Paying More to Save Less: The Effect of Self-Selected Price Bundling on Willingness to Pay (An Abstract)

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Abstract Price bundling, a practice of offering a price promotion to consumers buying two or more separate products together, is a prevalent sales promotion tactic. The current study focuses on a "self-selected price bundling," where consumers can decide which products to include in the bundle, and investigates how consumers make spending decisions under this promotion. We compare two frames of price bundling—"buy two items, get a discount on both items" and "buy two items, get a discount on the cheaper item." Six studies (Study 1A through Study 4) demonstrate that, holding the spending on the first item fixed, the objectively superior "buy two items, get a discount on both" promotion induces lower consumer spending. We formulate and test empirically a "gain-loss ratio" account of the observed effect (Study 3 and Study 4), which shows that in the context of self-selected price bundling, consumers evaluate their spending on the second item relative to the savings on the whole bundle and try to keep high exchange efficiency, i.e., savings per dollar spent. Further, we show that the spending outcome is reversed when the two formats are considered in a joint evaluation (Study 5). Theoretical and practical implications are discussed.

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