The Endowment Effect For Experiences
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We show the endowment effect for experiences is greater than that for material products. The differences in the endowment effect arise because the seller/buyer perspective interacts with product type to elicit different levels of imagery processing. We then show mental imagery processing moderates the endowment effect for experiences.

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EXTENDED ABSTRACT

Products can be distinguished according to their relevant material and experience natures. Experience purchases are intangible, made with the primary intention of acquiring “a life event” or “series of events that one lives through”, whereas material products are “tangible objects, kept in one’s possession” (Van Boven and Gilovich 2003). Past research has shown experiences are more satisfying than material products (Van Boven and Gilovich 2003). What has not been examined is whether people value experience and material products differently and whether this valuation depends on the seller or buyer perspectives. This paper examines the difference between experience and material products in the market place -- willingness to pay (WTP) and willingness to accept (WTA), and how type of estimates (selling prices vs. buying prices) interacts with product type to influence valuation. Based on the literature on imagery processing (Macinnis & Price, 1987; Shiv and Huber 2000), we propose that experience elicits more mental imagery processing than material products for sellers, who focus on the benefit of the products, but not for buyers, who focus on the expenditure. As a result of this, experiences are valued more than material products for sellers but not buyers, leading to greater endowment effect for experience products. In line with this proposition, we show when mental simulation is encouraged, the greater endowment effect for experience (vs. material) product is exacerbated.

The paper contributes to the endowment effect literature, by demonstrating that the endowment effect depends on product type, and the experience products literature, by demonstrating the difference between experience and material possessions in imagery and valuation. Understanding this difference could give marketers insight into better pricing experience products.

Hypothesis 1: The endowment effect is greater for experience products than material products.

Hypothesis 2: Selling experience products evokes more mental imagery processing than material products, and mental imagery mediates the effect of product type on willingness to accept (WTA). However, buying experience products evoke the same level of mental imagery processing as buying material products, and mental imagery does not mediate the effect of product type on willingness to pay (WTP).

Hypothesis 3: Prompting participants to form mental imagery exacerbates the greater endowment effect for experience products, but not for material products.

Study 1 was a 2 x 2 design with product type (experience vs. material) and the type of estimate (selling prices vs. buying prices) as between-subject factors. We included three product categories as repeated measures and randomized the order. In the experience [material] product condition, the three product categories were ticket to one’s favorite author’s talk [one’s favorite band’s new book], ticket to one’s favorite band’s performance [one’s favorite band’s DVD collection], and movie ticket to a special one-time re-screen of the Lord of the Rings in 3-D [reprint of a signed movie poster of the Lord of the Rings]. Prices for all products were presented and were kept the same for the experience and material counterparts in the corresponding category (e.g., DVD collection vs. concert). Participants in the seller condition imagined they possessed the products and indicated the minimum prices they were willing to sell the products; participants in the buyer condition indicated the maximum amount they were willing to pay for the products. Finally, they indicated the extent to which they like each of the product on a 1-7 scale (1 = not at all; 7 = very much).

We standardized the prices according to the market price (dividing participant’s valuation by market price), and used the standardized price estimates as the dependent variable. An ANOVA reveals a main effect of product type, a main effect of sell/buy perspective and a significant interaction between product type and type of estimates.

In the material product condition, the endowment effect was present. The endowment effect was present in the experience product condition, and the effect was greater than in the material condition, indicated by the significant product type x sell/buy perspective interaction.

Study 2 followed the same 2 x 2 between-subjects design as study 1 with the following modification. After participants indicated their WTP/WTA, they were then asked to answer three questions that capture mental imagery and one question that capture closeness to the self. The effect of study 1 is replicated. Furthermore, we tested mental imagery as moderated mediator. We proposed and tested for Hayes model 8, in which the seller/buyer type of estimates moderated both the relationship between product type and material imagery (indirect path) and the relationship between product type and price (direct path). A bootstrap with 5,000 draws was administered to examine the conditional indirect effects (Hayes 2012, model 8). Mental imagery mediated the relationship between price and product type for sellers (95% CI: 0.05, 0.20) but not for buyers (95% CI: -.08, .05). Closeness to the self does not serve as a moderated mediator.

In study 3, we tested H3 regarding the moderating effects of mental simulation on the endowment effect. If mental imagery is the mechanism, we would expect encouraging participants to form mental imagery would change the endowment effect. Because experience products are more compatible with mental imagery processing, we propose encouraging participants to mentally simulate will increase the endowment effect more for experience products than for material products.

Study 3 was a 2 product type (experience vs. material) x 2 type of estimates (selling prices vs. buying prices) x 2 mental simulation instruction (presence vs. absence) between-subject design. Mental simulation was manipulated by asking participants to imagine what the experience [material] product will be like and rate their anticipatory satisfaction for the experience [material] product (adapted from Shiv & Huber 2000).

An ANOVA with standardized price as the dependent measure and product type, type of estimates, mental simulation, and their interactions as independent variables, revealed main effects of product type, seller/buyer role, and mental simulation, three two-way interactions and a three-way interaction. We included subject ID as a fixed effect to control for subject-specific variation. The significant three-way interaction was such that the difference in endowment effect between experience products and material products was exacerbated when we encouraged participants to form mental images of products. Specifically, when mental simulation was absent, the endowment effect was present for
both material products and experience products; there was a marginally significant product type x type of estimates interaction. When mental simulation was present, the endowment effect was present for both material products and experience products. There was a significant product type x type of estimates interaction, indicating the endowment effect was greater for experience products than material products.

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