Paying More But Choosing Less: How Input Factors Drive Preference Reversals in Consumer Decisions

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Previously research has shown that input-factors (like the amount of effort put in, direct costs, etc.) significantly influence the preference for an item even when they are non-diagnostic about the true utility derived from the item. In this paper we demonstrate, using three studies, that such non-diagnostic input factors have greater influence on preference when consumers are asked to price items than when they are asked to choose from the same items. This leads to an input-factors driven preference-reversal for consumer products. Further, we rule out scale compatibility hypothesis as a key driver for our results and instead propose a transaction fairness hypothesis.

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EXTENDED ABSTRACT

Previously it has been observed that input factors (like the amount of effort put in, direct costs, etc) which are likely to be non-diagnostic about the true utility derived from an item, significantly influence the preference for an item. In this paper we demonstrate that such non-diagnostic input factors have a greater influence on preference when consumers are asked to price items than when they are asked to choose from the same items. This leads to an input factors driven preference-reversal for consumer products. We demonstrate that this effect persists even when input factors are not monetary or quantifiable. In this manner we rule out scale compatibility hypothesis as a key driver for our results and instead propose a transaction fairness hypothesis.

Economics views individual decision makers as outcome-maximizers. This implies that all consumer decisions will be driven by the personal utility that an item provides to the consumer. However, consumer research has repeatedly shown that consumers invoke a variety of guiding principles and behavioral rules. Such rules can often undermine utility maximization. In this paper, we look at one such rule—consideration of input factors/ costs, and not just outcome utility, in constructing preferences for a consumption item.

In our first study, we asked respondents to express their preference for two paintings—one which was visually more appealing, while the other which had taken a longer time to finish. Participants who were asked to choose amidst the two chose the former more frequently. However, participants who were asked to price the paintings were willing to pay a higher price for the former.

In our second study we compared the pricing of the two products with the choice share of these two products. Products differ in terms of input factors. There were several pricing and choice conditions in the experiment. In some conditions, the products were priced separately (i.e. respondents who priced product A did not price product B and vice versa). This was done to more accurately reflect the reality in markets where consumers often focus on a singular item while pricing it, like bidding on eBay. In other conditions, products were priced jointly. In addition, in some conditions target products were chosen or priced when they were tied-in with other products. Our main hypothesis is that input factors influence pricing more than choice. Specifically, conditions 1-5 were pricing conditions while Conditions 6 & 7 were choice conditions. In the pricing conditions, participants were asked to state the maximum amount of money they are willing to pay to purchase a high (hardware) or low (software) input factor product with or without bundled (free) goods. In the choice condition, participants were asked to choose between high or low input factor product with or without bundled goods. The key findings of this experiment were that participants priced the high input factor more than the low input factor in the pricing condition. However this preference order was reversed when participants were asked to choose amidst these two options. Our main hypothesis was supported. We also found that input factors influence pricing more than choice for tie-in products, and even when prices are elicited in a joint-evaluation mode. Significantly, our choice and description of experimental stimuli was such that we rule out scale compatibility hypothesis as the key driver of our results.

The third experiment manipulated input costs within the same product category thereby controlling for any confounds. Again, in the pricing condition, participants valued the high input factors option (Restaurant B) more than the alternative; however in the choice condition participants chose the low input factors option more.

One of the most basic assumptions of the rational theory of preferences is the principle of extensionality (Arrow 1982) or invariance (Tversky & Kahneman 1986). This states that the preference ordering should not depend on the description of the options (description invariance) or on the method of elicitation (elicitation invariance). The present studies add to the evidence of elicitation invariance driven by a consumer’s perception of the input costs and efforts involved in making a good. In this paper we have demonstrated that input bias significantly influences preferences, more in a pricing task than in a choice. This effect is not solely driven by scale compatibility, but continues to influence pricing even when input factors are not easily quantifiable. Also, we demonstrate that the pricing task primes the goal of transaction fairness which leads to higher pricing of the high input factors option. This hints at the possibility of such pricing-choice differences for all situations where non-diagnostic factors have been shown to influence preferences.

REFERENCES


