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Does “Bait and Switch” Really Benefit Consumers?

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Abstract

While the field of marketing science has long been interested in the effects of promotional efforts, public policy issues involving illegal marketer fraud and deception have generally not been addressed in this body of work. One key exception to this generalization is a *Marketing Science* article suggesting that the practice of “bait and switch” may be beneficial to consumers and, furthermore, that the Federal Trade Commission should investigate revising its standards to legitimize this practice (Gerstner and Hess 1990). This finding and recommendation seemed so significant that it is surprising that the recommendation has not, to date, been explored in greater detail.

In this paper we further explore the impact of the two components of bait and switch: out of stock and upselling. We do this by using Moorthy’s (1993) theoretical modeling

framework to systematically extend and assess the Gerstner and Hess model. We find that the previously reported increase in consumer welfare that arises from allowing out-of-stock conditions at retailers is actually due to the utility created by salespersons’ explaining product features and benefits, not by the out of stock. Thus, the ramifications of both our legal and modeling analyses are that deceptive bait-and-switch practices result in harm to consumers and *should not* be legalized.

Our paper concludes by proposing worthwhile modeling issues for further exploration. In addition, we suggest that our procedure for analyzing public policy issues (by exploring the confluence of law, consumer behavior, and marketing models) can serve as a useful exemplar for further contributions to public policy by marketing scientists. (*Pricing; Promotion; Public Policy; Bait and Switch*)

1. Introduction

New Rapids Carpet Center, Inc., offered a “greatest carpet special ever,” offering both 150 square feet of carpet and an upright vacuum cleaner or rug for \$77. When consumers responded, the firm disparaged the product (stating only cheap people buy this carpet) or said it was unavailable. In only one case did a consumer insist on the special, and the firm simply never delivered it. Actual prices paid in response to the high-pressure sales tactics were much higher than the advertised special of \$77, often in excess of \$400 and as high as \$723. No customer ever received the “free gift.” The firm was found guilty of deceptive “bait and switch” practices, in addition to other violations (In re, New Rapids Carpet Center, Inc., et al. 1977).

The field of marketing science has long been interested in the effects of promotional efforts to influence consumers’ choices of stores or items to purchase. Many aspects of this topic have been effectively studied in such areas as advertising, pricing, selling efforts,

and deals. *Marketing Science* has been prominent in featuring such research. It is notable, however, that public policy issues involving illegal marketer fraud and deception have generally not been addressed in the body of marketing science work in promotion. Clearly it is possible for an individual promoter to gain short-term profits through the use of consumer deceptions in advertising, pricing, or selling practices (Lazear 1995),¹ but few marketing scientists have examined promotions that are deceptive or fraudulent in nature.

A notable exception to this generalization is a *Marketing Science* article by Gerstner and Hess (1990), hereafter GH. Their paper advances an inherently surprising conclusion: that “bait-and-switch” practices can

¹We are indebted to Professor James Hess for bringing this reference to our attention.