Motivated Valuation: a Motivational Perspective on the Disparity Between Willingness-To-Accepted and Willingness-To-Pay

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We propose an alternative explanation for the disparity between willingness-to-accepted (WTA) and willingness-to-pay (WTP). We argue that sellers and buyers differ primarily in their intrinsic motivational orientation. Unlike the loss aversion explanation, which suggests that both sellers and buyers are concerned with what they are giving up, we propose that sellers are concerned with what they are getting whereas buyers are concerned with what they are giving up. Consequently, sellers are motivated to maximize what they are getting and buyers are motivated to minimize what they are giving up. Results of five studies are consistent with a motivated valuation explanation.

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EXTENDED ABSTRACT
The disparity between willingness-to-accepted (WTA) and willingness-to-pay (WTP) refers to the finding that individuals tend to ask for a higher price when they are giving up an item as opposed to when they are acquiring it (Thaler 1980). Descriptive economic explanations derived from prospect theory (Kahneman and Tversky 1979) state that this disparity rests largely on notions of reference dependence and loss aversion. Thereby sellers, when they become endowed with an object, experience loss aversion, and because losses loom larger than gains, the discrepancy in valuation of the object emerges (Kahneman, Knetisch, and Thaler 1990). Loss aversion is perhaps the most accepted explanation for the effect (Brenner et al. 2007). Current interpretations of loss aversion in the WTA/WTP disparity build on the notion that it is sellers’ concern with losing an object and buyers’ concern with losing their money that are equally responsible for the effect (Zhang and Fishbach 2005). Despite the enlightening conceptualizations (e.g., Carmon and Ariely 2000, Nayakankuppam and Mishra 2005), it appears that explanations solely based on loss aversion fail to capture some aspects of the valuation process (Brenner et al. 2007; Horowitz and McConnell 2003; Novemsky and Kahneman 2005; Sayman and Öncüler 2005), perhaps because of its primary focus on what is being foregone or given up while what one is getting is relatively ignored.

This research proposes an alternative explanation for the disparity between WTA and WTP. We argue that a seller and a buyer differ primarily in their intrinsic motivational orientation, and the different motivations underlying the valuation process lead to the disparity between WTA and WTP. Our basic premise is that the role of a seller and a buyer activates different intrinsic motivations predisposing individuals in each role to behave accordingly (Buss 1995). Giving up a good is an intrinsic part of being a seller as is acquiring a good an intrinsic part of being a buyer. Given that in most transactions, the good being exchanged is identical and constant for both parties, the motivational orientation of both the seller and the buyer is likely to center on the mutable aspects of the transaction (e.g., monetary valuation of the non-mutable good). Because of the different motivational orientations, sellers and buyers differ in terms of the aspects of the transaction that they primarily attend to in the valuation process. Specifically, when individuals adopt the role of a seller or a buyer, the intrinsic motivations and cognitions associated with each role are activated (Ferguson, Hassin, and Bargh 2008) such that sellers are primarily concerned with what they are getting and are motivated to maximize that, and buyers are primarily concerned with what they are giving up and are motivated to minimize that. The conflicting motivational orientation of the seller and the buyer leads to the disparity between WTA and WTP. Note that loss aversion would account only for buyers’ motivation of minimizing what they are giving up, but not sellers’ motivation of maximizing what they are getting.

We adopt a motivation-as-cognition approach (e.g., Kruglanski et al. 2002), which treats motivation as a dynamic construct and allows us to investigate goal pursuit of buyers and sellers in five studies. Studies 1-3 test the prediction that the role of a seller is associated with the goal of maximizing what they are getting whereas the role of a buyer is associated with the goal of minimizing what they are giving up. Study 1 suggests that sellers approach transactions with a “make money” mindset and buyers approach transactions with a “save money” mindset. Study 2 examines participants’ reaction time to words related to the proposed goals of sellers and buyers and show that sellers respond faster to words related to maximization (e.g., maximize, high, increase) and buyers respond faster to words related to minimization (e.g., minimize, low, reduce). Study 3 shows that priming the goal of selling or buying to neutral traders produces the same disparity between WTA and WTP. Studies 4 and 5 investigate conditions under which goal pursuit of buyers and sellers might change and, consequently, buyers may be willing to pay more for a product, and sellers may be willing to accept less for the same product. We manipulate two factors that are expected to moderate goal pursuit in a systematic way, namely the pursuit of multiple goals (Shah, Friedman, Kruglanski 2002; Shah and Kruglanski 2008) and goal fluency (Avnet and Higgins 2006; Labroo and Lee 2006). Study 4 primes the alternative goals of competition or cooperation and shows that when participants are primed with a competition goal, the price disparity effect is observed, and when participants are primed with a cooperation goal, buyers are willing to pay more and sellers are willing to accept less. Study 5 shows that goal fluency moderates the effect such that the disparity between WTA and WTP was eliminated in the low goal fluency (versus the high goal fluency) condition. Taken together, the five studies build on goal theory to provide support for the motivated valuation explanation. The basic premise is that sellers’ primary motivation is to maximize what they are getting whereas buyers’ primary motivation is to minimize what they are foregoing or giving up. Understanding of the motivations that underlie the valuation process provides deeper insights into the factors that affect the valuation process and the conditions under which the WTA-WTP disparity exists.

REFERENCES


