Consumer Inferences About Hybrid Goods and Services From Pricing and Innovation

Nita Umashankar, University of Texas, Austin
Raji Srinivasan, University of Texas, Austin

We examine how risk aversion and reliability uncertainty affect the influence of pricing and innovativeness on inferences about hybrid goods and services. Findings reveal that consumer inferences about hybrid products, those containing both goods and service elements, stem from the intangibility and experiential nature of the service component. Based on the attributes of services, consumers draw inferences about the price of each component to mitigate the uncertainty associated with assessing service quality. Further, they feel less uncertain about innovation related to the tangible goods element of the hybrid. The first study shows that when both components are set at a price distinct from one another, pricing the service higher than the good has stronger effect on offering desirability. The second study shows that consumers prefer hybrid products where the locus of innovation is on the good and not the service, suggesting that inferences are made concerning component innovation risk and reduction in reliability uncertainty is desired.

[to cite]:

[url]:
http://www.acrwebsite.org/volumes/13614/volumes/v35/NA-35

[copyright notice]:
This work is copyrighted by The Association for Consumer Research. For permission to copy or use this work in whole or in part, please contact the Copyright Clearance Center at http://www.copyright.com/.
Consumer Inferences about Hybrid Goods and Services from Pricing and Innovation
Nita Umashankar, University of Texas, Austin, USA
Raji Srinivasan, University of Texas, Austin, USA

As services become a key source of differentiation, a growing number of new products exhibit the inclusion of both goods and service components. Assuming that firms operate under budget constraints, the decision to introduce new services versus new goods for hybrid products becomes a key strategic variable. Three studies examine how consumers balance their desires for goods versus service innovation in hybrid products and under what conditions these preferences shift. Findings reveal that consumers prefer the locus of innovation to reside on the goods component and this preference is strengthened by positioning the hybrid as a physical product. However, designing for customization and social networking shifts preferences towards innovation of the services component. Further, pricing the two components differentially produces asymmetric effects of perceived benefits for each element of the hybrid. The results suggest that firms can design and price the goods and services components uniquely to maximize overall profitability.

The Good, the Bad, and the Red: Does “Giving” through Buying Replace Direct Giving?
Aner Tal, Duke University, USA
Paul Bloom, Duke University, USA

Product Red is just the latest in an ongoing procession of charitable promotions led by for-profit companies. Naturally, such activities are highly publicized and integrated with companies’ promotional activities, which leads some to doubt the altruistic intentions of the companies involved (Fry et al., 1982; Varadarajan & Menon, 1988) or even assume utilitarian motives for company donations (Strahilevitz & Myers, 1998; Bloom & Novelli, 1981).

Of course, whether or not the reasons for corporate donations are pragmatic, a dollar is a dollar, and donations stand to increase public well-being regardless of what motivated them. Further, common sense would lead one to assume that corporate donations increase the social salience of donations, potentially increasing donations overall. But what if corporate charitable giving leads people to feel that by buying charity-tied products they have “done their job” and need not contribute more? Could giving through buying actually replaces direct giving?

The possible substitution of direct charitable donation by “donation” through buying is especially pertinent in one particular kind of cause-related marketing: the donation of a percentage of sales or profit to charity (POS). Here, it is the consumer rather than the company who is directly responsible for the donation. Through buying a $20 Product Red sweater, the consumer might feel that they have given to charity and thus satisfy the “need” to give. The result might be a reduction in the overall sum transferred to charity, since psychologically the person feels they “gave” $20, while in fact they have only given the 5% of the price that is transferred to charity. Thus, a donation of $4 (5% of $20) feels greater than it actually is, and might substitute what would have been a greater direct donation (see Olsen et al., 2003).

The current paper explores the potential effect of projects such as “Red” on subsequent contributions. In two studies, we demonstrate the basic “Red” effect: charitable giving through a “percentage of sales” (POS) leads to a reduction in subsequent giving. Followups are planned to explore boundary conditions. Additional studies will further explore the mechanisms underlying the phenomenon: The “Red” effect could be due to (a) an overvaluation of sums donated through POS and/or (b) a satisfaction of the motives that would otherwise lead to donation behavior.

Study 1. Participants in this study (N=132) engaged in simulated online shopping on Amazon.com. Each participant was asked to imagine they had a gift certificate for Amazon.com, and continued to browse Amazon and list items that they would like to buy using the certificate. In one condition (control), no further instructions were given. In the other condition (POS), participants were informed that on the same day “Amazon has a special promotion where they give X% of their sales proceeds to United Way” (including gift certificate sales).6

Following the shopping task, participants were told that Amazon was also receiving donations for the Red Cross, and asked how much if anything they would want to donate. After some demographic questions, participants were also asked if they would want to donate books to the library for a local charity sale occurring around the time of the studies. A sub-sample (n=87) of participants were asked about willingness to donate to a local homeless shelter following a fire, another real event that occurred at the time of the studies.

Results and Discussion. Mean donations to Red Cross were lower for the POS condition (M=$7.08) than for the no POS condition (M=$11.39). In other words, participants contributed less to charity if they had previously purchased items proceeds from which were donated to charity. Note that the difference between the two conditions ($4.31) far surpasses the maximum proceeds donated through purchase (average $1.82). Thus, a POS promotion similar to Product Red resulted in reductions in overall levels of charitable donations.

6While these conditions were the same for the entire sample, the study was conducted in three different waves. For the first (n=37), the gift certificate was for $70 and the percent given for charity was 3%. For the second (n=50), the gift certificate percent given were $50 and 2% accordingly. For the third (n=45), the certificate was also for $50 but the percent given was 5%. Since there were no significant interactions for date-wave and condition we collapse observations across waves, distinguishing only between percent-of-sales donation (Red) and no donation conditions.