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## **When Paying \$92 Plus \$5 Shipping Is Acceptable But Paying \$97 Is Not: the Role of Justification on the Effectiveness of Partitioned Pricing**

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The present research shows that the effectiveness of partitioned pricing is affected by consumer motivation. Three studies show that a hedonic motivation to consume, which requires purchase justification, lead consumers to perceive partitioned pricing to be less expensive than combined pricing because they pay less attention to surcharges.

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# When paying \$92 plus \$5 shipping is acceptable but paying \$97 is not: The Role of Justification on the Effectiveness of Partitioned Pricing

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## EXTENDED ABSTRACT

Partitioned pricing that consists of a base price and mandatory surcharges has become a widely used pricing strategy as online transactions become more widespread and different types of surcharges are developed (Morwitz, Greenleaf, Shalev, and Johnson 2009). Consumers are likely to perceive the total cost to be lower when a price is partitioned than combined because they tend to underestimate surcharges (Morwitz, Greenleaf, and Johnson 1998, Clark and Ward 2008). The rationale for the favorable effect of partitioned pricing is based on the theory of anchoring and adjustment (Tversky and Kahneman 1974); people anchor on a base price to establish price perception and do not pay enough attention to surcharges to sufficiently adjust for them (Morwitz et al 1998).

Although previous research shows that attention to surcharges moderates the impact of partitioned pricing, it is unknown whether ignoring surcharges is the default. Lewis, Singh, and Fay (2006) found that free shipping promotions are very effective in increasing demand, suggesting that consumers pay a great deal of attention to surcharges. Therefore, despite the important research that has been done on partitioned pricing, the boundary conditions for this pricing strategy have yet to be fully explored. In the present research, we propose that purchase motivation is an important predictor of whether partitioned pricing will be effective because it affects how closely consumers pay attention to surcharges.

People tend to intentionally avoid unwanted information and are less likely to pay attention to information that is expected to make them feel uncomfortable (e.g., Brock and Balloun 1967, Yantis 1996). People also regulate attention depending on their behavioral goals (Yantis 2000). If the effectiveness of partitioned pricing depends on the extent to which consumers pay attention to surcharges, consumer's purchase motivation might influence the impact of partitioned pricing. Specifically, hedonic and utilitarian motivations are assumed to influence attention to surcharge information differently. Consumers who have a hedonic (vs. utilitarian) motive to consume are more likely to find ways to justify their purchase because of anticipated negative feelings (Okada 2005). These consumers find ways to justify their purchase, such as by perceiving the product to be a better deal than it actually is. Thus, we expect people with a hedonic motive to consume will be less likely to pay attention to surcharges because extra charges, in this case, are unwanted information that could aggravate negative feelings. In other words, people considering making a hedonic (versus utilitarian) purchase are motivated to justify their purchase by perceiving the price to be inexpensive, and ignoring surcharges can help them reach this goal. On the other hand, purchasing a needed item is unlikely to require such justification; people considering making a utilitarian purchase are not motivated to ignore surcharges and should focus on all components of the price. The effectiveness of partitioned pricing should be reduced for these consumers.

If people ignore surcharges because they do not wish to be exposed to undesirable information, the effect of partitioned pricing on purchase likelihood should be attenuated when other external justifications for purchase are available. Price discount was found to be effective in reducing anticipated guilt associated with hedonic purchases (Khan and Dhar 2010). Therefore, if such an external justification already exists, people will be less motivated to justify their purchase

in other ways such as by ignoring surcharges. Hence, pricing type (partitioned vs. combined pricing) will not affect purchase likelihood for hedonic purchases when the offer price is already discounted.

In Study 1, we test how purchase motivation (hedonic vs. utilitarian) influences the effectiveness of partitioned pricing. We used a 2 (price: partitioned vs. combined) x 2 (goal: hedonic vs. utilitarian) between subjects design, and advertisement for premium headphones was used as the stimulus. Hedonic and utilitarian motives were manipulated by imagining scenario, which has been used in previous research (Choi et al. 2014). Purchase likelihood was measured after participants viewed their randomly assigned advertisement. As predicted, partitioned (vs. combined) pricing significantly increased purchase likelihood when participants had a hedonic motive to consume, but not when they had a utilitarian motive to consume.

In Study 2, we test the impact of the presence of another external justification. If there exists an external justification for purchase, such as a price discount, the impact of partitioned pricing is expected to be reduced. We used flowers as a product for a hedonic stimulus, which was determined as a hedonic product in the pretest. A 2 (discount type: discounted price vs. regular price) x 2 (pricing type: partitioned pricing vs. combined pricing) between subjects design was used. In the discounted price condition, participants were told the regular price of the bouquet as well as the discount price. Participants were asked how likely they were to purchase the flowers; purchase likelihood was measured using the same scale from Study 1. Consistent with our previous findings, pricing type influenced purchase likelihood in the regular price condition. However, price discount erased the effect of partitioned pricing.

In Study 3, we examined whether people actually perceive partitioned pricing to be more inexpensive than combined pricing for a hedonic product, and whether this lower price perception serves as a mediator of pricing type on purchase likelihood. Participants were assigned to one of two pricing conditions. We used the same flower stimuli in the regular price condition of Study 2 but modified the pricing information to obtain more conservative test results. We measured perceived price and we purchase likelihood. The results of a t-test showed that partitioned pricing (vs. combined pricing) significantly increased purchase likelihood. Partitioned pricing was perceived to be lower than combined pricing. We used bootstrapping (5,000 regenerated) to test the mediation relationship and found the indirect effect was significant (Preacher and Hayes 2008).

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