Optional and Mandatory Surcharges and Consumer Choice

Jim Blair and Stephen Atlas PhD

University of Rhode Island
| blairj4@my.uri.edu | satlas@uri.edu |

Abstract

This research examines how consumers respond differently to surcharges that are optional or mandatory. We find in a controlled experiment that consumers are willing to pay more and have higher satisfaction levels when surcharges are framed as optional rather than mandatory. We find violations of choice dominance indicating that consumers derive value from optionality in surcharges. We further find that individual reactance has a moderating effect on the relationship. In study two, the researchers plan to use a conjoint analysis to determine how much consumers value optionality.

Background

Partitioned Pricing

Total price of a product divided into a base price and one or more mandatory surcharges (Morritz, Greenleaf, Shalev, & Johnson 2011). Surcharges are common in many industries.

Reactance

A motivational state when freedom is threatened (Brehm 1966; Brehm 1981). According to psychological reactance theory, people assume a sense of freedom over their behaviors and treat any threats to their freedom with reactance (motivational state). This can result in avoidance behaviors (Tang, Zhang, and Wu 2015) and includes four parameters: (1) expectation of freedom, (2) importance of freedom threatened, (3) strength of the threat, and (4) implications for other freedoms (Wortman and Brehm 1975).

Choice

Participants disliked making difficult decisions and also resented relinquishing their option to choose (Botti, Orfali, Jengar 2009). There can be costs and benefits when giving consumers a choice (Botti and Iyengar 2004).

Model

Reactance

Hypotheses

H1: Participants will have a higher purchase intentions for optional surcharges than mandatory surcharges.

H2: Reactance moderates the relationship between both optionality and purchase likelihood and optionality and satisfaction.

Study 1: Benefits of Optionality & The Moderating Role of Reactance

Experimental Design: Between Subject 2 (Surcharge: Mandatory, Optional) x 2 (Price: Low, High)

Measurable Variables: Purchase Intentions and Reactance

Written Scenario

Imagine you are on an out-of-state family trip and are thinking about renting a car to drive around the city for the week. You would pay out-of-pocket, and the price of the vehicle for the week rental is $200/$220.

You also see there is a mandatory/optional surcharge of $20 for GPS navigation, which you must pay if you rent the car with which you can accept or decline if you rent the car.

Consumers Have Higher Purchase Intentions when Presented an Optional Surcharges

Significant Result: Participants receiving the optional surcharge frame had significantly higher purchase intentions than consumers receiving the mandatory surcharge frame.

Study 2: Conjoint Analysis: How Much Do Consumers Value Choice?

Dependent Variable: Purchase Likelihood (1: Very Likely, 7: Very Unlikely)

Conjoint Equation

Purchase Likelihood = 3.12 - .68*(325 Channels) - .66*(435 Channels) - .25*(95% Signal Quality) + 1.02*(.95% Signal Quality) + 1.15*($60 Per Month) + 1.96*($85 Per Month) + 3.24*($110 Per Month) + 28*(Optional Surcharges)

Optionality Matters to Consumers Who Opt-In for Optional Surcharges

Optionality: t(198) = 3.03, p < 0.01

Contribution

Optionality Matters

Consumers are willing to pay more to receive the same resource or pay the same amount for less of a resource and optional surcharges increase purchase intentions.

Theoretical Implications

Add to the pricing, choice, and reactance literature by showing reactance moderates the relationship between optionality and purchase intentions.

New Pricing Strategy for Managers

 Managers have a new way to present prices to consumers which can increase purchase intentions with little to no cost to the firm.

References