

Defend Your Research

HBR puts some surprising findings to the test



Alexander Chernev is an associate professor of marketing at Northwestern University's Kellogg School of Management.

Customers Will Pay More for Less

The finding: Consumers will pay more for a single expensive item, such as a watch, than they will for a combination of that item and a cheaper one, such as a pen.

The research: In five experiments, respondents were shown a series of products—phones, jackets, backpacks, TVs, watches, shoes, luggage, bikes, wine, and sunglasses. Some were relatively expensive, others inexpensive. Respondents in one group were asked how much they would pay for each item by itself, and those in another group were asked how much they would pay for a bundle combining a high-priced and a low-priced item. Defying conventional wisdom, respondents shown the bundle were willing to pay less than those shown the more expensive product alone.

The challenge: Does bundling products together undermine their value? Professor Chernev, defend your research.

Chernev: My colleague Aaron Brough, of Pepperdine, and I showed that bundling expensive and inexpensive products changed what people thought those items were worth. Even when they found both items in a bundle attractive, they were willing to pay less for the bundle than for the more expensive product alone. We also found that people were less likely to buy bundles that combined expensive and inexpensive products. For example, people were more likely to purchase a \$2,299 home gym when it was offered alone than when it was combined with a fitness DVD. This suggests that the popular strategy of adding premiums to products can sometimes hurt, rather than increase, sales.

HBR: What's going on here?

An underlying process that we call categorical reasoning. People naturally tend

to classify products as either expensive or inexpensive, and this categorization influences how they judge products. When an expensive item is bundled with an inexpensive one, people categorize the bundle as less expensive, and this lowers their willingness to pay for it.

Does this mean that the low-priced item devalues the expensive one?

Not necessarily. We find that simply putting the products side by side doesn't produce a subtraction effect. That effect occurs only when the two items are considered part of the same offering. We also find that this effect is not caused by differences in the perceived quality of the bundled products and can occur when both items are of similar quality, as in a combination of a Porsche with a Montblanc pen.

OK, but does this phenomenon really happen outside the laboratory?

We made our experiments as realistic as possible. We used real consumers and gave them real choices about real products. We also used control groups to minimize the chances that our findings were driven by our choice of respondents or methodology. There's every reason to expect that our findings apply in the real world.

Yet marketers don't consider this a problem.

Marketers follow the conventional wisdom that product bundles help increase sales, and they believe that this holds true for bundled items from different price tiers. So far, they've had no reason to think otherwise.

Are you claiming that you've discovered a new psychological phenomenon?

It's not entirely new. For decades researchers have been studying people's preference for making simple binary decisions in the face of complex information. It goes back to Herbert Simon's ideas of bounded rationality. People rely on decision shortcuts, or heuristics, that trade accuracy for reduced cognitive effort. Categorization is one such heuristic that, in most situations, works well. Our research demonstrates a scenario in which this heuristic doesn't work.

If categorical thinking is so common, why don't we see it in other fields?

We do. Categorical reasoning has been extensively studied in areas ranging from perceptions of time to perceptions of vices and virtues. My previous research has shown that adding a healthful item, such as a side salad, to an indulgent one, such as a

Bundling Products Can Backfire

When consumers were offered a choice between a gym membership and a home gym, slightly more than half preferred the home gym. But when a fitness DVD was included with the home gym, only about a third chose it.

SCENARIO 1



SCENARIO 2



cheeseburger, tends to lower the perceived calorie count of the entire meal. This belief that a meal containing a cheeseburger and a side salad has fewer calories than the cheeseburger alone is a function of people's tendency to categorize meals into vices and virtues. Following this line of reasoning, Aaron and I asked ourselves whether categorical thinking might have an impact on the prices people were willing to pay. **Doesn't your focus on product bundles limit the scope of your findings? Most of the time, people just go shopping, put things in their baskets, and proceed to the checkout line. There's no bundling.** Our findings apply to any set of items jointly considered by consumers. Consumers unwittingly create their own bundles in their own shopping baskets—or even in their own minds. If you go to Tiffany and consider buying a \$5,000 watch and a \$50 key chain, you create an implicit bundle, and your decision about purchasing both will be affected by your sense of whether they're worth the combined price. Chances are, your view of the value of the bundle

will be lower than the price of the two items together—and even lower than the price of just the watch. The same thing might happen when you go to Amazon and put a \$30 hardcover and a 99-cent digital novel into your online shopping cart.

This sounds like an issue that's beyond businesses' power to affect.

Not exactly. Although categorical thinking is a pervasive tendency, it has boundaries: People categorize along just one dimension at a time. So if you get people to focus on nonprice attributes, the price effect will go away. For example, a shoe retailer could get customers to think of shoes in terms of comfort, durability, or versatility. Our research shows that when customers focus on one of those attributes, they're much less likely to categorize items in terms of their expensiveness and consequently less likely to devalue combinations of items from different price tiers.

What about consumers? Can they do anything to avoid poor judgments stemming from categorical reasoning?

It's certainly possible to make people aware that they're using categorical judgments. But the real question is whether mere awareness can lead to a change in behavior. After all, our reliance on categorical thinking has developed over time to help us deal with the increasingly complex world around us. Can we actually do anything about our ingrained tendency to take mental shortcuts? Everything we know about human judgment and decision biases suggests that this is not very likely. It's difficult to change overnight a way of thinking that has been learned over centuries. ♥

A BIG EFFECT ON PERCEIVED VALUE

People were willing to spend \$225 on one piece of luggage and \$54 on another when the items were offered separately.

\$279 vs. \$165

But when the bags were offered as a package, people were willing to spend just \$165 for both.

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