Paying More to Save Less: the Effect of Self-Selected Price Bundling on Willingness to Pay

Yi Li, IESEG School of Management, France
Tatiana Sokolova, University of Michigan, USA

This study investigates two formats of “self-selected price bundling” promotion which allows consumers to combine products from different price tiers to form a bundle. Five experiments demonstrate that consumers spend less in a promotion that triggers greater savings in order to maintain a high gain-loss ratio.

[to cite]:

[url]:
http://www.acrwebsite.org/volumes/1021228/volumes/v44/NA-44

[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/.
Paying More to Save Less:  
The Effect of Self-selected Price Bundling on Willingness to Pay  

Yi Li, IESEG School of Management, France  
Tatiana Sokolova, University of Michigan, USA  

EXTENDED ABSTRACT  
Price bundling is a prevalent marketing practice, where consumers receive a discount if they purchase two or more products together (Stremersch and Tellis 2002). Prior research has not investigated a specific type of price bundling in which retailers only fix the total number of products included in the bundle, and consumers can decide which products to put in the bundle, which we term “self-selected price bundling”. Compared to price bundling with fixed bundled goods, self-selected price bundling can reduce the risk that consumers will react negatively to a perceived constraint of their freedom of choice (Bertini and Dholakia 2009) and decrease the likelihood that consumers will update their internal reference prices for the discounted goods (Raghubir 2004). Despite these advantages, self-selected price bundling gives retailers little control over which products consumers are going to purchase and how much they are going to spend on the bundle. Therefore, the current study attempts to understand consumers’ spending decisions under the self-selected price bundling promotion.

In order to investigate consumers’ spending decisions, we compare two simplest forms of self-selected price bundling: (A) buy two items, get a discount on both items; and (B) buy two items, get a discount on the cheaper item. Between these two promotions, at any given price discount, the “discount on both items” (hereafter “DoBI”) promotion generates greater absolute savings than the “discount on the cheaper item” (hereafter “DoCI”) promotion. If consumers’ spending decisions are driven by the absolute savings, they should spend more when offered DoBI promotion than DoCI promotion. Two experiments showed the opposite spending outcome.

Study 1A adopted a single-factor (DoBI vs. DoCI) between-subject design. Participants read that they were shopping at a large apparel store, which offered a promotion: “If you buy two items, you get a 40% discount on both items” or “If you buy two items, you get a 40% discount on the cheaper of the two items”.

They had decided to buy a jacket that cost $50 and to purchase a second item in order to take advantage of the promotion. They were asked how much they were willing to spend on the second item on a six-item marked scale where 1=“less than $10” and 6=“more than $60”.

One-way ANOVA revealed that participants were willing to spend significantly less on the second item in DoBI condition (M=3.3), than in DoCI condition (M=4.1, F(1, 51)=6.05, p=.02). Study 1B replicated study 1A using a different price of the first item ($80), a different discount magnitude (20%) and a different type of response scale (a sliding bar anchored on $0 on the left, and $100 on the right). One-way ANOVA revealed again that participants were willing to spend less in DoBI condition ($30 vs. $40, F(1, 60)=4.93, p=.03).

Building on the literature in relative thinking and mental accounting, we propose a relative savings account to explain the spending decisions under the self-selected bundling promotion. The purchase of the second item triggers savings, which makes the spending on the second item and the savings on the whole bundle salient. Instead of evaluating the absolute savings, individuals consider whether greater savings on the bundle can be obtained with smaller spending on the second item. This relative savings consideration thus predicts that in DoBI condition, consumers will opt for a low spending on the second item to obtain a steep increase in savings on the first item. In other words, the absolute savings on the first item attracts down the spending on the second item. Therefore, even though DoBI generates greater absolute savings, consumers spend less on the second item in DoBI condition than in DoCI promotion.

Following this theorizing, we expect that consumers’ spending on the second item will increase if the absolute savings on the first item is removed from DoBI condition (study 2) and will decrease if some savings is added to DoCI condition (study 3). Study 2 employed a 2 (DoBI vs. DoCI)×2 (control vs. coupon) between-subject design. In the coupon condition, participants read that they would use a coupon to pay for the first item. However, paying with coupon invalidated any savings on the first item. A two-way ANOVA revealed a significant interaction (F(1, 101)=4.53, p=.04). The result in the control condition replicated the previous findings (M_{DoBI}=818, M_{DoCI}=535, F(1, 101)=26.21, p<.001). The difference in spending became marginal in the coupon condition (M_{DoBI}=26, M_{DoCI}=33, F(1, 101)=3.51, p=.06). As predicted, the spending on the second item increased in DoBI condition after using the coupon ($26 vs. $18, F(1, 101)=5.59, p=.02). In study 3, we used a 2 (DoBI vs. DoCI)×2 (cash rebate vs. control) between-subject design. In cash rebate condition, participants received a cash reward conditional on purchasing two items, in addition to the bundle discount, which adds a steep increase in savings to DoCI condition. A two-way ANOVA revealed a significant interaction (F(1, 137)=8.99, p=.003). The result in the control condition replicated the previous findings (M_{DoBI}=2.9, M_{DoCI}=5.9, F(1, 137)=28.59, p<.001). In the cash deduction condition, there was no difference in spending across promotion formats (M_{DoBI}=4.1, M_{DoCI}=3.7, F(1, 137)=36, p=.55). As predicted, participants in the DoCI condition reduced spending when there was a cash rebate (4.1 vs. 5.9, F(1, 137)=8.7, p=.004). Thus, study 2 and 3 provide processing evidence in support of a relative savings account: consumers evaluate their spending on the second item relative to the savings on the bundle and try to maximize the exchange efficiency.

Study 4 tested whether individuals switch to consider absolute savings rather than gain-loss ratios in the joint evaluation mode, providing that previous research shows the reliance of absolute versus relative evaluation is sensitive to evaluation mode (Bartels 2006; Hsee and Leclerc 1998). Study 4 employed a one-factor (DoBI vs. DoCI) within-subject experiment. Participants read both promotions and predicted consumers’ spending on the second item in each promotion respectively. A pair-wise t-test showed that participants predicted consumers spend more in the DoBI condition (M=$66.05) than in the DoCI condition (M=$44.86, t(21)=4.04, p<.001), which was opposite to the findings above. This finding suggests that store managers may adopt a seemingly superior promotion which actually motivates consumers to spend less.

REFERENCES  

