When Do Partitioned Prices Increase Demand? Meta-Analytic and Experimental Evidence

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Our meta-analysis of partitioned pricing research examines 149 observations from 43 studies. The perceived surcharge benefit and typicality of partitioning the surcharge are robust moderators of the effect of partitioned pricing on consumer demand. A follow-up experiment shows a more positive effect of partitioning for typical than for atypical surcharges.

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COMPETITIVE PAPERS—EXTENDED ABSTRACTS

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EXTENDED ABSTRACT

Consumers encounter numerous surcharges and fees in the marketplace. Although some research has shown that dividing or “partitioning” prices into multiple components can increase consumer demand (e.g., Morwitz, Greenleaf, and Johnson 1998), other research has demonstrated negative effects.

We propose a theoretical framework to examine extant and new moderators of partitioned pricing, classifying moderators based on the source of their impact as presentational: varying the presentation, thus affecting recall biases and demand; evaluative: affecting surcharge evaluations as more or less acceptable, thus affecting demand; or attentional: affecting the attention paid to surcharges, thus affecting recall biases and demand. We tested these moderators by meta-analyzing 149 observations in 43 published and unpublished studies, using a hierarchical linear model (HLM) with experimental condition at the higher level and observation at the lower level to control for correlations.

The following moderators were examined—presentational: surcharge format and presence of total price (new); evaluative: surcharge benefit, seller reputation, and surcharge controllability (new; defined as the seller’s control over charging a surcharge); and attentional: absolute surcharge magnitude (ASM), relative surcharge magnitude (RSM), price level, and typicality of partitioning (new; defined as the extent to which partitioning a surcharge is the norm for a product category).

For each observation, we contrast-coded surcharge format, seller reputation, and presence of total price, and we coded price level, ASM, and RSM as continuous variables (ASM and RSM had low correlation in our dataset). Two independent judges contrast-coded surcharge benefit, surcharge controllability, and typicality of partitioning. We also used control variables for DV type (scale, non-scale), single- versus multi-item scales, number of variables manipulated, publication year, publication status, study location, within- versus between-subject designs, same control condition in multiple contrasts, and hedonic vs. utilitarian category. All these variables were mean-centered.

Cohen’s d (Cohen 1977) was computed for each observation, corrected for small-sample bias, and weighted by its inverse variance (Hedges and Olkin 1985). Next, we estimated an HLM on the weighted, bias-corrected d. We also estimated other models that tested an alternative specification (Viechtbauer 2010), pair-wise interactions between significant factors, only theoretical factors, only uncorrelated variables, and non-weighted Cohen’s d.

Our HLM correctly predicted the direction of 67% of the effects, and the mean effect of partitioned pricing on demand was marginally positive (mean effect = .09, p = .09). Of the control variables, only DV type, year of publication, publication status, and hedonic vs. utilitarian category are (marginally) significant. Of the significant presentational moderators, presence of total price is negative (β = -.16, p = .09), suggesting that partitioned pricing has a less favorable effect when the total price is present. Based on our contrast-coding, the change in the effect size of partitioned pricing for total price present versus absent is .32 Cohen’s d units, a small change. Turning to the significant evaluative moderators, surcharge benefit is positive (β = .31, p < .001), suggesting that high-benefit surcharges increase evaluations of partitioned pricing (vs. low-benefit surcharges) by .62, a moderate increase.

Finally, examining the attentional moderators, price level is directionally positive (β = .003, p = .10), suggesting that a $100 increase in price level increases the effect of partitioned pricing by .03, a trivial increase. Fourth, typicality of partitioning is positive (β = .29, p < .005), suggesting that partitioned pricing has a more favorable effect when surcharges are typically (vs. atypically) partitioned by .58, a moderate difference. Other moderators are not significant, but this may be due to low variance. In the interaction model, none of the interactions was significant, but all models generally replicated our HLM’s results. Notably, surcharge benefit and typicality of partitioning are significant in all models. Presence of total price and price level were less robust.

Although the meta-analysis shows the moderating role of typicality, the driver of the effects is not clear: are we observing a positive effect for typical surcharges and a null effect for atypical surcharges or a null effect for typical surcharges and a negative effect for atypical surcharges? Moreover, in the meta-analysis, typicality varied based on whether surcharge components were typical or atypical. To address these issues, we ran a follow-up experiment to replicate the meta-analytic effect of typicality, but we held the component constant and manipulated typicality by using norms.

MTurkers were randomly assigned to a 2 (price presentation: all-inclusive, partitioned) x 2 (typicality of partitioning: typical, atypical) between-subjects design, and imagined searching for a flight. To manipulate typicality, we adapted the manipulation by Redden, Fitzsimons, and Williams (2007) and presented four reference flights. In the typical conditions, all flights had a base price and a taxes surcharge, making partitioned pricing typical. In the atypical conditions, all flights had all-inclusive prices, making partitioned pricing atypical. Next, participants saw the partitioned or all-inclusive target price and then responded to a preference scale. A 2 x 2 ANOVA on preference revealed an effect of typicality and a marginal interaction. Planned comparisons revealed a significant effect of price presentation in the typical conditions (F(1, 96) = 4.16, p = .04, d = .40), but not in the atypical conditions (F(1, 102) = .04, p > .83, d < .07); in the typical conditions, partitioned pricing increased preference (M_p = 5.2, M_u = 4.6) but, in the atypical conditions, there was no change (M_p = M_u = 5.3).

In sum, we proposed a theoretical framework to classify moderators of the effect of partitioned pricing on demand as presentational, evaluative, or attentional. We also meta-analyzed 16 years of partitioned pricing research, with results suggesting the moderating roles of typicality of partitioning, surcharge benefit, presence of total price, and price level. Coefficient magnitudes and significance levels suggest that marketers should first focus on typicality of partitioning, followed by surcharge benefit, presence of total price, and price level. Additionally, we introduced the typicality construct to partitioned pricing research; the meta-analysis and the follow-up experiment both show that typicality moderates the effect of partitioned pricing. Future research might use eye-tracking.
methodologies to test the role of attention in this process and thereby further our understanding.

REFERENCES