The Moderating Effect of Product Familiarity on the Endowment Effect

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The endowment effect is a robust finding in the behavioral decision-making field. Previous research has demonstrated different factors influencing the endowment effect, such as, the effect of ownership history, transaction demands, and the presence of a reference price. This research focused on product familiarity and its impact on the endowment effect. Our findings indicated that the magnitude of the endowment effect may be influenced by product familiarity. These findings were drawn from 410 participants in two experiments that support our hypothesis that the endowment effect will be small when consumers have a higher level of product familiarity.

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ending price, they realize that it is only one cent lower than the zero-ending price, and no large discrepancy is created in their perception of price. Conversely, consumers with a low NFC are more likely to be affected by psychological tactics when faced with a nine-ending price, as they have a low motive to process price information and prefer to use heuristics by reading prices from left to right. This renders them liable to underestimate prices (Coulter, 2001).

Our hypothesis is therefore as follows:

H: Consumers with a low NFC will be more likely to perceive nine-ending prices to be lower than zero-ending prices than will consumers with a high NFC.

The data from the two experiments also provide cumulative evidence for the role played by the NFC in the nine-ending price effect. Consistent with our prediction, a high NFC reduces the magnitude of the nine-ending price effect. We demonstrate that consumers with a low NFC will be more likely to perceive nine-ending prices to be smaller than zero-ending prices than will individuals with a high NFC. We also found that the influence of the NFC on the price-ending effect is not exerted only on the rightmost digit (Study 1), but also on the leftmost digit (Study 2). This research contributes to the literature by offering empirical evidence that the NFC effect influences the nine-ending effect. A related question is whether it is important to use nine-ending prices. In response, we show that a nine-ending price is sometimes, but not always, perceived to be lower than a price that is one cent higher, and reveals that the perception is more likely to occur when consumers have a low NFC, as they are more likely to perceive no difference between nine-ending and zero-ending prices. There seems to be a domain invariant cognitive phenomenon underlying the popularity of nine-ending prices.

Reference

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In monetary-based trade, goods held by sellers are sold in exchange for monetary funds held by a buyer. Although the task of a seller is to sell its merchandise and the task of a buyer is to get the goods s/he needs, when doing so, the main goal of both seller and buyer is to maximize their gains (Goldman, Kraus, & Shehory 2004). But, how do consumers decide on the highest price they are willing to pay for a desired product? And, how do they decide on the lowest price they are willing to accept for a product they wish to sell?

The assessment of objective values refers to the fact that “people are required to estimate the least price they are willing to accept (WTA) when selling something and the ceiling price they are willing to pay (WTP) when buying something”.

The data from the two experiments also provide cumulative evidence for the role played by the NFC in the nine-ending price effect. Consistent with our prediction, a high NFC reduces the magnitude of the nine-ending price effect. We demonstrate that consumers with a low NFC will be more likely to perceive nine-ending prices to be smaller than zero-ending prices than will individuals with a high NFC. We also found that the influence of the NFC on the price-ending effect is not exerted only on the rightmost digit (Study 1), but also on the leftmost digit (Study 2). This research contributes to the literature by offering empirical evidence that the NFC effect influences the nine-ending effect. A related question is whether it is important to use nine-ending prices. In response, we show that a nine-ending price is sometimes, but not always, perceived to be lower than a price that is one cent higher, and reveals that the perception is more likely to occur when consumers have a low NFC, as they are more likely to perceive no difference between nine-ending and zero-ending prices. There seems to be a domain invariant cognitive phenomenon underlying the popularity of nine-ending prices.
Most economists argue that the gap between WTA and WTP should converge for most commodities. However, experimental research has shown that the values of WTA and WTP might remarkably differ, even for the same object. This discrepancy in selling and buying price for the same object is rooted in the status of ownership and is termed “the endowment effect” (Kahneman et al. 1990).

Familiarity is defined as the number of product-related experiences that have been accumulated by the consumer (Alba and Hutchinson 1987). For example, familiarity with a product may lead to the use of prior product-related knowledge to direct the acquisition of information (e.g., information search; Brucks 1985) and the evaluation of information (e.g., to make compensatory trade-offs; Bettman and Park 1980).

Familiarity gives experienced consumers several advantages. It decreases the information search for existing alternatives (Bettman and Park 1980), provides a superior ability to encode new information (Jeffries et al. 1981), and allows the consumer to pay attention to relevant information and ignore irrelevant information (Johnson 1993).

Hence, this study explores whether consumer’s product familiarity influences the endowment effect on the selling price and buying price. It is reasonable that the perceptions of value of both seller and buyer are influenced by product familiarity and therefore indirectly moderate the endowment effect.

**Experiment 1**

The purpose of this study is to test our hypotheses that ownership and the level of product familiarity interact and influence subjective valuation. The product familiarity of the participant was experimentally measured and its effect on endowment effect was observed.

The experiment was conducted by a factor-two level (ownership: owner vs. non-owner) between-subjects design. A total of 206 undergraduate students at the University of Vannung participated in this experiment as part of their course requirement marketing management class, and were randomly and equally assigned to one of two different experimental conditions.

These statistics strongly support our assumption that the endowment effect is larger when people have a lower level of product familiarity than people with higher level of product familiarity.

**Experiment 2**

Experiment 1 supports hypothesis one. However, the way we measured familiarity may not exclude the influence from other variables, such as prior knowledge or experience. To further demonstrate the endowment effect on product familiarity, experiment 2 manipulated the main variable to examine our hypotheses.

The objective of Experiment 2 aims to manipulate product familiarity rather than to measure product familiarity to test the robustness of the endowment effect.

The experiment was conducted by a 2 (ownership: owner versus non-owner) x 2 (product familiarity: high versus low) between-subjects design. A total of 204 undergraduate students at the University of Vannung participated in this experiment, and were randomly and equally assigned to one of four different experimental conditions.

As we expected, the analysis revealed a significant interaction between the endowment effect and product familiarity. The endowment effects are smaller when people have a higher level of product familiarity than for those who have a lower level of product familiarity.

**Conclusion**

All other things being equal, sellers tend to pursue a higher selling price for an owned object than they would be willing to pay as buyers (e.g. Kahneman, Knetch, and Thaler 1990). However, as proven by the results of three experiments in this study, the level of product familiarity can affect the magnitude of the endowment effect. The endowment effects are smaller when people have a high level of product familiarity and the endowment effect is small when people have a low level of product familiarity. Hence, the level of product familiarity can be classified as a moderator in the endowment effect.

**References**


