

Price Surcharge and the Effects of Construal Level

Pia A. Albinsson
Appalachian State University

Bidisha Burman
Appalachian State University

Neel Das
Appalachian State University

The growth of ecommerce has increased the importance of providing efficient pricing information in online offerings. We examine consumers' inherent construal level to understand effectiveness of partitioned versus combined online pricing strategies. In two studies we investigate a scenario where an individual's construal level moderates the effectiveness of the pricing format (partitioned versus combined) on perceived value and purchase intention. Building on prior partitioned pricing research our first study uses a reasonable surcharge amount and our second study uses an unreasonable surcharge amount. Our results provide evidence that consumers evaluate online product offerings differently depending on their inherent construal level.

INTRODUCTION

Consumers are increasingly faced with making purchasing decisions in regards to online product and service offerings. Some e-tailers offer products or services with no surcharge (Amazon.com free shipping for orders above \$25), some present the surcharge separately before the check-out (overstock.com), some include it with the price (e.g. Hotwire airline ticket prices include all taxes and fees), while often surcharge is not specified until after check-out has been completed (ebay.com). Internet marketers constantly face the challenge of offering the right products at the right price to consumers who with just an easy click of the mouse can exit the website if they are not happy with the offerings and move on to a different e-tailer. Hence, understanding consumer evaluations and their responses to various pricing tactics online are becoming increasingly important to marketers.

The recent growth of ecommerce has increased the importance of effective pricing online. Partitioned pricing is the common method of presenting the cost to the online buyer since it often includes several other charges in addition to the base price of the product. These additional charges such as shipping and handling fee, booking fee, taxes, etc. are referred to as surcharges. Past research have examined the effectiveness of presenting prices in the partitioned form vis-à-vis a combined total form and have found interesting and often conflicting results based on the context of their studies. Research has shown that consumer evaluations of partitioned pricing vary from that of combined pricing due to various factors that

affect the amount of attention paid to the separate price components and the processing of the information by consumers (Morwitz, Greenleaf, & Johnson, 1998).

In our research we study consumer's inherent construal level to understand effectiveness of partitioned versus combined pricing strategies online. Construal level theory (CLT) suggests that individuals construe stimuli in the environment differently (Trope & Liberman, 2003). It would be both theoretically and managerially beneficial to have a better understanding of how individual factors like construal level may affect consumers' purchase decisions in the presence of price cues. We have designed two studies using reasonableness of surcharge as the price related factor that may influence consumer evaluation of an offer based on their construal level.

Next we present an abridged literature review of past research findings on construal level and pricing formats. Then we present our conceptual development and hypotheses. Thereafter, the analysis and results are described for each study followed by a discussion and implications of our findings. We conclude with limitations and future research.

LITERATURE REVIEW

Construal Level

Construal level theory suggests that individuals exhibit a chronic tendency to gravitate towards different levels of construals (Vallacher & Wegner, 1989). While some may think in more general, simple, and abstract terms (high level), others may think more in contextual, complex, and concrete terms (low level) (Kim & John, 2008; Trope & Liberman, 2003). In some studies, interestingly, construal level has been studied as a situation specific variable. These studies have examined contexts such as difference in temporal distance when individuals construe the same information (e.g., stimuli in the environment) differently based on whether the information pertains to the near or distant future (Trope & Liberman, 2003). For example, when consumers' construal level is manipulated by temporal distance results show that events in the more distant future is represented in a more "schematic, abstract, and coherent way" (Liberman et al., 2002, p. 523). In other words, when events are in the distant future individuals do not have access to as much information since they are not "living or experiencing" the event "right now" and will therefore think of the event in more abstract terms and use simpler mental models (high level construals). The opposite occurs for events that are in the near future or are experienced as "here and now." For these "current events," individuals are more likely to have access to more information and can therefore construe the event in concrete and low-level terms by using detailed mental models. In addition, when consumers' construal level is manipulated by spatial distance (e.g., across the country versus local/regional setting) in the presentation of events it was found that consumers associate distant events with high-level construals compared to near events (Fujita et al., 2006).

Research on construal levels has been conducted in several other contexts to gain a deeper understanding on consumer judgment, decision making and behavior. Some examples include the effect on sensory effects of competing brands and brand extensions (Kardes, Cronley, & Kim, 2006; Kim & John, 2008), psychological distance and fluency of information (Alter & Oppenheimer, 2008), gambling and probability as a form of distance (Sagristano, Trope, & Liberman, 2002; Wakslav, Trope, Liberman, & Alony, 2006). When examined as an individual difference variable or personality characteristic, the research on construal levels show that consumers' inherent construal level influence decision making by "a preference for information, experiences, or events that match the individual's abstract or concrete mindset" (Kim & John, 2008, p. 118). For instance, a person with an inherent concrete or low construal level tends to prefer information presented in more detailed, complex, incidental, and contextualized form (Kim & John, 2008). Therefore, consumers falling into this category tend to be influenced by detailed features of the information presented, as well as paying attention to contextual details relevant at the moment (Fiske & Pavelchak, 1986). In contrast, consumers who use more abstract mental models construe stimuli with relatively simple, de-contextualized, and coherent representations that extract the general idea from available information (high-level construals). As a result, high level construal consumers tend to be influenced by abstract and general features of information presented, such as clichéd

characteristics that are the result of abstraction and generalization about the features of certain types of people, events, or other information (Ashmore & Del Boca, 1981; Fiske & Pavelchak, 1986; Hilton & von Hippel, 1996). In this regard and also in a fierce online marketplace, understanding the way presentation of pricing information may influence consumers' evaluation of an offer is very important.

Pricing Formats

Partitioned pricing is the strategy of charging the consumer a base price (the larger amount) and a surcharge (a smaller amount that pertains to shipping cost, taxes, warranties, etc). This is a common pricing tactic that emerged with the prevalence of e-commerce. The pioneers of partitioned pricing (Morwitz et al., 1998) have compared the effectiveness of partitioned pricing strategy to an all inclusive combined pricing strategy. They focused on the behavioral implications of partitioned pricing suggesting that consumers may either ignore the surcharge or inaccurately adjust for it resulting in a lower cost in their minds leading to higher demand. However, other research based on theories such as prospect theory and mental accounting theory suggest that aggregate prices are more favorably evaluated than partitioned prices (Schmalensee, 1984, Thaler, 1985, 1999). Such conflicting findings encourage further investigation of the effectiveness of partitioned prices versus combined prices.

In our research we use shipping and handling as the surcharge in the partitioned pricing scenario. We focus on the reasonableness of the surcharge as a factor that may influence the high versus low construal level individuals to respond differently to partitioned vis-à-vis combined pricing. In the past, some researchers have emphasized the perceived fairness of the surcharge as key to determining the effectiveness of partitioned pricing compared to combined pricing (Campbell, 1999, Sheng, Bao, & Pan, 2007). For example, Sheng et al. (2007), proposed that magnitude of surcharge in partitioned pricing will influence consumers' perception of pricing fairness, which in turn will impact their purchase intentions. They found that fair surcharge leads to higher purchase intention than an equivalent combined price. They examined the effects of the magnitude of the surcharge relative to the base price and found that the lower level of surcharge compared to base price increased purchase intentions, while higher level of surcharge compared to base price lowers purchase intentions by affecting perceived fairness suggesting combined pricing strategy as more preferable.

Burman and Biswas (2007) have examined the reasonableness versus unreasonableness of the surcharge determining the effectiveness of the partitioned versus combined strategy. They found that high need for cognition persons responded more favorably to partitioned pricing than combined pricing when shipping charge was reasonable and the effects were reversed for them when shipping charge was unreasonable. The high need for cognition individuals focus on the base price considering the shipping as an inevitable expense, but their attention on shipping increases when it is unreasonable resulting in unfavorable response to partitioned pricing. Low need for cognition individuals did not respond differently to the different pricing format. Carlson & Weathers (2007) also suggest that partitioned presentation of prices is effective through perception of fairness. They found that presenting the total price along with a large number of price components positively affects fairness and purchase intention of consumers. Further, Lee and Han (2002) suggests that the tactic of partitioned pricing may itself be perceived as unfair by the consumer. While partitioning prices result in lower recalled costs leading to higher purchase intention, consumers are also likely to feel that the marketer intentionally did so to induce wrongly reduced recalled prices and hence blame the marketer for the mistake leading to negative brand attitude.

Motivated by extant research on partitioned prices that have illustrated the various factors affecting the amount of attention paid to the surcharge vis-à-vis the base price, our research focuses on the role of individuals' inherent construal level. In this research we not only extend the understanding of the role of the magnitude and perceived reasonableness of the surcharge affecting the evaluation of partitioned pricing but also emphasize that a key role is played by factors affecting attention to surcharge. For instance, when surcharges are represented as a percentage of a base price, consumers find it more effortful to process the information compared to when it appears as a concrete dollar amount; as a result, consumers further fail to account for the accurate surcharge amount (Morwitz et al., 1998). Alternatively,

when consumers are buying a product from a low-reputation seller, they are more likely to pay greater attention to a surcharge than when they are buying from a high reputation seller (Cheema, 2008). Furthermore, partitioning a price into different components might be advantageous when the marketer wants the consumer to notice the different components (resulting in benefits) of a product; while a single price is preferred when marketers prefer a holistic evaluation of the product (Bertini & Wathieu, 2006). In our current research, we extend this above phenomenon of attending/not attending to partitioned price information based on the individual factor of construal level.

CONCEPTUAL DEVELOPMENT

In this paper, we propose that construal level is a key moderator of the effects of partitioned pricing versus combined pricing on consumers' evaluation of an online offer from an anonymous e-tailer. We examine the effect of consumers' inherent construal levels to better understand effectiveness of partitioned versus combined pricing strategies online. We posit that individuals who construe stimuli in an abstract manner (high level) are unlikely to give as much attention to the surcharge such as shipping and handling charges as compared to those who construe stimuli in a concrete manner (low level). Furthermore, we reason that individuals with a high construal level, since they are more concrete in their thinking, will place more importance to the overall excitement of shopping and delivery of the items. They are likely to be less sensitive to the separate presentation of the surcharge (shipping and handling) and the base price of the product. On the other hand, because low-construal level individuals are more detailed in their thinking, they will use the shipping and handling charges as an important cue to evaluate the offer and hence, respond to partitioned pricing differently from the high-construal individuals. We use reasonableness of the shipping and handling charges to examine the difference in responses of the high and low level consumers to partitioned versus combined pricing.

Compared to earlier findings that if the pricing surcharge is perceived as fair and necessary by the consumer, it likely to not be incorporated fully in the consumers' evaluation process. It may be ignored or underestimated (Sheng et al., 2007). However, we posit that consumers' inherent construal level may moderate the evaluation of price surcharges. Specifically, we compare price surcharge evaluation for consumers who have a chronic/inherent tendency to construe stimuli at a global and abstract level (high-level construals) with consumers who have an inherent tendency to construe stimuli at a more concrete and contextualized level (low-level construals). To detect the importance of price surcharges, we designed two studies with varied level of surcharges for the same product. We predict that consumers with an inherent tendency toward low-level construals will place more weight on surcharge as an important price component to evaluate an offer than those with high-level construals. Within the context of our research we investigate a scenario where an individual's construal level is a moderating factor affecting evaluation of a pricing format (partitioned versus combined) on perceived value of the offer and purchase intention.

STUDY ONE

Reasonable Shipping and Handling Charges

We posit that high level construal individuals, even if they are exposed to two components of the price, are more apt to evaluate the value of the offer holistically instead of diagnosing the components individually. Therefore, they are not likely to respond to partitioned and combined pricing differently. On the other hand, low level construal individuals, who are more apt to evaluate the specific dimensions of the offering, are likely to pay more attention to the surcharges and diagnose the separate price information. They are likely to pay attention to the reasonable shipping and handling charges as a valid addition to the base price while the uncertainty of the shipping and handling information in the combined price may not result in favorable evaluation. In sum, low-construal level consumers will pay attention to the reasonableness of the shipping and handling charges and appreciate the clarity of the pricing information while these factors will not affect the high-construal level individuals due to their holistic approach towards the offer. We therefore hypothesize that:

- H1: When shipping and handling charges are reasonable, low-level construal consumers will have a higher perception of value in the partitioned price condition than in the combined price condition, while high-level construal consumers will not react differently to the two pricing conditions.
- H2: When shipping and handling charges are reasonable, low-level construal consumers will have a higher purchase intention in the partitioned price condition than in the combined price condition, while high-level construal consumers will not react differently to the two pricing conditions.

Method

The study featured a 2 (price format: partitioned vs. combined) X 2 (construal level: high vs. low) between subjects design in which participants were instructed to imagine that they were searching for a MP3 player and decided to order one online. The price and the shipping for the MP3 player were obtained from a pre-test. Respondents saw a print advertisement featuring a picture and the five attributes of a MP3 player listed. The price format in the ad was manipulated by stating “Price \$166.99 Plus \$6.99 Shipping and Handling” (partitioned pricing) or “Price \$173.99 - Includes Shipping and Handling” (combined pricing). Subsequent to the advertisement, the respondents were asked questions regarding their value perceptions and purchase intentions regarding the advertised offer for the MP3 player. Finally, responses for manipulation check and classification questions were obtained and the respondents were debriefed and thanked for their participation.

The experiment was conducted in two waves. The first wave was presented as described above. The second wave consisted of the measurement of the construal level using the BIF scale (Vallacher & Wegner, 1989). The logic behind such an administration stems from the fact that we investigated construal level as an individual personality characteristic. Given such an investigation, we assumed that a chronic tendency for the same would be exhibited regardless of when the scale was administered. Moreover, we wanted to avoid the bias that might arise due to the priming of the construal level by the BIF scale. The BIF have been successfully used in several previous studies (e.g., an adapted version of Level of Personal Agency (different term for BIF) in Emmons, 1992, Fujita et al., 2006; Kim & John, 2008; Trope & Liberman, 2003). Respondents were presented with two alternative descriptions for 25 target behaviors. One alternative corresponds to the “why” level (high construal level) of an activity and the other alternative corresponds to the “how” level (low construal level) aspects of an activity. For example, the statement “Paying the rent” was followed by (a) Maintaining a place to live (high level) and (b) Writing a check (low level). Respondents were asked to choose the description that they personally believed to be more appropriate for each pair. An overall score was obtained by adding the number of abstract descriptions selected by a respondent across 25 behaviors. A median split was used to identify two levels of construal. Specifically, individuals scoring 16 or above were classified as “high” construal and individuals with scores 15 or below were classified as “low” construal (previous studies have reported a median split of 14 (Kim & John, 2008). The logic behind such an administration stems from the fact that we investigated construal level as an individual personality characteristic. Given such an investigation, we assumed that a chronic tendency for the same would be exhibited regardless of when the scale was administered. Moreover, we wanted to avoid the bias that might arise due to the priming of the construal level by the BIF scale. Finally, the participants were asked to complete several demographic questions.

Value perceptions for the offer was measured by asking respondents the following questions: “The MP3 player shown in the ad is” (a bad buy for the money (1) / a good buy for the money (7)); “The ad for the MP3 player represents” (a poor offer (1) / an excellent offer (7)); “The price charged for the MP3 player shown in the ad is” (an extremely unfair price (1) / an extremely fair price (7)); “The MP3 player offered in the ad is” (not a good value for money / an extremely good value for money (7)). The items were aggregated to create a value index ($\alpha = .92$). Purchase intention was measured by asking respondents the following questions: (1) “How likely are you to buy the MP3 player shown in the ad” (highly unlikely (1) / highly likely (7)); “How probable it is that you will buy the MP3 player shown in

the ad” (highly improbable (1) / highly probable (7)); “How certain it is that you will buy the MP3 player shown in the ad” (highly uncertain (1) / highly certain (7)); “What chance is there you will buy the MP3 player shown in the ad” (no chance at all (1) / very good chance (7)). The items were averaged to create a purchase intention index ($\alpha = .97$). Manipulation check for price format was obtained by asking respondents to choose the correct answer (without referring back to the scenario) to the question “The shipping and handling charges are?” (Response options “Included in the advertised product” or “Charged in addition to the advertised price of the product”).

Results

Eighty-eight respondents participated in the study (58% females, mean age = 21.4 years). All respondents answered the manipulation question for the price format correctly. A 2 X 2 MANOVA yielded a significant interaction of price format and construal level (Wilk’s Lambda = .928, $F_{(2, 79)} = 3.081$, $p < .05$). The multivariate interaction was due to the univariate interaction on perceived value ($F_{(1, 80)} = 5.505$, $p < .05$) and purchase intention ($F_{(1, 80)} = 5.327$, $p < .05$).

H1 stated that within the context of reasonable shipping, for low construal level partitioned (compared to combined) price format will elicit greater perceptions of value; for high construal level, there will be no difference in perceptions of value between the two price formats. As shown in Figure 1 below, when the construal level was low perceptions of value regarding the advertised offer was significantly greater for the combined than for the partitioned price format condition (COMBINED PRICE = 5.63; PARTITIONED PRICE = 4.83; $t_{(38)} = -3.024$, $p < .01$). On the other hand, when the construal level was high, perceptions of value regarding the advertised offer was not significantly different between the partitioned and combined price format conditions (COMBINED PRICE = 4.88; PARTITIONED PRICE = 5.10; $t_{(43)} = .672$, $p > .05$). Hence, H1 was partly supported with reference to the high construal level condition.

H2 stated that within the context of reasonable shipping, for low construal level partitioned (compared to combined) price format will elicit greater purchase intentions; for high construal level, there will be no difference in purchase intentions between the two price formats. As shown in Figure 2 below, for low construal level, purchase intention was significantly greater for the combined than for the partitioned price format condition (COMBINED PRICE = 5.14; PARTITIONED PRICE = 4.19; $t_{(38)} = -2.603$, $p < .05$). On the other hand, when the construal level was high, purchase intention was not significantly different between the partitioned and combined price format conditions (COMBINED PRICE = 4.0; PARTITIONED PRICE = 4.33; $t_{(43)} = .421$, $p > .05$). Hence, H2 was partly supported with reference to the high construal level condition.

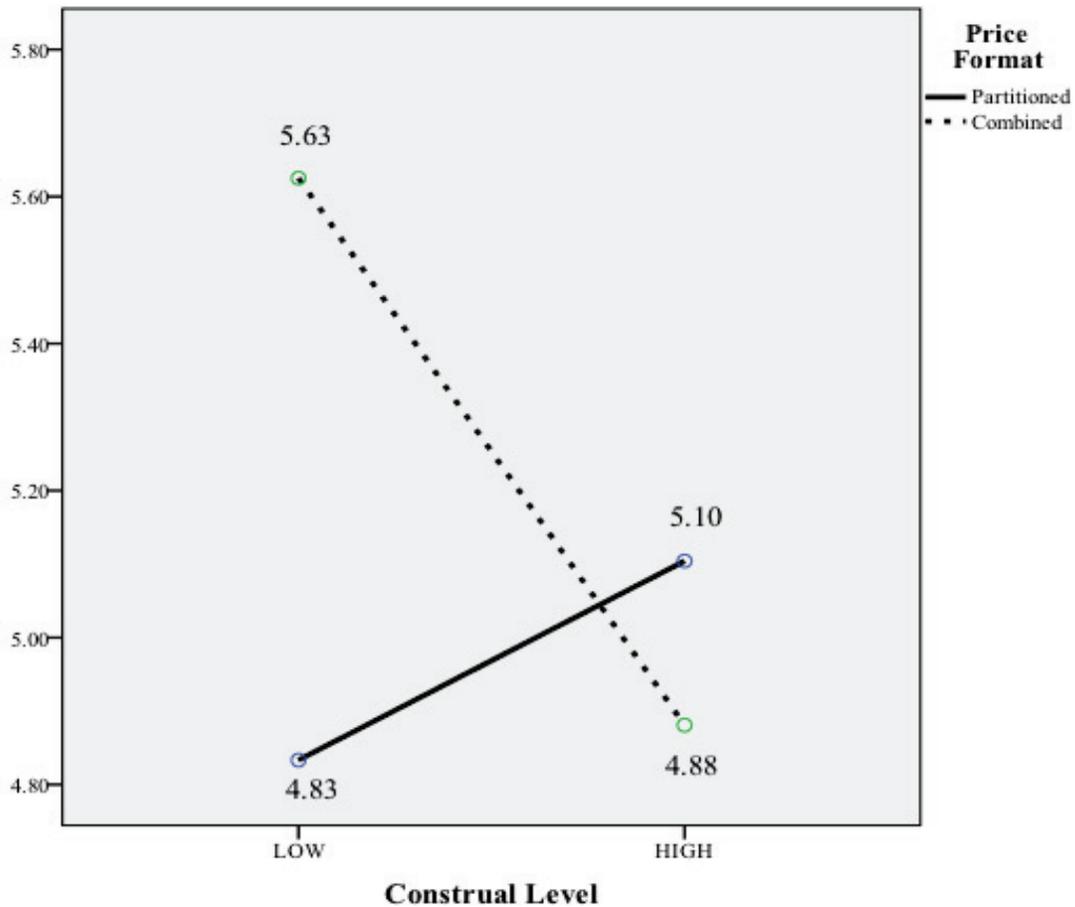
Discussion – Study One

Our data yield mixed, yet interesting, findings apropos our hypotheses. As per our contention, individuals in the high construal level condition did not indicate any difference between the price formats for perceptions of value and purchase intention. However, greater perceptions of value and purchase intentions are indicated for combined vis-à-vis partitioned price format for individuals under low construal level condition. This is in contrast to our suggestion that for low construal level condition, greater perceptions of value and purchase intentions would emanate from the partitioned (than from the combined) price format.

As suggested by Trope and Liberman (2003), desirability and feasibility influence outcome preferences. While desirability refers to the ultimate value received from an end state of an action, feasibility refers to the amount of difficulty or ease in reaching the end state. In other words, desirability refers to the superordinate or why aspects of an action, while feasibility refers to the subordinate or how aspects of an action. Hence, high construal individuals are more likely to be guided by the desirability and low construal individuals are more likely to be guided by the feasibility aspect of an action (Trope & Liberman 2003). Subsequently, in the context of our current research, high construal individuals are more likely to be concerned with the overall value received from the MP3 player. Our results support such assertion for high-level construal individuals in that regardless of the price format, these individuals have

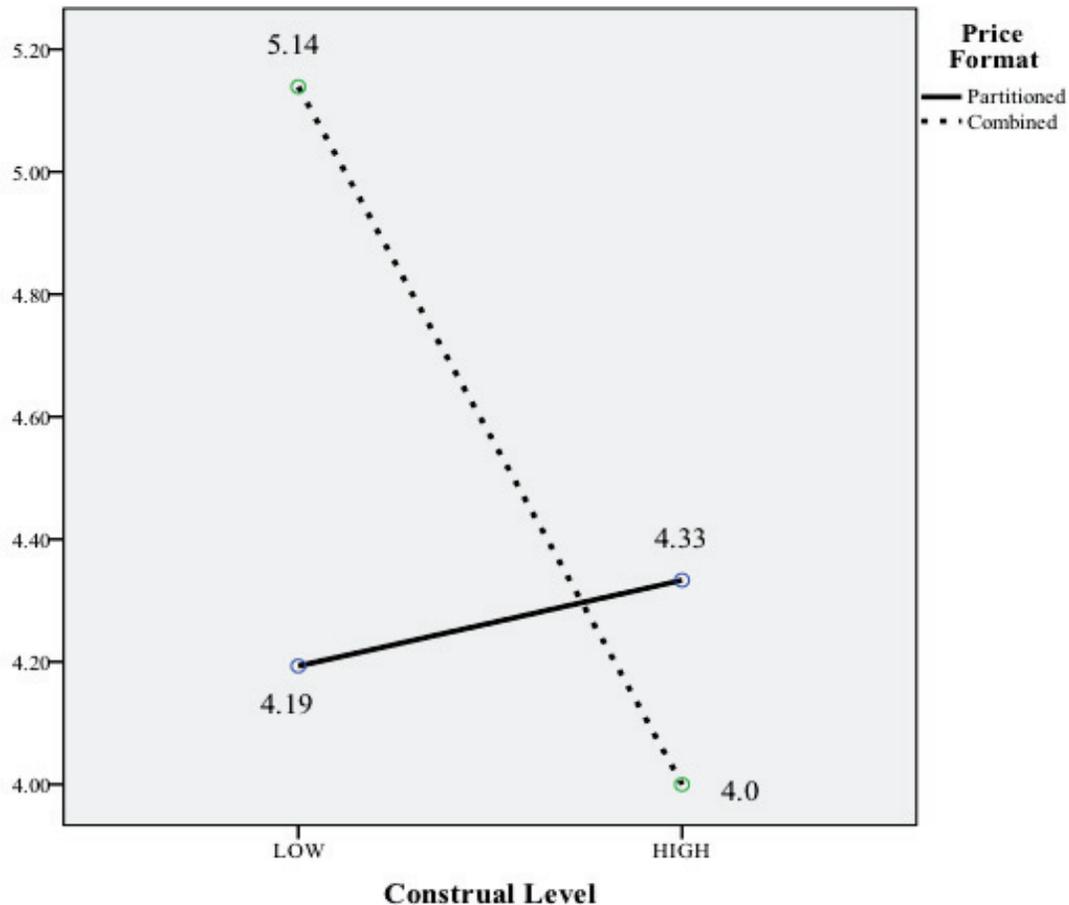
the same desirability (as manifested by their perceptions of value and purchase intentions) towards the offer. On the other hand, low construal individuals are tuned to contextual cues within an offer for action guidance (Vallacher & Wegner 1989). In the context of our research, such cues relate to the price format.

FIGURE 1
INTERACTION OF PRICE FORMAT AND CONSTRUAL LEVEL ON VALUE PERCEPTION FOR REASONABLE SHIPPING



Our findings indicate a preference for a combined format of the main price and the shipping surcharge for low construal individuals. This could be due to the fact that detailed thinking probably leads such individuals to emphasize on the paying for two prices (product plus shipping) instead of one. Such emphasis might lead to the experience of discomfort manifested by perceptions of a lesser value and subsequent purchase intentions for the partitioned offer. Hence, the pain of paying for separate prices might be attenuated when shipping charges are bundled into a single offer price. A related question that arises is what happens when the shipping charge is considered unreasonable. Should there be a further amplification of this suggested phenomenon, in case of low-level construal individuals? To study this we conducted another experiment.

FIGURE 2
INTERACTION OF PRICE FORMAT AND CONSTRUAL LEVEL ON PURCHASE INTENTION FOR REASONABLE SHIPPING



STUDY TWO

Unreasonable Shipping and Handling Charges

We posit that high construal level individuals, since they are not inclined towards diagnosing the details of the price information, will respond to partitioned and combined pricing indifferently. On the other hand, low level construal individuals, who think in more concrete terms will pay detailed attention to the surcharge information. These individuals are more likely to realize the unreasonableness of the surcharge and will react adversely to the high shipping and handling charge. In other words, when shipping and handling charges are high, low-construal level consumers will react unfavorably toward partitioned pricing compared to combined pricing, while there will be no significant difference in the evaluation of high-construal level individuals for partitioned versus combined prices. We therefore hypothesize that:

- H3: When shipping and handling charges are unreasonable, low-level construal consumers will have a lower perception of value in the partitioned price condition than in the combined price condition, while high-level construal consumers will not react differently to the two pricing conditions.

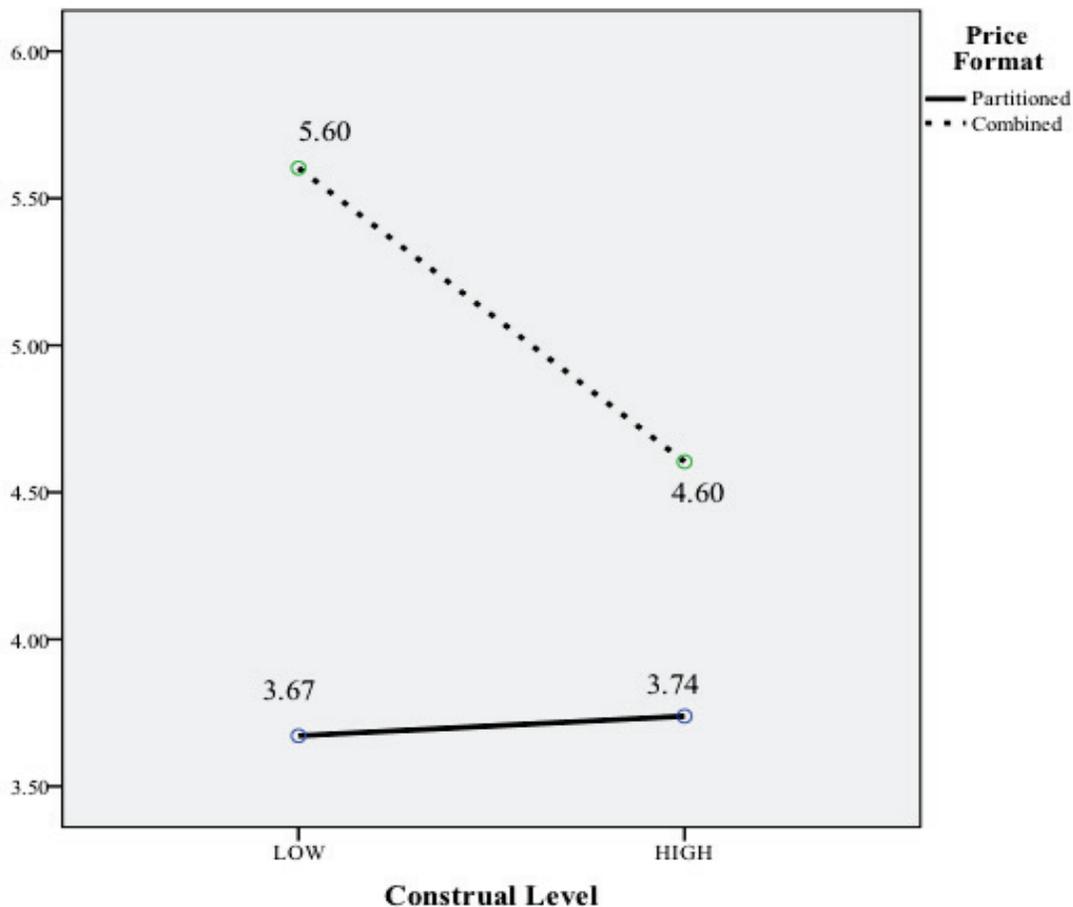
- H4: When shipping and handling charges are unreasonable, low-level construal consumers will have a lower purchase intention in the partitioned price condition than in the combined price condition, while high-level construal consumers will not react differently to the two pricing conditions.

Method and Results

The experimental set-up was identical as that for study 1 above, except that the shipping was set at \$19.99. As mentioned before, the reasonable / unreasonableness of shipping and the price of the MP3 player were obtained from a pretest. The coefficient alphas for perceived value and the purchase intention indices were .92 and .91 respectively.

Seventy-nine respondents participated in the study (50.6% females, mean age = 21.8 years). All respondents answered the manipulation question for the price format correctly. A 2 X 2 MANOVA yielded a significant interaction of price format and construal level (Wilk's Lambda = .916, $F_{(2, 74)} = 3.406$, $p < .05$). The multivariate interaction was due to the univariate interaction on perceived value ($F_{(1, 75)} = 6.356$, $p < .05$) and purchase intention ($F_{(1, 80)} = 5.327$, $p < .05$).

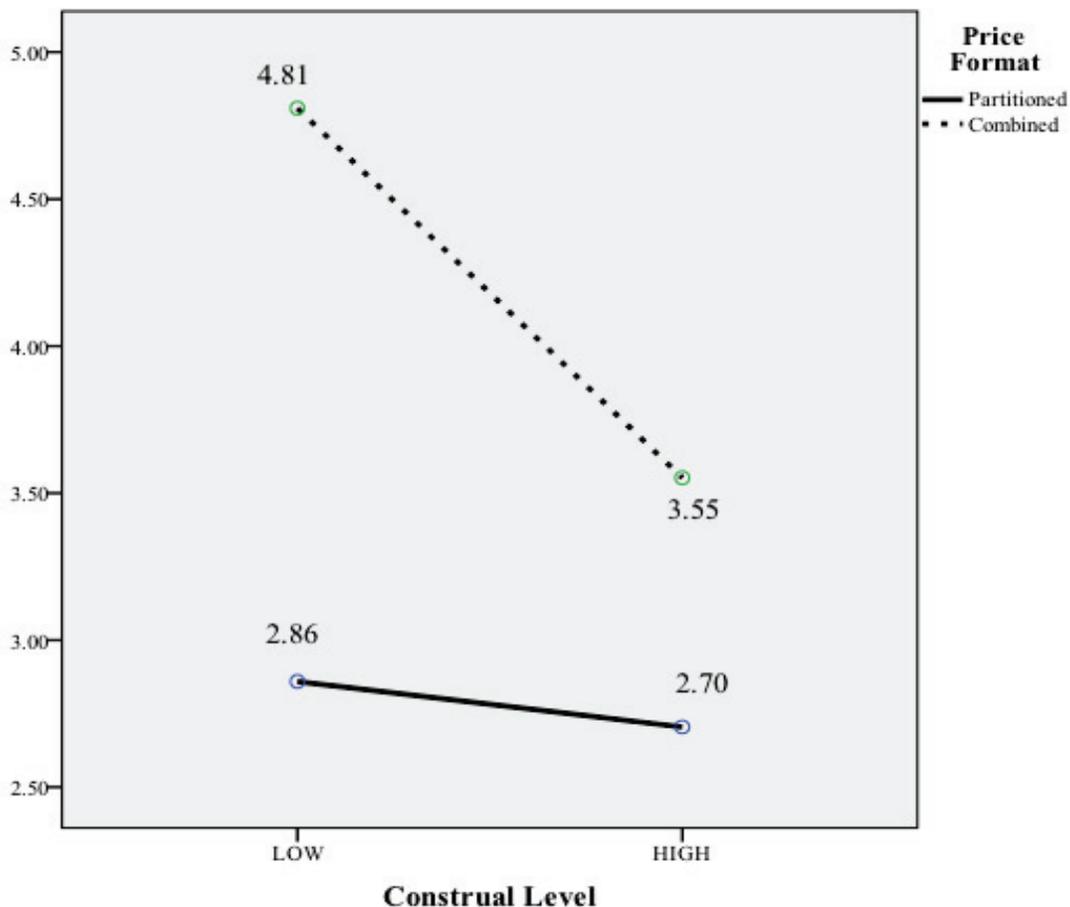
FIGURE 3
INTERACTION OF PRICE FORMAT AND CONSTRUAL LEVEL ON VALUE PERCEPTION FOR UNREASONABLE SHIPPING



H3 stated that within the context of unreasonable shipping, for low construal level combined (compared to partitioned) price format will elicit greater perceptions of value; for high construal level, there will be no difference in perceptions of value between the two price formats. As shown in Figure 3, when the construal level was low perceptions of value regarding the advertised offer was significantly greater for the combined than for the partitioned price format condition (COMBINED PRICE = 5.60; PARTITIONED PRICE = 3.67; $t_{(31)} = -4.905$, $p < .001$). The same pattern of differences in perceived value was also observed in the high construal level condition (COMBINED PRICE = 4.60; PARTITIONED PRICE = 3.74; $t_{(44)} = -3.916$, $p < .001$). Hence, H3 was partly supported.

H4 stated that within the context of unreasonable shipping, for low construal level combined (compared to partitioned) price format will elicit greater purchase intentions; for high construal level, there will be no difference in purchase intentions between the two price formats. As shown in Figure 4 below, for low construal level, purchase intention was significantly greater for the combined than for the partitioned price format condition (COMBINED PRICE = 4.81; PARTITIONED PRICE = 2.86; $t_{(31)} = -5.171$, $p < .001$). However, purchase intention was also significantly greater for the combined than the partitioned price format condition in the high construal level condition (COMBINED PRICE = 3.55; PARTITIONED PRICE = 2.70; $t_{(44)} = -2.389$, $p < .05$). Hence, H4 was partly supported.

FIGURE 4
INTERACTION OF PRICE FORMAT AND CONSTRUAL LEVEL ON PURCHASE INTENTION FOR UNREASONABLE SHIPPING



Discussion – Study Two

As per our hypotheses, the results of study two show that perceptions of value and purchase intentions are higher for combined (compared to the partitioned) price format for the low construal level individuals due to unreasonableness of shipping and handling charge. However, we had also suggested that there would be no difference in perceptions of value and purchase intentions for the high construal level individuals in the unreasonable surcharge condition. But our results showed that even high construal level individuals notice and react to an unreasonable high surcharge leading to their unfavorable responses to partitioned price format. Overall, while the reasonable shipping condition supports our contentions for the high construal level condition, it does not do so for the low construal level condition. Alternatively, the unreasonable shipping condition supports our contentions for the low construal level condition, but does not do so for the high construal level condition.

Such a pattern of results leads us to conclude that an unreasonable shipping surcharge probably acts as a boundary condition for high construal level individuals in terms of their perceptions regarding the offer. Specifically, when the shipping charge is unreasonable, such consumers become aware of the fact and hence develop perceptions regarding the offer accordingly. Similar to our suggestion regarding the results for low construal individuals in study one, we extrapolate the same reasoning to high construal consumers in terms of paying two prices instead of one. In other words, high construal consumers probably feel the added pain of paying for two prices, only when the shipping charge is unreasonable. Hence, a combined price format is more likely to appeal under conditions of high shipping and handling charge.

Assuming that low construal level individuals automatically focus on details, an unreasonable shipping surcharge is likely to make them even less attracted to an offer that partitions such surcharge from the main price of the product. In summary, we conclude that a reasonable shipping surcharge is processed as a separate cue by low construal consumers but not by high construal consumers. Upon processing of the same by low construal consumers, they probably feel the pain for paying two prices and hence prefer the combined price format. On the other hand, when the shipping charge is unreasonable, high construal level individuals become aware of the high surcharge and behave in a similar fashion to the low construal level individuals. Within the context of our current research, we probably have identified a boundary condition for high construal level individuals as to when they might also pay more attention to the feasibility rather than the desirability of the offer.

CONCLUSION

According to standard economic theory, consumer preference should not be different due to price partitioning when the total price to the consumer is the same. However, there is extensive research that demonstrates the above principle is violated. Specifically in the field of pricing, researchers have illustrated such violations with regard to partitioned versus combined formats (e.g., Chakravarti et al., 2002; Morwitz et al., 1998). In this research, we demonstrate how an individual difference variable – one's construal level – determines the effectiveness of different price formats.

According to construal level theory, individuals construe stimuli at a higher or lower level based on chronic tendencies. Individuals having a high construal level usually process a stimulus holistically, while those having a lower construal process it in details. With reference to price partitioning, a holistic evaluation of an offer is likely to entail similar responses regardless of price formats. On the other hand, a detailed evaluation is likely to result in processing the partitioned format differently (due to the surcharge) vis-à-vis the combined format. Moreover, the surcharge characteristic (reasonable versus unreasonable) played an important role in determining the effect of partitioned and combined pricing for high and low construal level individuals.

Our overall results show that while individuals having a low construal level indicate a preference for the combined format regardless of the reasonableness of the shipping surcharge, individuals with a high construal level indicate a preference for the combined format when the shipping surcharge is considered unreasonable. Our reasoning for such a finding is that a detailed processing may bring up the notion of paying for two prices (i.e. price of the product plus shipping surcharge), and hence, a combined format is

probably preferred for individuals with a low construal level. However, when the shipping surcharge is perceived to be unreasonable, individuals with a high construal level become aware of the same and tend to prefer the combined format to a partitioned one. Our findings imply that marketers should be aware that regardless of valid reasons for high shipping and handling charges (e.g., shipping heavy items, delicate items, longer distances, shorter time of delivery etc.), consumers may perceive the amount as unreasonable and unfair. Hence, high shipping and handling charges being included to the base price of the product may often result in less unfavorable responses than when the surcharge is stated separately. Also, to the best of our knowledge, construal level has not been studied in the context of partitioned pricing before. Hence, our research has theoretical contributions in terms of extending our understanding of the roles of both partitioned pricing as well as construal level of consumers.

LIMITATIONS, MANAGERIAL IMPLICATIONS AND FUTURE RESEARCH DIRECTIONS

Some limitations of our research, which are fairly common in experiments and laboratory settings, are that even though we used a scenario in which we told the participants that they were currently searching for the product in the ad stimuli, some participants may have thought about purchasing the product soon after seeing the ad and some later on depending on their personal preferences or financial situation. Another limitation of our study is the fact that the product in the ad stimuli was physically absent which means that the sensory distance was high and consumers are therefore more likely to think of the product offering in more abstract terms (higher level construals) (Kardes et al., 2006) regardless of their inherent construal level. However, this is true for all online offerings in comparisons to a retail setting where the consumer can physically experience the product.

Since our ad stimuli for a product available online was presented in a paper format, future studies should use computer based stimuli and questionnaire where the consumer can feel more closely connected to the product offering and the sensory distance is reduced. However internet shoppers are still more likely to evaluate products that lack contextual details more abstractly based on the shopping setting (Kardes et al., 2006). This makes it difficult for e-tailers and Internet marketers to present a concrete or low-level construal product offering despite pricing strategy used. However, based on our results Internet Marketers may increase their sales if they offer a combined pricing strategy using reasonable shipping and offer a 30 day trial period of products, during which the consumer can physically experience the product and create more accurate assessments of the quality of the product and its benefits and value in use. We believe, therefore, that conceptualizing a price offering in terms of combined pricing may be beneficial for marketers for products that don't require high shipping and handling charge.

Our studies have limitations prevalent to a convenient student sample. However, we believe that the product chosen (MP3 player) and the mode of purchase (online) are likely to compensate for our sample choice. In other words, we tried to maintain external validity given our sample. Furthermore, we measured a behavioral intention (i.e. purchase intention), which is not to say that generally the participants would do as they say. Finally, process measures were not included in the current experiments. Although we surmised what might be happening, it will be interesting to illustrate it accordingly.

This research provides yet another opportunity for better understanding the preference criteria for a partitioned versus a combined price format. Subsequent research might want to manipulate construal level instead of measuring and see whether different results are obtained. Process measures of how individuals might think given the different modes of manipulation of construal level might also be of interest. Finally, price partitioning has looked at various factors (e.g., trustworthiness, fairness, and need for cognition that shift the preference for partitioned versus combined price formats. Additional avenues of future research may include such diverse variables along with construal level to predict price format preference.

REFERENCES

- Alter, A. L. & Oppenheimer, D. M. (2008). Effects of Fluency on Psychological Distance and Mental Construal (or Why New York is a Large City, but *New York* is a Civilized Jungle). Psychological Science, 19 (2), 161-167.
- Ashmore, R. D., & Del Boca, F. K. (1981). Conceptual approaches to stereotypes and stereotyping. In D. L. Hamilton (Ed.), Cognitive processes in stereotyping and intergroup behavior (pp. 1-35). Hillsdale, NJ: Erlbaum.
- Bertini, M. & Wathieu, L. (2006). The Framing Effect of Price Format. Working paper, Harvard Business School, Boston M.A.
- Burman, B. & Biswas, A. (2007). Partitioned Pricing: Can We always Divide and Prosper? Journal of Retailing, 83 (4), 423-436.
- Campbell, M. C. (1999). Perceptions of Price Unfairness: Antecedents and Consequences. Journal of Marketing Research, 36 (2), 187-199.
- Carlson, J. P. & Weathers, D. (2007). Examining Differences in Consumer Reactions to Partitioned Prices with a Variable Number of Price Components. Journal of Business Research, 61, 724-731.
- Chakravarti, D., Krish, R., Paul, P., & Srivastava J. (2002). Partitioned Presentation of Multicomponent Bundle Prices: Evaluation, Choice and Underlying Processing Effects. Journal of Consumer Psychology, 12 (3), 215-229.
- Cheema, A. (2008). Surcharges and Seller Reputation. Journal of Consumer Research, 35 (June), 167-177.
- Emmons, R. A. (1992). Abstract versus Concrete Goals: Personal Striving Level, Physical Illness, and Psychological Well-being. Journal of Personality and Social Psychology, 62 (2), 292-300.
- Hilton, J. L. & von Hippel, W. (1996). Stereotypes. Annual Review of Psychology, 47, 237-271.
- Fiske, S. T. & Pavelchak, M. A. (1986). Category-based versus piecemeal-based affective responses: Developments in schema-triggered affect. In R. M. Sorrentino, & E. T. Higgins (Eds.), Handbook of motivation and cognition: Foundations of social behavior (Vol. 1, pp. 167-203). New York: Guilford Press.
- Fujita, K., Henderson, M. D., Eng, J., Trope, Y., & Liberman, N. (2006). Spatial Distance and Mental Construal of Social Events. Psychological Science, 17 (4), 278-282.
- Kardes, F. R., Cronley, M. L., & Kim, J. (2006). Construal-Level Effects on Preference Stability, Preference-Behavior Correspondence, and the Suppression of Competing Brands. Journal of Consumer Psychology, 16 (2), 135-144.
- Kim, H. & Roedder John, D. (2008). Consumer Response to Brand Extensions: Construal Level as a Moderator of the Importance of Perceived Fit. Journal of Consumer Psychology, Vol. 18, 116-126.
- Lee, Y. H. & Han, C. Y. (2002). Partitioned Pricing in Advertising: Effects on Brand and Retailer Attitudes. Marketing Letters, 13 (1), 27-40.

- Liberman, N., Trope, Y., & Wakslak, C. (2007). Construal Level Theory and Consumer Behavior. Journal of Consumer Psychology, 17 (2), 113-117.
- Liberman, N., Sagristano, M. D. & Trope, Y. (2002). The Effect of Temporal Distance on Level of Mental Construal. Journal of Experimental Social Psychology, 38, 523-534.
- Morwitz, V. G., Greenleaf, E. A., & Johnson, E. A. (1998). Divide and Prosper: Consumers' Reactions to Partitioned Prices. Journal of Marketing Research, 35 (November), 453-463.
- Sagristano, M. D., Trope, Y. & Liberman, N. (2002). Time-Dependent Gambling: Odds Now, Money Later. Journal of Experimental Psychology: General, 131 (3), 364-376.
- Schmalansee, R. (1984). Gaussian Demand and Commodity Bundling. Journal of Business, 57, 211-230.
- Sheng, S., Bao, Y., & Pan, Y. (2007). Partitioning or Bundling? Perceived Fairness of the Surcharge Makes a Difference. Psychology and Marketing, 24 (12), 1025-1041.
- Thaler, R. H. (1999). Mental Accounting Matters. Journal of Behavioral Decision-Making. 12, 183-206.
- Thaler, R. H. (1985). Mental accounting and consumer choice. Marketing Science, 4, 199-214.
- Trope, Y. & Liberman, N. (2003). Temporal Construal. Psychological Review, 110, 403- 421.
- Vallacher, R. R. & Wegner, D. M. (1989). Levels of Personal Agency: Individual Variation in Action Identification. Journal of Personality and Social Psychology, 57, 660 - 671.
- Wakslak, C. J., Trope, Y., Liberman, N., & Alony, R. (2006). Seeing the Forest When Entry is Unlikely: Probability and the Mental Representation of Events. Journal of Experimental Psychology: General, 135 (4), 641-653.

*Authors are listed in alphabetical order and contributed equally to the manuscript.