

Research Article

Regulatory focus as a predictor of attitudes toward partitioned and combined pricing

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Abstract

Partitioned pricing is a widely used pricing strategy, but little is known about the buyer characteristics that influence its effectiveness. The current research contributes to the pricing literature by investigating the impact of regulatory focus on the perceived attractiveness of partitioned and combined pricing. In four studies, we hypothesized and found support for the idea that promotion focused individuals perceive partitioned prices to be more attractive than combined prices, while prevention focused individuals do not differentiate between the two pricing types. Our results also show that regulatory focus influences consumers' information processing style, which in turn leads to important differences in attitudes towards partitioned and combined pricing. Specifically, promotion focused consumers are more likely to engage in global processing and global processing is linked to preferences for partitioned (versus combined) prices.

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Introduction

Whether making purchases online or in person, people often come across prices that are split into two or more quantities. For example, an infomercial may tout a product with a base price of just \$15, but with a shipping and handling fee of \$4.95. Similarly, a Las Vegas hotel may charge \$99 for a room, but guests must also pay a mandatory \$10 “resort fee”. These companies could charge a single *combined* price of \$19.95 or \$109, respectively, but instead choose to display arguably more complicated *partitioned* prices instead.

Such examples of partitioned pricing are ubiquitous and becoming even more common as technological advances allow for more and different ways of displaying price information to customers. Morwitz, Greenleaf, Shalev, and Johnson (2009) examined ways in which partitioned pricing has changed over

the last 10–15 years. They found that companies have increased both the types of surcharges issued and the amount of money charged in extra fees. The hotel industry, for instance, made over 3 times more money in the form of surcharges from 2005 to 2007, from about \$650 million to \$2 billion dollars (Pugh, 2008).

The increased use of partitioned pricing can be attributed to perceptions of its effectiveness. However, there are situations in which combined pricing may be just as, or even more, effective than partitioned pricing. For instance, individuals with high need for cognition (NFC; Cacioppo, Petty, & Feng Kao, 1984) tend to pay more attention to surcharges and their reasonableness. Therefore, they are sometimes less willing to purchase products that have partitioned rather than combined prices, i.e. when they deem the surcharges to be unreasonable (Burman & Biswas, 2007).

Such findings suggest the importance of understanding boundary effects when considering when and why partitioned pricing is effective. However, research in this area is currently quite limited. Besides the aforementioned work on need for cognition, Morwitz et al. (2009) reference only three other areas that have

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received any attention when it comes to the ways in which buyer characteristics moderate the effectiveness of partitioned pricing — brand attitudes (Morwitz, Greenleaf, & Johnson, 1998), buyer's skepticism about firm's motives for partitioned pricing (Schindler, Morrin, & Bechwati, 2005), and buyer experience (Cheema, 2008; Clark & Ward, 2008). There has been no research on how goals affect the effectiveness of partitioned pricing. The current research aims to fill this gap in the literature. We suggest that regulatory focus can influence the effectiveness of partitioned pricing. In the next sections, we discuss extant findings on partitioned pricing and regulatory focus theory, followed by our hypotheses.

Theoretical background and hypotheses development

Partitioned pricing

In line with previous research, we define partitioned pricing as “a strategy that divides a product's price into a base price, charged for the product itself, and a mandatory surcharge(s) for products, services, fees, or taxes associated with purchasing or using the product” (Morwitz et al., 2009). A critical feature of partitioned pricing, which distinguishes it from other types of multicomponent pricing strategies, is that all surcharges are required. The opposing concept is combined pricing, which refers to charging a single price that includes all fees.

Much research in the pricing literature suggests partitioned pricing is more effective than combined pricing in increasing demand because people tend to underestimate surcharges and have significantly lower perceptions of the total cost when the price is offered in a partitioned rather than combined format (Clark & Ward, 2008; Hossain & Morgan, 2007; Lee & Han, 2002; Morwitz et al., 1998). One explanation for why this occurs is based on the anchoring and adjustment heuristic (Tversky & Kahneman, 1974). That is, people anchor on to a base price and insufficiently adjust upward for surcharges (Morwitz et al., 1998). Consumers are more susceptible to the anchoring and adjustment heuristic when they do not fully process surcharge information, and less susceptible when they attend carefully to all the price information presented.

The purpose of the current research is to examine the moderating role of regulatory focus on the effectiveness of partitioned pricing. We hypothesize that, in general, promotion focused consumers view partitioned prices more favorably than combined prices because they engage in global processing and pay less attention to surcharges. Several studies suggest a relationship between promotion focus and global processing (e.g. Förster & Higgins, 2005), and it is hypothesized that global processing leads people to focus on the most relevant piece of information when making judgments, paying less attention to subsidiary or less important information. The following section spells out our reasoning in more depth.

Information processing style, regulatory focus, and effect on partitioned pricing

People tend to engage in either global processing (“seeing the forest”) or local processing (“seeing the trees”) when

evaluating perceptual information (Navon, 1977). Global processing is believed to be important in understanding ambiguous, complex, and abstract stimuli. Individuals who engage in global processing tend to rely more on the primary, or most relevant, features of a stimulus when making judgments (Trope & Liberman, 2000, 2010). In partitioned pricing, the main price is the largest charge and also the most relevant fee to the product itself. Thus, we hypothesize that global processing leads individuals to focus on the base price while ignoring or insufficiently processing surcharge information.

Local processing, on the other hand, is important for evaluating details and more minor information. Research finds that individuals who use local processing attend more to peripheral features than primary features (Trope & Liberman, 2000, 2010). We hypothesize that when individuals use local processing to evaluate pricing information, they will attend to all details of the price, including subsidiary costs. In this situation, consumers are less susceptible to the anchoring and adjustment heuristic for partitioned pricing and more accurate in their assessment of the total cost. Formally, we hypothesize the following relationship between information processing and partitioned pricing;

H1. Global processing leads consumers to perceive partitioned pricing as more attractive than combined pricing while local processing leads partitioned pricing and combined pricing to be perceived as similarly attractive.

Regulatory focus theory proposes that there are two main ways in which people achieve the fundamental goals of seeking pleasure and avoiding pain — by being either promotion focused or prevention focused (Brockner, Higgins, & Low, 2004; Higgins, 1997). Promotion focused individuals approach their goals with eagerness (Crowe & Higgins, 1997; Freitas & Higgins, 2002), and tend to place more emphasis on accomplishments and aspirations than safety and responsibilities (Higgins, 1997). Prevention focused individuals, on the other hand, are vigilant of potential losses and generally more concerned about duties and obligations than self-fulfillment (Crowe & Higgins, 1997; Kirmani & Zhu, 2007). Put another way, promotion focused individuals place more importance on what they “want” to do, while prevention focused individuals place more emphasis on what they should, or “ought” to do.

We posit that regulatory focus will affect the effectiveness of partitioned pricing because of the different information processing styles that promotion versus prevention foci elicit. The link between information processing style and regulatory focus is robust and reasonably well established. Förster and Higgins (2005) suggested that local processing fits a prevention focus on security because vigilant encoding of concrete details is crucial to maintaining safety; by contrast, global processing fits a promotion focus on advancement because concentrating on and details is insufficient perhaps even detrimental to progress. The authors conducted two studies to test their hypotheses. They found that promotion (prevention) focus increases processing of global (local) stimuli, and that experimentally priming global (local) processing leads to greater preferences for promotion (prevention) focus. While the authors contend that the relationship between regulatory

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