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Experiencing costs and benefits of a loan transaction: The role of cost–benefit associations

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A B S T R A C T

Financial transactions involve costs and benefits. This also holds for loan transactions where the loan itself constitutes the main cost and the loan-financed possession constitutes the main benefit. This paper aims to investigate how the way consumers mentally associate costs and benefits influences their evaluation of these costs and benefits. In line with previous research we distinguish between strength and direction (costs bring to mind benefits or vice versa) of cost–benefit-associations. We posit that the occurrence of cost–benefit-associations constitutes a meta-cognitive experience which may influence consumer judgments in different ways. It may influence the evaluation of the base cognition and it may influence the evaluation of associated cognition. Whereas existing theorizing points to an effect on the former, an effect on the latter is equally conceivable. A field study with actual credit users and an experiment identify relations other than those previously assumed. If benefits elicit thoughts of costs, the perceived cost (here: loan burden) increase. If costs elicit thoughts of benefits, no effects on the transaction experience are observed. Implications for the theoretical analyses of cost–benefit-associations and for future research aiming to alleviate perceived loan burden are derived.

1. Introduction

Purchases are two-sided phenomena. On the one hand they involve the benefits of the purchased goods; on the other hand they also involve costs. People can be aware of these ‘‘two sides of the same coin” or they can forget about costs when thinking of the benefits and vice versa. Often people will see both sides and establish cognitive links between costs and benefits. For example, research on mental accounting shows that people frequently keep track of and compare costs and benefits of a purchase in order to evaluate whether a transaction is favourable or not (e.g., Hirst, Joyce, & Schadewald, 1994; Thaler,

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1985). However, consumers do not always establish strong and reciprocal cost–benefit-associations. For example, payment by credit card may obscure the cognitive link between costs and benefits, or people may be motivated to forget about the costs of a transaction (Prelec & Loewenstein, 1998; Prelec & Simester, 2001; Shafir & Thaler, 2006).

Differences in mental cost–benefit-associations (CBAs) are likely to be consequential. How people experience a purchase or behave towards a product and its seller may in part depend on how they associate costs and benefits (Kamleitner & Hoelzl, 2009; Prelec & Loewenstein, 1998; Soman & Gourville, 2001). For example, a person who consumes the benefits of a product without thinking of its costs may enjoy the product more and feel different about the costs than a person who is reminded of the costs when enjoying the benefits of a product. Considering the likely impact of CBAs on consumer's transaction experiences and the likely influence of business practice (e.g., via bundling, payment schedules, advertising) on the degree to which CBAs are established, CBAs are a relevant construct for scholars and practitioners.

This paper advances current knowledge by viewing CBAs as constituting a meta-cognitive experience. By applying a meta-cognitive perspective existing theorizing on the effect of CBAs is reconceptualised and extended, and two different ways in which CBAs may influence consumer judgment are outlined. We assess the actual ways in which CBAs influence consumer evaluations in the context of an important financial transaction in a consumer's life: a loan-financed acquisition. A field study and an experiment show a very selective influence of CBAs on consumer evaluations. This selective influence only partially confirms the influences hypothesized in previous theorizing.

2. Cost–benefit-associations (CBA)

CBAs are a specific instance of cognitive associations; namely the association between costs and benefits of a particular transaction. The term cognitive association denotes that processing a base cognition evokes an associated cognition (Anderson, 1974; Park & Schaller, 2005). In other words, a causal sequence of cognitions occurs. Cognitive associations can take on varying strengths. Strength of association refers to the automaticity (often measured as reaction speed) or the intensity with which cognitive associations are established (Greenwald, McGhee, & Schwartz, 1998; Park & Schaller, 2005). Cognitive associations have been extensively researched in cognitive psychology (Kounios, Smith, Yang, Bachman, & D'Esposito, 2001; Radvansky & Zacks, 1991), but research on the specific case of CBAs is still scarce. Some evidence on CBAs originates from the field of mental accounting.

Theoretical contributions to the field of mental accounting commonly focus on how consumers frame and keep track of financial transactions (e.g., Kahneman & Tversky, 1984; Kivetz, 1999; Thaler, 1985, 1990). Whereas many researchers investigated how consumers frame and combine costs and benefits of multiple transactions (Heath & Soll, 1996; Morewedge, Holtzman, & Epley, 2007; Shefrin & Thaler, 1988), other researchers focused on the mental accounting of costs and benefits within one specific transaction. In particular, Prelec and Loewenstein's (1998) theory of "prospective double-entry mental accounting" looks at the perception of a specific transaction. Most important for the current purposes, the theory posits that costs and benefits can be mentally "coupled", i.e., associated. Introducing the notion of "coupling", the theory models how the reciprocal interaction between streams of consumption utility and costs influences consumer experiences and decisions.

The theory of double-entry mental accounting assumes that both direction and strength of association matter. Consequently, cost–benefit associations are described by two "coupling coefficients": α stands for the degree to which thoughts of consumption evoke thoughts of payment (i.e., the benefit-to-cost-association), and β stands for the degree to which thoughts of payment evoke thoughts of consumption (i.e., the cost-to-benefit-association). α is high when thoughts related to consumption (e.g., thoughts of a loan-financed car) strongly bring to mind thoughts of the cost (e.g., thoughts of a loan). Conversely, β is high when thoughts related to the costs (e.g., thoughts of a loan) strongly bring to mind thoughts of benefits (e.g., thoughts of a car). The two directions of association can differ in strength, and asymmetries are possible (Prelec & Loewenstein, 1998). For example, costs may evoke thoughts of benefits while benefits are consumed without also having costs in mind (Kamleitner & Kirchler, 2006).

3. Consequences of CBAs

Despite their likely and often postulated (e.g., Shampanier, Mazar, & Ariely, 2007; Thaler, 1999) influence on consumer experience and behavior, there is not much empirical evidence on the actual consequences of CBAs. Empirical research has mostly concentrated on possible causes of CBAs without ensuring that CBAs really matter for consumer behavior (for a literature review see Kamleitner & Hoelzl, 2009). Moreover, research has centered on CBAs before or at the time of purchase. Despite their likely influence on the actual consumption experience, post-purchase CBAs have hardly been addressed. Although some studies have tried to assess CBAs directly (e.g., an interview study by Kamleitner & Kirchler (2006)), in the majority of cases the influence of CBAs has been inferred from differences in transaction characteristics. For example, Soman and Gourville (2001) assumed that price bundling (i.e., offering multiple benefits for one overall price) blurs and hence decreases the cost–benefit-association. A decrease in association was, in turn, inferred to account for experiential and behavioral differences observed for price bundling compared to no price bundling (e.g., less regret experienced if a skiing ticket cannot be used because of bad weather conditions). Due to such indirect inference of effects of CBAs it is difficult to say whether observed consequences were in fact due to CBAs and if so, whether both or only one direction of association were responsible.