Financial Incentives and Consumer Product Choices

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We examine the role of common promotional instruments, including targeted promotions, coupons, quantity discounts, referral discounts, and bundling, in arousing reactance and degrading consumer choice within product assortments, positing that they induce more price-sensitive, cautious decision-making among a firm’s existing (but not new) customers. To assess this proposition, we conducted both laboratory experiments and field studies across a total of seven different purchase contexts and six different types of concessions. The results of these varied tests provide convergent evidence for our proposition and provide new insights into the role of reactance in customer decision making.

[to cite]:

[url]:
http://www.acrwebsite.org/volumes/15230/volumes/v37/NA-37

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SPECIAL SESSION SUMMARY

Constraints and Consequences: Psychological Reactance in Consumption Contexts
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SESSION OVERVIEW

The purpose of this special session is to explore the importance of psychological freedom and reactance in consumer contexts. The marketplace is replete with promotional and social influences, persuasion attempts, advertisements perceived to be manipulative, firm and government regulations, and product unavailability or other barriers (Clee and Wicklund 1980). All of these factors may threaten the ability of consumers to make free and unconstrained choices. Psychological reactance concerns a motivation to restore a threatened freedom (Brehm 1966), and has unique and specific implications for behavior. Though researchers have suggested that psychological reactance is an important construct to study in the field of consumer behavior (e.g. Clee and Wicklund 1980), the topic has received scant empirical attention. The three papers in the proposed session illustrate the versatility and universality of reactance processes, demonstrating the influence of this understudied construct in various novel contexts.

Bertini and Dholakia investigate how common marketing promotions may undermine intrinsic motivations and arouse reactance, inducing more price-sensitive, cautious decision-making by consumers and leading to less favorable managerial outcomes. These findings provide an important counterpoint to the notion that consumers respond favorably to incentives. The second presentation, by Bhattacharjee and Berger, examines how identity marketing messages that are positioned too strongly, though unwittingly favored by managers, may provoke reactance in consumers. Identity marketing reactance not only results in worse managerial outcomes, but may impact the way consumers see themselves, influencing downstream identity-relevant decisions. The final presentation, by Leander, Chartrand, Shah, and Fitzsimons, explores how differences in chronic reactance may alter the effects of social influences, giving rise to either assimilation or contrast effects. Highly reactant individuals are likely to act in opposition to social pressures, with important implications for consequential behaviors such as underage drinking.

Together, these papers highlight some of the ways in which consumers strive to assert control over their decisions and choices by countering external influences that are perceived to diminish their freedom. Specifically, the symposium demonstrates how both firm-generated promotions and peer and social influences can threaten perceived freedom and arouse reactance. Furthermore, reactance may potentially influence managerial and purchase outcomes, consequential health behaviors, and the way in which consumers see themselves. Given the widespread applicability of the issues discussed, it is expected that the session will be attended by researchers with interests in decision-making, communication and persuasion, promotions, identity, social influence, and consumer welfare and well-being. Following Kivetz (2005), we hold that psychological reactance is a mechanism critical to consumer functioning within the marketplace. As such, we believe that psychological reactance is a crucial avenue for future consumer behavior research. We hope that the diverse approaches to consumer freedom and reactance represented in this session will generate a lively and fruitful discussion.

EXTENDED ABSTRACTS

“Financial Incentives and Consumer Product Choices”
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A cardinal argument in managerial economics is that individuals respond to financial incentives. This intuition follows from the assumption that money affects effort and performance such that rewards reinforce desired behaviors while penalties mitigate undesired ones. Social and cognitive psychologists, on the other hand, often claim the opposite is true. For example, they argue that behavior is primarily driven by intrinsic motivations (e.g., altruism), and that compensation, an extrinsic motivation, can crowd out the first to the point that the activity becomes less appealing (Deci, Koestner, and Ryan 1999). Similarly, researchers have also suggested that financial incentives undermine performance because they violate social norms of approval (Fehr and Falk 2002) and reciprocity (Fehr, Gächter, and Kurzhele 1997), or because they induce behavioral justifications that damage interpersonal judgments (Bem 1967; Kelley 1971).

The ongoing debate on the merits and shortcomings of economic concessions has important implications in the field of marketing, where consumers are constantly offered discounts in exchange for buying certain products or quantities. As recently as 2004, for example, approximately 30% of marketing mix budgets in the United States (US) was spent on promotional activities.1 In the United Kingdom (UK), £19 billion was spent in 2007 alone, with up to 60% of the population responding to one or more campaigns in any given month (Mullin and Cummins 2008).

Building on the notion that providing incentives undermines an individual’s intrinsic motivation and arouses reactance and suspicion, we propose that the mere presence of promotional instruments (all involving a lower purchase price) induces more price-sensitive, cautious consumer decision-making among existing (but not new) customers of a firm. This proposition was supported in six studies, four laboratory experiments and two field studies, conducted using a variety of different incentives in different contexts. Specifically, we studied the effects of five common marketing tactics: (1) bundling products at a lower aggregate price, (2) offering a quantity discount on larger purchases, (3) providing an initial payment to consumers that switch suppliers and become customers, (4) giving a price reduction for transactions made through a low-cost channel (e.g., the Internet), and (5) giving a referral discount to customers for signing up their family, friends, or coworkers. In each of these cases we found that the monetary incentive “backfired.”

In study 1, the addition of bundled offers to a line of individual products decreased the likelihood that participants elected to purchase from this store. Moreover, participants spent significantly less money per transaction when bundles were made available. In study 2, selling two different sizes (small and large) of the same branded products led to an increase in the proportion of respondents preferring the lower priced, lower quality option. We also observed a shift in attention from quality attributes (quality ratings) to price.

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during decision-making. In study 3, cellular phone services with either a short (3 months) or long (2 years) contract term were offered to new customers who contacted the firm on their own initiative or were given $75 to switch providers. In the latter case, participants were more likely to choose a less expensive plan and spend less on add-on services, but only for the contract of longer duration. Finally, in study 4 we examined the effect of offering a discount for using an online channel to sign up for cable TV and Internet service. In this experiment, participants that were offered an incentive were less likely to pick a premium (more expensive) channel package and also more likely to select a lower-speed Internet connection.

Study 4 included two different tests of referral discounts. The first was conducted with 98 patrons at a café. Participants were given a screenshot of an eBay CD auction, with a picture of the CD cover, a description, a starting price of $0.99, and shipping costs of $5. The seller’s feedback rating was displayed on the top right-hand corner. We manipulated whether the seller offered a referral discount or not. Specifically, only participants in the Incentive condition read the following additional message: “I offer a referral discount. Get your friend to bid and win one of my other auctions within seven days of yours and receive 10% off your winning bid.” After reading their respective version of the stimulus, respondents noted the maximum amount they would be willing to bid for this CD. Participants that were offered a financial incentive (the referral discount) from the seller entered a lower maximum bid ($5.89) than those in the Control condition (M=$8.25, p<0.05). A second test, involving evaluation of a pre-approved credit card offer from a bank, showed that participants in the Incentive condition were less likely to apply for the credit card (M=4.06) and liked the offer less (M=4.94) than those in the Control condition (likely to apply: M=5.16; p<0.02; liking of offer: M=6.03; p<0.02).

These laboratory results provide initial evidence that firms may in fact be better off not offering monetary incentives to consumers. In an effort to provide real-life evidence to support this claim, we then conducted two longitudinal field studies and found consistent results. One was conducted in cooperation with an automotive services firm and revealed that the detrimental effects of being given a coupon were limited to the firm’s existing customers. In contrast, its new customers did not show any adverse effects. The last field study was conducted in cooperation with a major bank and showed that the preferences of its existing customers for incentive-based promotions foreshadowed their relational behaviors towards the firm over the course of a year afterward. Taken together, the results of these varied tests provide convergent evidence for our proposition and provide new insights into the role of reactance in customer decision making. In our presentation at the conference, we plan to present the results for a selection of these studies and discuss the theoretical and practical implications of our research.

“Escaping the Crosshairs: Reactance to Identity Marketing”
Amit Bhattacharjee, University of Pennsylvania, USA
Jonah Berger, University of Pennsylvania, USA

Researchers and practitioners alike have long acknowledged the importance and potential of marketing appeals based on identity. For decades, academics have looked beyond the functional aspects of products to examine the symbolic nature of consumer choice, including the importance and potential of marketing appeals based on identity. For decades, academics have looked beyond the functional aspects of products to examine the symbolic nature of consumption (e.g., Levy 1959). A sizeable literature has established that the identities consumers hold drive them to select constellations of products and services that maintain and strengthen those identities (e.g., Forehand and Deshpande and Reed 2002).

Given that consumers are attracted to brands and products that reflect the identities that they possess (Forehand et al. 2002), brand managers and marketers presumably are smart to attempt to position brands and products in order to reflect particular social identities: fostering this sense of connection may lead to a deeper, more persistent sense of consumer loyalty (Reed 2004). Achieving a sense of congruence or fit between the product, marketing appeal, and the consumer is thus seen as mutually beneficial, helping both the company and the consumer (Sirgy 1982).

But can targeted identity marketing messages have a dark side? Research suggests that consumers are inherently motivated to avoid biasing factors such as marketing influence (Wegener and Petty 1997). Similarly, Friestad and Wright (1994) have argued that the marketplace is fraught with situations in which consumers must interpret and react to persuasion attempts and marketing messages. As such, consumers develop a store of personal knowledge of persuasion tactics, and are constantly employing these skills in negotiating the social environment (Wright 1986).

The current research examines when identity marketing may backfire. In particular, we suggest that if messages are too strongly targeted, consumers may react against them, leading to decreased evaluation and choice. Consumers often choose products and cultural tastes in order to construct their identities and communicate information to others (e.g., Berger and Heath 2007; Douglas and Isherwood 1978; Shavitt 1990), and they are motivated to protect their sense of individual agency, such that they can ensure that their expressions of identity are intrinsically motivated and not influenced by external factors (Kivetz 2005; Lepper 1981). The theory of psychological reactance concerns freedom of choice (Brehm 1966). Reactance itself is defined as “the motivational state that is hypothesized to occur when a freedom is eliminated or threatened with elimination” (Brehm and Brehm 1981 p. 37). In other words, the theory contends that when an existing freedom is threatened, people are motivated to reassert the freedom. Thus, the present research proposes that identity marketing messages that are too strongly targeted—that is, messages that infringe on the consumer’s ownership of the identity, or that threaten the intrinsic nature of the expression of that identity—may threaten the freedom of consumers to freely express the targeted identity, resulting in consumer reactance. As a result, consumers may turn on the brand, leading to lower evaluation and purchase likelihood.

Three experiments begin to test this theorizing. The first study tested managerial intuition about potential reactance in identity marketing. Undergraduate business majors were shown three marketing messages (one strongly targeted: “You’re not green unless you clean with Charlie’s!”, one moderately targeted: “Two green thumbs up for Charlie’s!” and one with no targeting: “Two thumbs up for Charlie’s!”) for a biodegradable cleaning product identity-relevant to “green”, environmentally friendly consumers, and told to choose the most effective one to reach this segment. Results revealed that the strongly targeted message was favored over the nontargeted message and the moderately targeted message, and was predicted to result in the highest consumer evaluation and purchase likelihood.

But while these results are consistent with the thrust of the identity literature, study 2 demonstrates that stronger is not always better. Participants were primed with green versus neutral identities, and viewed the advertisement for a biodegradable cleaning product from the study 1, accompanied by one of the three identity marketing messages. Results indicated that participants with activated green identities felt significantly less freedom to express their identities, and indicated lower product evaluations and purchase likelihood when they had viewed the strongly targeted advertisement, relative to participants who viewed the other messages. Furthermore, a meditational analysis showed that freedom to ex-
press identity mediated the relations between message targeting and the outcome measures of product attitude and purchase likelihood. Together, study 1 and study 2 suggest that managers may not anticipate reactance, and may unwittingly prefer those messages most likely to provoke this response in consumers.

In addition to these managerial consequences, study 2 provides initial evidence that identity marketing reactance alters the way in which consumers see themselves: consumers targeted with strong identity marketing appeals may experience a threat to the identity, subsequently de-emphasizing it and reducing its centrality. Study 3 extends these findings, demonstrating an impact on downstream identity-relevant decisions: participants who had viewed a strongly targeted message for the biodegradable cleaner indicated significantly less willingness-to-pay for an unrelated green identity-relevant item, relative to moderately targeted and nontargeted messages. This result did not hold for a neutral, non-identity-relevant item.

Taken together, the current results indicate that targeted identity marketing appeals may have a dark side. Strongly targeted messages can restrict consumer freedom, provoking consumer reactance and resulting in unfavorable outcomes for both the brand and the consumer. Consistent with research suggesting that individuals shift identities strategically in response to threat (Mussweiler, Gabriel, and Bodenhausen 2000), identity marketing reactance may have important downstream consequences. The current research underscores the importance of crafting promotions and advertisements that maintain a sense of consumer agency, particularly for products and domains relevant to the way in which consumers see themselves.

"Feeling the Pressures: Considering the Context-Dependencies of Reactance Motivation in Underage Alcohol Consumption"

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Every parent of a teenage son or daughter has struggled with how best to introduce and manage the subject of alcohol consumption with their child. Should a parent offer their sixteen year old son a beer while out fishing in the hopes of demystifying alcohol? Or should that parent suggest to their son that he not have his first beer until he turns 21, the legal drinking age, and turn a blind eye to the social realities of teenage life? In our paper, we examine the influence of the social environments in which underage potential drinkers find themselves on their drinking related attitudes. We introduce into this research domain an important psychological moderator of peer influence, namely chronic reactance (Brehm 1966).

Psychological reactance was defined by Brehm as a motivational state in which an individual seeks to restore a restricted freedom. In other words, when someone feels that you are taking away one of their choice freedoms, they will experience a desire to reassert that freedom. A typical example of such a restriction would be a parent, teacher or authority figure telling a teenager that they are forbidden from engaging in a certain activity (e.g., using drugs, drinking, unsafe sex, etc.). A reactant response to such a restriction would be a desire to be able to choose for themselves whether or not to perform such a behavior. Such reactance is typically manifested in two ways. First, the restricted freedom (e.g., drinking, drugs, etc) becomes much more attractive. Second, the source of the restriction (e.g., the parent or teacher) becomes derogated.

More recently, researchers have argued that not all individuals experience reactance in similar magnitudes, but rather that some individuals are likely to experience reactance more intensely than others (Hong and Faedda 1996). In our work, we build on this basic notion and argue that the individual tendency to experience reactance is a critical moderator in determining the alcohol related attitudes and behaviors of consumers under 21 years of age. This group is particularly likely to experience reactance in this domain as prior research has found that younger consumers are more reactant than older consumers, and more importantly, that prior to 21, the law explicitly prohibits the consumption of alcohol in the United States, serving as a major restriction of a young person’s freedom to consume alcohol. Across three studies, we explore situations in which trait reactance moderates underage consumers’ reactions to social cues that could be perceived as restrictions to their alcohol related freedoms.

In study 1, we explore whether the choices a friend makes concerning underage drinking will impact participants. Specifically, we ask participants to imagine that a friend either made a choice to go drinking that night, or has a choice to go drinking, with the premise that a friend who has made a choice will be more of a social threat to freedom than one who simply has a choice. We later measure time spent considering alcohol related advertisements by our participants as an indirect measure of their inclination towards alcohol consumption (i.e., the more time they spend examining an alcohol related ad the more they are predisposed towards alcohol consumption). Our results show that for consumers low in trait reactance, the made/has a choice manipulation did not affect alcohol ad reading time. But as anticipated, for consumers high in trait reactance, when a friend had made a choice to go drinking (thus threatening the participants ability to choose not to go) alcohol ad reading time is significantly lower than when a friend simply has an option to go drinking, but has yet to make the choice. In other words, for reactant individuals, a choice by their friends to go drinking actually reduces the attractiveness of drinking for the participant.

In study 2, we examine an additional moderator of the effect observed in study 1, namely closeness of the other person making the drinking decision. In essence we argue that a choice by a close other should be substantially more threatening to a reactant individual than should a choice by a more distant other. This is precisely what we observe. When a close other chooses to pursue a drinking goal (i.e., to go to a party) those low in reactance also want to drink much more than if a distant other makes the same choice. However, this effect is reversed for those high in trait reactance. These consumers express more pro-drinking implicit behavior when those distant from them choose to drink than when those close to them do (as the close others choice to drink serves to threaten the high reactance consumers freedom to choose to drink, or not to drink). Study 3 extends these basic results by examining whether the context interacts with the choices of social others to influence reactant response to alcohol related choices. We find, for example, that a choice by another to have a non-alcoholic beverage in a bar serves as a highly threatening choice to consumers high (but not low) in trait reactance, and leads to more pro-alcohol related attitudes and behavior.

In summary, we find that trait reactance is a very important moderator of underage consumers’ reactions to the alcohol-related choices of social others. We hope our research serves to stimulate research in the domain of teen drinking behavior, and its interaction with the desire to maintain one’s freedom to choose. To date, campaigns such as “Just Say No,” a famous/infamous advertising campaign against drugs that targeted a highly reactant population,
suggest a deeper understanding could be highly beneficial from a public policy perspective.

REFERENCES