Preference Refinement After a Budget Contraction

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Across seven studies, we show that the trade-offs required to reconcile a budget contraction (of time, money or space) yield preference refinements that persist when the budget re-expands. We rule out anchoring and under-adjustment as a cause and discuss implications for brand loyalty.

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EXTENDED ABSTRACT

Most models of consumer choice assume that preferences are independent of budget levels. Specifically, consumers are thought to react symmetrically to increasing and decreasing budgets, landing at their optimal combination of options for any given budget level. Empirically, however, prior research has demonstrated that this is not the case (Carlson, Wolfe, Blanchard, Huber and Ariely 2015; Dargay 2001; Kamakura and Du 2012; Shea 1995). For example, Carlson et al. (2015) showed that rather than making small changes in consumption across all options, consumers who faced a contracting budget cut out entire categories of consumption while maintaining full consumption in others.

In the current work, we examine whether allocations of a given budget for a person are the same before versus after a budget contraction (i.e., when the budget re-expands to pre-contractionary levels). In other words, do the allocations that emerge under budget contractions reflect a temporary shift in preferences akin to transient preference shifts, or are these shifts in preference more stable and lasting? We contend that the trade-offs necessary during a contractionary period persist when the budget re-expands; consumers engage in a process of refining their preferences as they reconcile trade-offs (Hoefller and Ariely 1999) and figure out what really matters to them. We use change in number of unique items selected as our metric of preference refinement. That is, we count the number of unique items to which the re-expanded budget was allocated ($X_t$) and difference it from the initial budget allocation ($X_i$) ($M_t$ = $X_t$ - $X_i$). We then test for a positive difference ($M_t$ > 0) to determine if there has been a refinement in preferences.

Studies 1A-1C: Time, Money and Space

Study 1 examines the preference refinement effect across time, money and space. Specifically, study 1A (N=119 students, 43% female, median age=19) examined allocations of a sequence of travel budgets (21 days to 7 days to 21 days) to cities. Study 1B (N=130 MTurkers, 42% female; median age=36) examined allocations of money to holiday gift recipients under a sequence of financial budgets ($850-$350-$850). Study 1C (N=276 students, 30% female; median age=19) measured allocations of vegetable seeds across a budget of planting rows in a garden plot (21-10-21). In all studies, participants exhibited preference refinement (Study1A: $M_t$=0.42, SD=1.49, $t$(118)=3.07, $p$=.003; Study 1B: $M_t$=0.31, SD=1.10, $t$(129)=3.19, $p$=.002; Study 1C: $M_t$=0.18, SD=1.18, $t$(275)=2.51, $p$=.01). Participants consistently allocated their final budget to fewer unique items than they allocated the same budget before experiencing a contraction (i.e., preference refinement occurred in all three studies).

Study 2: Time Delay

Study 2 was conducted to examine the opposing forces of preference refinement and preference consistency by examining allocations two days apart. Student participants (N=77, 56% female; median age=19) allocated time to travel (as in S1A); 63 completed a follow-up 21 day allocation two days later. Preference refinement appeared in the initial 21-7-21 survey ($M_t$=0.33, SD=1.15, $t$(62)=2.30, $p$=.03. Two days later, the 21 day allocation was significantly lower than the initial 21 day allocation ($M_t$=-0.46, SD=1.20, $t$(62)=3.04, $p$=.003. There was an additional decline between the second 21 day allocation on the first day and the 21 day allocation two days later, though it was ns. Preference refinement that began as a result of contraction out-lasted desire to make allocations that were consistent with initial allocations.

Study 3: Strength of Contraction

Study 3 examined different levels of budget contractions (21-7-21 vs 21-14-21) in the domain of time. Those experiencing a more extreme contraction face more trade-offs, which should lead to greater preference refinement. Students (N=200, 49% female; median age=19) exhibited greater preference refinement under an extreme contraction (21-7-21: $M_t$=0.64 (SD=2.24, $t$(99)=2.86, $p$=.005) than under a modest contraction (21-14-21: $M_t$=0.28 (SD=1.62, $t$(99)=1.73, $p$=.09). Extreme contractions led to greater preference refinement.

Study 4: Trade-Offs and Dispelling Anchoring

Trade-offs made during the contractionary period should mediate the relationship between condition and final allocation. To examine this, MTurk workers (N=420, 42% female; median age=36) were randomly assigned to either simple expansion ($350-$850) or a contraction re-expansion condition ($850-$350-$850) (using the stimuli from S1B). Three measures of trade-offs were completed after the $350 allocation: “Were you making trade-offs?” (1=“definitely not” to 7=“definitely yes”), “Were your decisions governed by trade-offs?” (1=“not at all” to 7=“extremely”), and “How many trade-offs did you make during the $350 allocation?” (slider bar from 0 to 10). For simple expansion, allocations moved from 7.16 to 8.23 as the budget increased. In the contraction re-expansion condition, we observed the standard preference refinement effect ($M_t$=0.54, SD=2.01, $t$(210)=3.87, $p$=.001) and directionally less variety in the final allocation under re-expansion (7.84) than under simple expansion (8.23). This result helps dispel anchoring as an alternative explanation for the findings. Additionally, individuals believed trade-offs were more instrumental under re-expansion compared to simple expansion (all $p$.01). Trade-offs partially mediated the relationship between (re)expansion and the final $850 allocation (PROCESS, model 4, $b$=0.30, SE = 0.08, BC 95% CI = [0.16, 0.47].

Study 5: Self- Versus Other-Determined Allocation Variety

Study 5 examines the source of constrained choice in the contractionary period as either self- or other-determined. If the contractionary choice is made by another, participants will not need to make trade-offs, and we should not observe preference refinement. Students (N=219, 46% female; median age=18) participated. In the self-determined condition, the 7-day allocation was based on personal preference. In the other-determined condition, a travel partner picked three cities for the 7-day trip. Participants completed trade-off questions.

When self-determined (N=115), preference refinement occurred ($M_t$=0.36, SD=1.76, $t$(112)=2.19, $p$=.03). However, when the contraction allocation was driven by another’s preferences (N=106), the preference refinement effect did not obtain ($M_t$=0.22, SD=1.13,
If anything, participants exhibited preference expansion under this condition.

**Discussion**

When budgets contract, consumers face difficult trade-offs that help them discover what really matters to them. This process leads to non-transient preference refinement – preferences were narrower and more consistent after a contraction. The work has implications for brand relationships that must be reinforced during economic downturns to prevent less-preferred brands from being cut permanently.

**REFERENCES**


