When Avoidable Losses Are Perceived As Gains: Repair Costs and Their Effects in New Product Purchases

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Paying to repair a broken product may be perceived as a loss to consumers because doing so only restores benefits without providing any new advantage. Yet paying to repair may be avoided when a consumer chooses to replace the product. This research shows that when consumers do replace, the avoided repair price is perceived as a gain, increasing willingness to pay for the replacement. Two experiments show willingness to pay for a replacement depends on how seriously repair is considered and whether the repair decision is made in a separate stage from the replacement choice.

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Consumers frequently consider money that they save as a gain, consistent with prospect theory (Kahneman and Tversky 1979). Studies have shown this phenomenon in different purchase situations, such as rebates (Thaler 1985) and trade-ins (Okada 2001). When presented with these savings, consumers show less price sensitivity in new purchases. In particular, saving money can be viewed as a gain by avoiding a loss (i.e. in trade-ins, waste is avoided by attributing a residual value to the used product).

But what about cases where a consumer finds herself facing a payment to repair a broken product or replace a lost item? Does framing the purchase of a better camera as a way to avoid paying to repair the old camera lead to increased price sensitivity for the new one?

This paper provides evidence that other types of avoidable losses cause a reduction in the price sensitivity of consumers, in particular when a product is in need of repair. Repairing a broken product is painful since the repair cost is perceived as a loss. In order to return to the status quo, the consumer must sacrifice money. This makes a repair quite different from a purchase, where the money is intended to be spent and thus is not viewed as a loss (Novemsky and Kahneman 2005). A similar loss occurs in the case of a consumer losing a possession, and purchasing the same item again. The repurchase only returns the consumer to the status quo.

This research builds on the mental accounting literature (Thaler 1985). If a consumer seriously considers repairing a broken product, the repair cost is likely allocated to its own mental account. Actively searching for repair prices indicates a certain level of commitment to the repair option and also increases the rigor of budgeting (Heath and Soll 1996), as some amount of money is allocated to the repair account.

If the consumer then decides not to repair, the amount allocated to the repair account remains unspent. Hence, we hypothesize that a repair amount that was not spent is likely to be transferred from the repair account to the replacement account. This gain will therefore reduce price sensitivity in the purchase of the replacement. In other words, the higher the repair amount, the less price sensitive the consumer will be in the new purchase. According to prospect theory the perceived gains should increase as the repair costs increase, but at decreasing rates (Kahneman and Tversky 1979; Thaler 1980).

We conducted two experiments to test our hypothesis that repair cost influences repurchase price sensitivity. In the first study, we manipulated repair prices for washing machines and laptop computers, two common household durable goods. Participants were told to imagine that a washing machine they had bought seven years ago for $500 was in need of repair (or a one year old laptop computer they had bought for $1,600). The repair price manipulation had levels representing 40%, 80% or 110% of the original price ($200, $400 and $550 for the washer and $640, $1,280 and $1,760 for the laptop). Participants were asked to provide their willingness to pay for a new product using a scale with prices from $250 to $750 in $50 increments for the washer and from $500 to $3,000 in $250 increments for the laptop. As predicted, an ANOVA showed that the mean willingness to pay increased as the repair costs increased (washer: F(1,81)=12.622, p<.001, M40%=4.61, M80%=7.12, M110%=7.83; laptop: F(1,88)=5.590, p<.005, M40%=4.49, M80%=5.83, M110%=6.16).

In the second study we told participants that they had a 4 megapixels digital camera that recently broke. The choice task was to select a price for a new camera ($200, $250 or $300 for a 4, 5 or 6 megapixels camera, respectively). Half of the participants were asked first whether they would repair the broken camera, and then chose between the three price/feature levels. The others had just one decision task: repair the broken camera or purchase one of the three new alternatives. This manipulation was intended to force participants to broadly or narrowly bracket the decisions (Read, Loewenstein and Rabin 1999), and to support the hypothesis that the repair cost needs to be considered as a separate option to effectively reduce price sensitivity. In this case, setting the decision stages together (broad bracketing) would allow participants to see that the repair was just one of several possibilities, which would not allow them to feel the pain of spending.
money to return to the status quo. The narrow (sequential) versus broad (one stage) decision making was also included to rule out alternative explanations, such as participants inferring that a higher repair price meant that their original camera was more expensive.

An ANOVA revealed a main effect of repair cost (F(2,98)=4.546, p<.025) and an interaction between repair cost level and decision format (F(2,98)=5.267, p<.01). As repair prices increase, participants move from the cheapest camera model to the more expensive ones, but only in the sequential decision condition. The mean willingness to pay for each repair level in the sequential decision was M$_{100}$=221.88; M$_{150}$=255.56; M$_{200}$=275. The willingness to pay means for each repair level in the non-sequential decision was M$_{100}$=244.12; M$_{150}$=235.56; M$_{200}$=243.75. Although we expected that all means in the sequential decision condition would be greater than the means in no non-sequential decision, the mean difference found in the two conditions where the repair price was $100 is not significant. These results support our proposition that the avoided loss—the repair amount—takes the form of a gain by being transferred to the product account.

This research provides support for the hypothesis that repair costs can be perceived as a gain towards the product account when the consumer decides not to do the repair, thus reducing the price sensitivity towards the replacement good. Our findings seem to be relevant both to consumers—that should be aware that money saved is not a gain—and to marketers—that could try to create strategies to sell more expensive products by framing repairs as perceived gains.

References

Anonymous and Unanimous: The Impact of Anonymity on Judgments of Opinion Representativeness
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John is about to write an online review about a digital camera that he just purchased. He wants his opinion to have the greatest impact possible. Should he provide an anonymous opinion or should he identify himself? Common sense and research on communication suggest that identified sources make messages more trustworthy (Rains 2007). The decision to act on an opinion, however, depends not only on its perceived trustworthiness, but also on its perceived representativeness: is the opinion representative of the population of customers or just an isolated case? The question we address is: “Are people more likely to infer a more representative (versus more idiosyncratic) opinion when the source is anonymous or identified?” Building on attribution theories, we propose that it is easier to attribute an opinion to idiosyncratic preferences when the opinion is associated with a name than when it is anonymous.

Attribution theories suggest that behaviors result from the summation of dispositions and situational factors (Jones & Davis 1965, Kelley 1967). In our research, the behavior of interest is writing the opinion or review. Thus, a product review reveals the summation of the reviewer’s dispositions and situational factors, one of which is the product’s actual performance. If a consumer who reads the review wants to infer how good the product is, he or she has to discount the reviewer’s dispositions. If the consumer can easily attribute the review to the reviewer’s dispositions, he or she will infer that the review does not say much about the product. Consequently, this consumer will think that this is an isolated opinion and not a consensus. When a person expresses an opinion that is known to be a consensus, it is difficult to attribute it to that person’s idiosyncratic dispositions. Conversely, if the opinion is known not to be a consensus, it is easy to attribute it to the person who produced it (Jones and Davis 1965).

We hypothesize that people have learned from experience that idiosyncratic opinions are strongly associated to a person’s identity whereas consensuses are weakly associated with any one person. Moreover, people use this knowledge to make the reverse causal inferences: if an opinion is difficult to link to one particular person, it is probably a consensus. Thus, we predict that if an opinion is identified (as opposed to anonymous), it is easier to make a dispositional attribution, and therefore the identified opinion is less likely to be perceived as representative that the anonymous one.

Study 1
The first study was a 2 (anonymity: anonymous vs. identified) X 2 (opinion valence: positive vs. negative) between-subjects factorial. Participants (n=251) read a scenario where they took the role of a restaurant manager. They were told that they had received some customer feedback. Then they read the feedback which was either positive or negative. In the identified condition, the last line of the feedback form displayed a name—purportedly of the customer who wrote the feedback. Participants in the anonymous condition did not see any name.