Cost-Benefit Associations and Their Influence on Loan Experience

Bernadette Kamleitner, University of London, UK
Erik Hoelzl, Universitaet Wien, Austria
Erich Kirchler, Universitaet Wien, Austria

We assessed whether the degree to which consumers mentally associate costs and benefits of a loan transaction has an impact on consumer experiences. Three studies show that differences in strength and direction (from costs to benefits or vice versa) of associations are related to the perceived aversiveness of payments. Payments are the more painful, the more benefits evoke thoughts of costs. Conversely, the degree to which costs evoke benefits has no influence on consumer experiences. These results contrast with previously established theories. An alternative theoretical account is discussed and future research directions are suggested.

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EXTENDED ABSTRACT

Most decisions are determined by costs and benefits. We investigate whether it matters to which degree consumers mentally associate costs and benefits of a transaction. In 1998 Prelec and Loewenstein suggested that the pleasure of consumption decreases, if thoughts related to consumption strongly evoke thoughts of payment. Also, they suggested that the pain of paying decreases, if thoughts related to payment strongly evoke thoughts of consumption. Or to put it differently: if the benefits of a transaction make people think of the cost, the benefits themselves become devaluated. If the cost of a transaction make people think of the benefits, the cost become less onerous. To ascertain whether cost-benefit associations (CBAs) really have these suggested consequences it seems necessary to assess and manipulate the actual degree of cost-benefit associations. Even though some studies have drawn on Prelec and Lowenstein's concept of coupling (Gourville and Soman 1998; Heath and Fennema 1996; Kivetz 1999; Soman and Gourville 2001) they did not directly measure cost-benefit associations. Rather, it has been assumed that certain differences in transaction characteristics lead to differences in cost-benefit associations (e.g., assuming weak CBAs due to price bundling Soman and Gourville 2001) which in turn contribute to differences in consumer evaluations and behaviour (for an exception, see an interview study by Kamleitner and Kirchler 2006). We aim to fill this gap.

In three studies, we assessed the consequences of cost-benefit-associations on consumer evaluations of a personal loan. Personal loans were chosen as a context because buying a good on a loan entails several consumption and payment episodes over a long time period. Consequently, costs and benefits are likely to be salient and in turn loan users are likely to be able to report on CBAs.

Study 1 was a field study among 143 personal loan users. CBAs were assessed by two straightforward items asking for the strength of each direction of association (e.g., 'When I think of the loan I always also think of the goods I bought with it'). Subjective evaluations of the loan and the good were assessed as dependent variables. Separate regressions were run to predict both dependents. The subjective burden of the loan significantly regressed on the degree to which the benefits evoked thoughts of the cost (B2C-association) whereas it did not regress on the degree to which the cost evoked thoughts of the benefits (C2B-association). This result holds even if possible income effects are controlled for. Contrary to that, the subjective evaluation of the loan financed good does not relate to the degree of CBAs. Hence neither of the assumed consequences was observed. Strong B2Cs did not reduce the utility of consumption and strong C2Bs did not reduce the burden of the loan. Rather, strong C2Bs seemed to relate to the burden of the loan. The more the benefit (i.e. loan financed good) made people think of the cost (i.e., loan), the more burdensome the loan was experienced.

To make sure that CBAs have a causal impact on subjective evaluations, Study 2 manipulated CBAs in a paper pencil experiment. 128 Participants were asked to immerse into a short scenario about a person who took up a loan for a car. In particular, the scenario contained two short episodes and thoughts the person had during that episode. Wording of the thoughts was varied so that both directions of CBAs were manipulated independently. After immersing into the scenario, participants were asked to provide subjective evaluations of loan and car. A manipulation check indicated that the manipulation was successful. A 2x2 MANOVA tested for an effect of B2C- and C2B-associations on evaluations. As in Study 1, there only was a main effect of the B2C-association. If benefits strongly led to thoughts of cost, the loan was experienced more burdensome and the car was experienced less positive than if this association was weak. In sum, Study 2 reconfirms and adds to findings of Study 1. As in Study 1 B2C-associations had an effect on loan burden. In addition, the hypothesized effect of B2C-associations on the utility of the good was observed.

Study 3 was designed to assure generalizability across designs and samples. 235 people participated in an online experiment: Participants were asked to imagine that they had among other goods a loan-financed car. They then had to work through several slice-of-life episodes, some of them featuring the car or the loan. Slight changes in wording and in accompanying pictures were successfully used to prime B2C- and C2B-associations. Subjective evaluations were again assessed. Results of a 2x2 MANOVA are in line with the previous studies. There was only a main effect of B2C-associations. The subjective loan burden was higher if the car strongly evoked thoughts of the loan. No effect on the subjective utility of the car was observed.

To conclude it seems that—at least with loan-holders—CBAs do not have the consequences often assumed. This finding is of practical importance and it is worthwhile to investigate why we did not observe the theorized relations, e.g., strong B2Cs had a consistent effect on cost rather than benefit perception. One possibility is that associations are influential because of a meta-cognitive impact. Strong associations can increase the cognitive accessibility of the associated concept. Accessibility in turn may act as cue to the affective quality of the concept (e.g., Wanke, Bohner, and Jurkowitsch 1997). For example, if a good strongly evokes thoughts of payment, consumers may focus on their intense thoughts of payment and interpret them as indicative of a massive pain of paying. The current studies allow for this possibility. Future research is needed to show to which degree our findings can be generalized across transaction contexts, measurements and manipulations.

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