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Labovitz School of Business & Economics, University of Minnesota Duluth, 11 E. Superior Street, Suite 210, Duluth, MN 55802

Less Willing to Pay But More Willing to Buy: Preference Reversals For Freebie and Non-Freebie Bundles

Zoe Lu, University of Wisconsin - Madison, USA

Christopher Hsee, University of Chicago, USA

Five experiments demonstrate that when preferences are elicited in the form of WTP, consumers favor the non-freebie bundle over the freebie bundle, whereas when preferences are elicited in the form of WTB, consumers favor the freebie bundle over the non-freebie bundle. We propose an inference-based account for such preference reversal.

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Zoe Y. Lu, University of Wisconsin - Madison, USA

Christopher K. Hsee, University of Chicago, USA

EXTENDED ABSTRACT

Normatively, both willingness-to-pay (WTP) and willingness-to-buy (WTB) reflect individuals' underlying preferences, and should yield the same preference order (Shafir 1993). For example, if individuals are willing to pay more for A than for B, that means they value A over B. Then, if the prices of A and B are the same, they should also be more willing to buy A than to buy B.

However, in the current research, we propose that holding items in a bundle constant, individuals' preferences for a freebie bundle (in which one or more items are designated as free) and for a non-freebie bundle (in which no items are designated as free) can reverse between WTP and WTB. Specifically, relative to individuals who encounter the non-freebie bundle, individuals who encounter the freebie bundle will indicate a lower WTP for the bundle, but a higher WTB for the bundle at a given price.

The reason, we propose, is that individuals base their WTP and WTB decisions on their inferences of the value of the bundle. When asked about WTP, individuals are not told about the price of their bundle, and will use their general knowledge about other products in the same category to infer the value of their bundle. Consequently, holding items in a bundle constant, individuals who encounter the freebie bundle will perceive the value of their bundle to be at least the same as individuals who encounter the non-freebie bundle; since part of their bundle is marked free, they will indicate a lower WTP price for their bundle. By contrast, when asked about their WTB, individuals are told about the price of their bundle, and will use the given price to infer the value of their bundle. Consequently, holding items in a bundle constant, individuals who encounter the freebie bundle will perceive the value of their bundle to be higher than individuals who encounter the non-freebie bundle (Simonson, Carmon and O'curry 1994; Thaler 1985), and therefore indicate a higher WTB at the given price.

Moreover, we propose that consumers will show not only a preference reversal between WTP and WTB, but also within each elicitation method. Specifically, if WTB is elicited directly, individuals encountering the freebie bundle will indicate a higher WTB at the given price than individuals encountering the non-freebie bundle; if WTB is elicited after WTP, individuals encountering the freebie bundle will indicate a lower WTB at a given price than individuals encountering the non-freebie bundle. Likewise, if WTP is elicited directly, individuals encountering the freebie bundle will indicate a lower WTP than individuals encountering the non-freebie edition; if WTP is elicited after WTB, individuals encountering the freebie bundle will indicate a higher WTP than individuals encountering the non-freebie bundle.

Five experiments, covering diverse contexts, tested our propositions.

In Study 1, participants (N=200) were randomly assigned to one of four conditions that constituted a 2 (bundle type: non-freebie versus freebie) x 2 (elicitation method: WTP versus WTB) factorial design. The stimulus was a twin-pack body wash. In the freebie condition, one of the two bottles was marked as "Free"; in the non-freebie condition, neither was marked as free. In the WTP condition, participants indicated how much they were willing to pay for the twin-pack of body wash; in the WTB condition, participants were told the price of the twin-pack was \$12 and asked to rate how willing

they were to buy it on a 7-point scale. The results demonstrated the predicted preference reversal: Participants were willing to pay more for the non-freebie bundle than for the freebie bundle ($t(100) = 5.25$, $p < .01$), yet they were more willing to buy the freebie bundle than the non-freebie bundle ($t(96) = 2.27$, $p < .05$).

Study 2 (N=220) replicated the preference reversal between WTP and WTB in a different context (purchasing a gift-set consisting of two coffee mugs). The study also probed for the underlying reason, and found that in the WTP condition, perceived value of the freebie bundle and the non-freebie bundle were statistically the same ($t(109) = 1.24$, *n.s.*), but in the WTB condition, perceived value of the bundle was significantly higher in the freebie condition than in the non-freebie condition ($t(105) = 3.25$, $p < .01$). These results corroborated our proposition that the WTP-WTB preference reversal stems from consumers' differential perception of the value of the product between the freebie and the non-freebie bundles.

Study 3 (N=201) adopted a 2 (bundle type: non-freebie versus freebie) x 2 (elicitation method: WTP+WTB versus WTB) factorial design. In the WTP+WTB condition, participants first responded to the question "What's the highest price you are willing to pay to get the two pens?" and then they responded to the question "The price for the two pens today is \$1.20. Are you willing to pay this price to get the two pens?". The results showed that, in the WTP+WTB condition, 43% of the participants bought the non-freebie bundle, whereas 18% of the participants bought the freebie bundle ($\chi^2(1) = 7.24$, $p < .01$); in the WTB condition, 10% of the participants bought the non-freebie bundle, whereas 25% of the participants bought the freebie bundle ($\chi^2(1) = 4.14$, $p < .05$). A logistic regression on WTB shows a significant interaction between the bundle type and the elicitation procedure ($B = 2.35$, $SE = .74$; $p < .01$).

Study 4 and Study 5 replicated the above findings in mixed (rather than homogeneous) bundles. Furthermore, Study 5 showed that prompting consumers to consider their WTB before they indicated their WTP reversed their WTP for the freebie and the non-freebie bundles.

These results reconcile the seemingly contradicting findings in the existing literature on freebie evaluations -- that the presence of a freebie may either promote or devalue the bundle (e.g., Ascarza, Lambrecht and Vilcassim 2012; Kamins, Folkes and Fedorikhin 2009; Nunes and Park 2003), corroborate prior research postulating that preferences are constructed (e.g., Bettman, Luce and Payne 1998; Coupey, Irwin and Payne 1998; Lichtenstein and Slovic 2006), and highlight the role of inference in preference construction.

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