Resources Running Out: How Arbitrary Resource Fragmentation Decreases Consumer Spending

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Decision situations that are structured such that a decision to spend would potentially result in a resource running out reduce the propensity to spend, even when consumers are well aware that they have access to more resources. The effect is driven by increased loss aversion for the money given up in the transaction.

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EXTENDED ABSTRACT

In recent years, consumers’ liquid assets have become increasingly fragmented. The money that consumers can use to pay for a purchase tends to be distributed across a multitude of carriers of value including cash, bank accounts, electronic purse smart cards, stored value cards and certificates, prepaid cell phone credit, online wallets, and so on. Given this evolution, the primary objective of this research was to explore if and when such incidental budget divisions influence consumers’ decisions.

This manuscript suggests that people are particularly averse to seeing a resource, like the money in their wallet, the funds on their electronic purse, or their PayPal account, run out. Using a variety of operationalizations, five studies show that when decision situations are structured such that a decision to spend would result in a resource running out, consumers’ propensity to spend decreases. The first study demonstrates the effect by showing that cueing an incidental resource amount reduces the propensity to spend, but only when the cue amount would largely run out when it would be used to pay the item under consideration. Further studies show that the effect continues to occur when consumers are well aware that they have access to more resources, for example when they are also carrying a debit card that allows them to pay purchases directly from their bank account (study 2) or when they are carrying more cash money (study 3). The effect is also observed when the boundaries that separate a resource from the remainder of a consumer’s resource pool are manifestly arbitrary (study 4), and when spending merely creates the illusion of a resource running out (study 5). The effect is shown to be independent of perceived total wealth and of the accessible account effect (Morewedge, Holtzman, and Epley 2007) in study 2, of source effects (Shefrin and Thaler 1988) in study 3, and of perceived resource availability in study 4.

We offer an explanation based on the idea that different cognitive perspectives lead to different valuations (Ariely, Huber, and Werttenbroch 2005; Carmon and Ariely 2000; Heath, Larrick, and Wu 1999; Novemsky and Kahneman 2005). Specifically, we suggest that seeing a resource run out causes a shift in the cognitive perspective that is used to evaluate transactions. Imagining a specific resource running out makes the loss of resources associated with spending money very salient. We propose that this leads consumers to evaluate the money that would be given up in the transaction in the loss domain, which consequently reduces the propensity to spend.

We provide evidence for the process (loss frame activation) through three different routes. The first approach focuses on demonstrating the mediating role of anticipated pain of paying (Prelec and Loewenstein 1998; Rick, Fryder, and Loewenstein 2008) as phenomenological reflection of loss aversion for money. Consistent with the prediction that anticipated pain of paying mediates the effect, all five studies show that the effect of seeing a resource running out on the propensity to spend is moderated by Rick et al.’s (2008) spend-thrift-tightwads scale. The effect was strongest for spendthrifts and weakest among tightwads, who already feel pain of paying spontaneously. In addition, anticipated pain of paying is shown to statistically mediate the effect of seeing a resource running out on consumers’ spending intentions in studies 2 and 3. The process that underlies our explanation is more directly tested in studies 4 and 5 which provide evidence of shifts in cognitive perspective as measured by written protocols (study 4), and by proportionality judgments (study 5).

From a consumer welfare perspective, our results are particularly relevant to consumers who identify themselves as chronic overspenders (i.e. spendthrifts). These consumers may benefit from compartmentalizing their funds into relatively small parts. Ironically, consumers who want to reduce their spending may benefit from carrying a larger array of payment modes. Merely carrying different payment modes that typically contain small amounts, like cash and electronic purse smart cards rather than relying only on credit or debit cards, may help to reduce spending. Our research also has implications for marketers who promote the use of stored value cards to facilitate or encourage spending (e.g. cell phone carriers, public transit authorities, retail chains; Raghunbir and Srivastava 2008). Our research implies that such cards may sometimes backfire by discouraging consumers from spending when spending would imply that the card would (largely) run out.

REFERENCES


