The Impact of Reference Bias in Hedonic Consumption

Chia-Jung, Chang and Fang-Yu, Lee

Undergraduate Program of Business Administration, National Taiwan Normal University, Taiwan.

Received: 30 September 2014; Revised: 17 November, 2014; Accepted: 25 November, 2014; Availalbe online: 6 December, 2014

© 2014 AENSI PUBLISHER All rights reserved

ABSTRACT

This study tries to understand the reference bias in consumers’ hedonic mental accounts. Based on the mechanism of Reference-Dependent Theory, the experiment demonstrates that hedonic avoidance effect is eliminated in the higher proportional reference frames, whereas the effect supported in the lower proportional reference frames.

Key words: mobile commerce, mobile transaction, message persuasiveness, transaction security

INTRODUCTION

Mental accounting proposes that the set of cognitive operations used by consumers to track and evaluate outcomes differently, depending on how they are labeled and categorized [3,8]. Thaler (1999) declared that three components of mental accounting received the most attention. In the second component of mental accounting, the assignment of activities was involved with specific accounts. Specifically, both resources and consumption were labeled and grouped into accounts such as necessary (e.g. paying utility bills) versus hedonic consumption (e.g. a cruise vacation) by consumers [3]. Exploring the mechanism of hedonic consumption further was undoubtedly important. Kivetz and Simonson (2002) also demonstrated that guilty and painful feelings were aroused by buying hedonic goods. That is, if the negative affect aroused by purchasing hedonic products was counteracted by the positive affect of the money in the higher proportional reference state, the strength of the proportional reference state was proved.

Based on the Reference-Dependent Theory, this study examined the impact of reference bias in consumers’ hedonic mental accounts. The experimental results and concluding remarks have been presented together with implications and directions for future research.

Literature Review:

In one “dream vacation home” and “car loan” example, the reason why the couples finance with a car loan instead of paying cash is the money being put into different accounts labeled as “dream vacation home” and “car loan” [8]. That is, when consumers make a choice, how they code the money is the primary factor in violating the economic principle of fungibility [1,3,8]. Based on the Reference-Dependent Theory [11], previous studies have examined how the reference state of prices influences consumer perception on hedonic purchasing decisions and reverses preferences [2,10,11]. For example, Tversky and Kahneman’s (1981) Calculator Scenario demonstrated that 68% of the participants choose to make the trip to the other store under the context of $15 versus $5 and only 29% do it under the context of $125 versus $5. That is, shifts of the reference price indeed influence consumer hedonic purchasing decisions and reverse preferences.

In regards to combining just noticeable differences (JND) with mental accounting, this research has proposed that if the differences of the reference states are lower than the JND (e.g., $1,000 versus $50, extended from Weber-Fechner Law) when the consumers detect two or more stimuli of prices, they will ignore or be careless about coding the relatively low price ($50) into the different or same hedonic mental accounts. That is, the principle of non-fungibility in the different hedonic mental accounts or the principle of fungibility in the same hedonic mental accounts will disappear.

Research Design:

Participants, Procedure and Design:

Initially, 100 participants, including 60 males and 40 females with an average age of 25.4, were randomly and equally assigned to the Well-Known Handbag scenario. This experiment employed a between-subjects design with 2(higher versus lower reference biases) conditions. At the beginning of the experiment, participants were assured of anonymity and advised of their right to withdraw at any time.
They were also asked to read the scenario carefully before making their preferred decisions. After participants had read carefully and made their decisions, they, in each condition (lower or higher proportional state), had to complete their affective scales to the stimuli of spending. Finally, the numbers of the options in each scenario were collected and analyzed.

**Manipulation Checks:**

The manipulation that the products were labeled into the hedonic or necessary category, the following items were assessed on a 7-point Likert-type scale (1 = very strongly agree, 7 = very strongly disagree): “Do you agree that the Handbag is categorized into a necessary product?”, “Do you agree that the Handbag is categorized into a hedonic product?” The manipulation checks were successful (Handbag: Mnecessary=2.47 versus Mhedonic=5.66, p<0.01).

**Results:**

A hierarchical loglinear analysis was used to analyze the data. The effect of the proportional reference state on hedonic consumption were significant (γ2 (1) = 11.23, p<0.01). The findings demonstrated the strength of the proportional reference state. As expected, the findings revealed that the violations of fungibility in the different hedonic mental accounts were eliminated when consumers perceived a higher proportional reference state. Conversely, the violations of fungibility occurred in a lower proportional reference state.

Different from Levav and McGraw’s (2009) hedonic avoidance effect, which meant that people affixed to the money in their desire to manage the affective tags (e.g., frivolous and serious money), this study demonstrated that reference bias might moderate consumers hedonic mental accounting.

**Conclusion:**

Prior research showed that mental accounting helped consumers to label both resources and consumption, and grouped them into different categories; this led to violations of the normative economic principle of fungibility [7,8]. In this research, a reference-dependent state was emphasized and the finding was part of a growing body of research which presented the consideration of reference states that influenced the processes of consumer choice [1,11]. These results have many interesting theoretical and practical implications.

First, Levav, and McGraw’s study found a hedonic avoidance effect when consumers purchased hedonic goods. Our findings supported the hedonic avoidance effect conditionally. More generally, the effect was supported in the lower proportional stimuli of the money, but was not supported in the higher proportion state. Tice, Bratslavsky, and Baumeister (2001) found that people with emotional distress were more likely to lose their self-control and engage in frivolous (hedonic) consumption. Our results contradicted their findings that consumers who had negative affects elicited from the money were less likely to make a hedonic or necessary consumption. Due to positive affects arising by the money, they would make more hedonic or necessary purchases. Furthermore, O’Curry (1999) presented the income source effects that people tended to purchase hedonic products with windfalls more than with ordinary incomes [3,6,7,8]. In our research, the income accounting source effect was also supported conditionally. That is, the effect was supported only when consumers were under the context of a lower proportional reference state, and the effect disappeared under the context of a higher proportional reference state.

In addition, research on mental accounting [7,8] and mental budgeting [1] suggested that people may underconsume hedonic and luxury goods. However, our finding demonstrated that as long as a higher proportional reference state was provided, consumers would consume much more, whether hedonic or necessary products, even if they used their hard earned income. For example, if computer salespeople attached a price tag with a selling price much lower than the suggested retail price on a showroom computer when consumers came in and wanted to buy a computer, they would be influenced by a deep discount (higher proportional reference price) that might also provide a positive feeling. Then, a business deal would be done soon. At the same time, salespeople could promote external equipment (e.g., mouse, keyboard, computer audio) with higher prices (compared to the prices of the computers). A higher proportional reference state could influence the consumer consumption again and makes the consumer purchase much more due to the smaller pain of paying.

**References**


