this way (Abrate et al., 2019). These obligations have legal backing, and consumers could use the law to sue companies that violate it without seeking their consent when using their personal information. Moreover, even if the consumer consents to their data being used, they should know which categories are used and for what exact purpose. This aspect ensures consumers are protected from the sometimes predatory practices of firms that want to reap as much profit as possible from consumers.

In most cases, just like Amazon's use of AI technology to determine pricing, these online retailers exist in a vacuum, as they could raise the prices of their goods. Still, a competitor maintains it at a certain level. Often, these online retailers collude to

keep prices high so that consumers cannot accept that price as it is (Kerwin, 2023). This practice is illegal, and online retailers that collude to influence price through AI or other means could face regulatory fines. The significance of ensuring that there is no collusion in the market is that consumers get the best price for the product they want. Moreover, it ensures increased competition in the market while maintaining market stability. Competition ensures that consumers have various choices to extract as much value as possible based on purchasing power.

Online retailers have utilized AI to boost revenue and cut costs. However, using this technology has resulted in significant downsides for consumers, as they have had to contend with exorbitant prices, which are controlled by a dynamic response system influenced by supply and demand constraints. Due to this behavior by online retailers towards consumers, the trust they developed over the years has eroded, as this AI system has ensured that retailers benefit to a far greater degree than consumers, who have responded through social media backlash against these companies (Abrate et al., 2019). It is inherent that these online retailers create a balance between maximizing the revenue they generate, and the fairness in pricing is key for their long-term growth. AI is a remarkable technology, but it should be applied through a social-technical lens rather than purely a technical lens. This aspect can be achieved through auditing and monitoring the system's pricing decisions.

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