Increasing Incentive Effectiveness By Linking the Incentive to a Source the Consumer Paid Into

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This work examines the role of psychological ownership in incentive design. Three experiments demonstrate that incentives designed to encourage purchase are more effective if consumers feel ownership over the money used to fund the incentive. Differences between incentives contingent on purchase, and windfall incentives, are discussed.

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EXTENDED ABSTRACT

Government, employers, and marketers often use incentives to motivate certain behaviors (e.g., Shapiro and Slemrod, 2003; Volpp, Asch, Galvin and Loewenstein, 2011). However, their effectiveness varies considerably. Insight as to why this might be can be found in multiple streams of research. Of particular relevance to our work, Epley and his collaborators (Epley and Gneezy, 2006; Epley, Mak and Idson, 2006) demonstrates that consumers are more likely to spend windfall framed as a bonus (other’s money) than as a rebate (one’s own money). Potentially at odds with these findings is research on savings and decumulation decisions (Shu and Payne, 2015) which finds that the more strongly people feel that Social Security benefits come from money they contributed through their working life, the sooner they want to claim (and presumably spend) it.

To reconcile these findings, we note that windfalls require no action to be taken in order to be received, while claiming Social Security benefits early requires a volitional decision by the retiree. Building on these streams of research, we predict that consumers will react to incentives differently depending on whether the incentive is linked to their own money or other people’s money, and whether the incentive is conditional on their behavior, or is in the form of an unconditional windfall. Specifically, we hypothesize the following:

Hypothesis 1: When receiving an incentive is contingent upon making a purchase, a consumer is more likely to make the purchase if the incentive is framed as being funded from a source she/he has paid into.

Hypothesis 2: When receiving an incentive is not contingent upon making a purchase, a consumer is less likely to make the purchase if the incentive is framed as being funded from a source she/he has paid into.

In Study 1, participants imagined they were in the market for a house with some flexibility on the issue of when to buy. While they would prefer to buy next year rather than this year, there was a factor that might expedite their decision, namely, a $10,000 first time home buyer incentive. The experiment manipulated the source of the incentive: individual income taxes / corporate income taxes / seller concession. The dependent variable was the likelihood of purchasing a new house now, elicited on a 9-point scale. Results indicated that participants were more likely to expedite their purchase in the “individual income tax” condition (M = 6.94) than in the “corporate income tax” condition (M = 6.11; t(192) = 2.28, p < .05) or the “car manufacturer” condition (M = 6.03; t(192) = 2.43, p < .05). A bootstrapping analysis demonstrated that that psychological ownership of the incentive fully mediated the effect of the source of incentive on early purchase (β = .34, SE = .10; 95% confidence interval = [.16,.56]).

Study 3 examined the effectiveness of an incentive in encouraging healthier diets and explored the issue of contingent vs. windfall incentives. The study adopted a 2 by 2 factorial design. A scenario described a $200 discount of a CSA membership offered by a health insurance company. The incentive was either contingent on subscription or paid up front (in which case it could be spent elsewhere), and was either funded by insurance premiums or donations. The dependent variable was the likelihood of CSA subscription, elicited on a 5-point scale. An ANOVA revealed no main effect of the source of the incentive (F(1, 118) = .06, p = .81), a main effect of the contingency of the incentive (F(1, 118) = 3.77, p = .05), and the predicted interaction between contingency and source of the incentive (F(1, 118) = 11.67, p < .01). Specifically, when the incentive was contingent upon CSA subscription, students were more likely to subscribe when the incentive was funded by insurance premiums than by donations (Mpremiums = 3.62, Mdonations = 2.81; t(59) = 2.65, p = .01); when the incentive was not contingent upon CSA subscription, students were less likely to subscribe in the “premiums” condition than in the “donations” condition (Mpremiums = 2.44, Mdonations = 3.14; t(59) = 2.20, p < .05).

In summary, framing purchase-contingent incentives as being funded by money consumers have contributed to increases consumer’s perceived ownership over that incentive, which in turn increases their motivation to claim it. However, this effect reverses for non-purchase-contingent (windfall) incentives. These findings have potentially significant implications for a wide range of public policy oriented incentives that aim to motivate society-improving behaviors. For example, consider the cash-for-clunkers program, or incentives to buy solar power systems, both would potentially be made more effective by simply framing the source of the subsidies/incentives as being paid into by the target market. Similarly, in the consumer realm, we have preliminary data that grocery store promotions are more likely to be successful if framed as being store profit funded (i.e. shoppers contributed to) than a manufacturer concession.

REFERENCES


