Special Session Summary   Loss Aversion: What Is It and What Does It Mean For Marketing

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[to cite]:

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Session Summary
Countless experiments have established that losses loom larger than gains (Kahneman and Tversky, 1979). In most of these experiments, subjects in an experimental auction demand more for an item they possess than they are willing to pay for the same item not in their possession. This robust finding obtains even when buy-low/sell-high strategies are irrelevant (as in incentive-compatible games, experiments where items are traded and no money exchanges hands, etc.).

Usually loss aversion, a more extreme affective reaction to losses versus gains, is invoked as the cause of the preference differences in the two frames. But it is not altogether clear (1) exactly how this affective response works (or if it even exists), and (2) what loss aversion has to do with consumer behavior and marketing. In this session, we explore these issues.

The first paper, by Schkade, Kahneman, and McGraw, isolates loss aversion as an emotion, trying to measure whether consumers actually do respond more strongly to losses versus gains. The authors explore whether previous work on loss aversion uncovered artifacts or actual consumer differences; for marketers, this distinction is especially important. The second paper, by Johnson, et al., explores an issue of special importance to marketers: Individual differences. Yes, loss aversion may exist, but is there heterogeneity across consumers? In other words, are there segments? Finally, the third paper, by Walker and Irwin, recognizes that most market exchanges do not look like the typical gain/loss experiment. In the real marketplace, consumers divest themselves of objects in particular ways: They give them to a friend, donate to a charity, throw them away, etc. How does loss aversion depend on (1) the object being divested, and (2) the manner in which it is divested? This knowledge would help marketers interpret the extant loss aversion research to predict actual divesting behavior.

All of the papers in this session use both cognitive and affective measures to explore actual consumer responses to and manifestations of loss aversion. This approach is supported by research (e.g., Irwin 1994; Lerner, Small and Loewenstein 2004; Peters, Slovic and Gregory, 2004) indicating that loss aversion is driven by differential emotional foci in loss versus gain frames. This session thus would be of interest both to consumer decision researchers with an interest in loss aversion, and to other consumer researchers interested in affect and the interplay of affect and cognition.

Short Abstracts

“Loss Aversion and Predictions of Utility”
David Schkade, University of California – San Diego
Peter McGraw, University of Colorado
Daniel Kahneman, Princeton University

We examine loss aversion in affective forecasts. Study 1 investigates how symmetric positive and negative changes due to a relocation influence predicted changes to well-being. In Study 2 people judge the intensity of their feelings about monetary gains and losses. We ask people to match the force they exert on a handgrip dynamometer to the intensity of their anticipated experience. Loss aversion is present in predicted utility; people exert more force for negative events than positive events of the same magnitude. Using analyses from psychophysics we find the magnitude of loss aversion is similar to estimates previously derived from choices.

“Individual Differences in Loss Aversion”
Daniel Goldstein, Columbia University
Simon Gächter, University of St. Gallen
Andreas Herrmann, University of St. Gallen
William Sharpe, Stanford University
Eric J. Johnson, Columbia University

Evidence is emerging that most people are loss averse, that is losses appear to have a greater impact upon choice than the equivalent sized gains. However, this effect leads to three natural questions:

(1) Are all people loss averse? and
(2) How do they differ?
(3) Are there different degrees of loss aversion across different attributes.

In this paper we discuss analysis of two large studies of loss aversion with non-student populations. One is a sample of 360 German speaking respondents who gave selling and choosing prices for 4 auto attributes, a hypothetical choice among lotteries, and actually purchased or sold a small model car. The second data set is a study of 153 respondents reporting on their investments, and completing an innovative tool which allows individual estimates of loss aversion for retirement. Both samples provided a number of demographic, knowledge, and experience measures.

Our basic result is that there are large and systematic differences that are predicted by some theories of loss aversion, and not others. Degree of attribute knowledge increases loss aversion, attribute importance does not. There are also demographic differences in both samples: loss aversion increases with age, and differs across men and women.

“Why What It Is and Who It Goes To Matters: The Emotional and Experiential Antecedents of Product Disposal Choices”
Rebecca Walker, University of Texas
Julie R. Irwin, University of Texas

Although prior research on loss aversion (Kahneman and Tversky 1979) has shown that people value goods more when they have them than when they do not, this work has primarily manipulated the disposal of the good by asking subjects for a minimum selling price for a new good. In the marketplace product disposal rarely takes this form. Consumers have a history with their goods and may dispose of them in a number of ways (e.g., selling them, throwing them away, giving them to charity, giving them to a friend). We show that consumers strongly prefer some product disposal methods over others, and that these preferences depend on (1) product category, and (2) product history. In addition, three emotions: sadness, jealousy, and altruism, play distinct roles in product disposal choices. We explain how these findings render the literature on loss aversion more relevant to marketers, and outline how marketers with a stake in product disposal (e.g., storage companies, charities, flea markets) might capitalize on our results.
REFERENCE