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How consumers deal with missed discounts: Transaction decoupling, action orientation and inaction inertia

Marijke van Putten [a,*], Marcel Zeelenberg [b], Eric van Dijk [a]

[a] Leiden University, Department of Social and Organisational Psychology, Wassenaarseweg 52, 2333 AK, Leiden, The Netherlands
[b] Tilburg University, Department of Social Psychology, Warandelaan 2, 5037 AB, Tilburg, The Netherlands

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ABSTRACT

Attractive bonuses and large discounts are often successfully used to attract new customers and increase sales. However, from a marketing perspective these attractive opportunities might have a negative side effect, as they decrease subsequent sales to the consumers who missed them. In this review article we discuss how the inability to regulate the pain of missed opportunities might lead to this so-called inaction inertia effect. We argue that deficiencies in self-regulation may be explained on the basis of a combination of contextual and personality factors. We present literature on contextual factors that facilitate regulation (decoupling factors), and action orientation, an individual characteristic that enhances regulation. Finally, we discuss the practical implications of these results for the marketing and consumer behavior literature.

1. Introduction

Businesses spend a great deal of time and money in promoting their products and services to consumers. The goal of these promotions is, of course, to motivate consumers to buy the companies' products, or to sign up for their services. Successful ways to promote products to consumers are the offering of temporary price discounts and the provision of attractive bonuses. Evidently, these promotions increase sales because they both attract new customers and promote the willingness to buy more products in old and new customers. In this article we focus on a negative by-product of these generally effective marketing strategies. Research in economic psychology and behavioral economics has shown that these promotions might not just motivate consumers to act on them; they might also immobilize consumers who missed these promotions in the first place. Such immobilization may result in consumers missing out on subsequent attractive deals and thus hurt the consumer (Tykocinski & Pittman, 2001, 2004). Because of this, these marketing strategies may backfire and harm businesses, because when consumers will purchase less after missing a deal or even switch to another product or service, this results in less profit for the firm (Zeelenberg & Van Putten, 2005).

* Corresponding author. Address: Department of Social and Organizational Psychology, Leiden University, P.O. Box 9555, 2300 RB Leiden, The Netherlands. Tel.: +31 71 527 6845; fax: +31 71 527 3932.

E-mail address: puttenmvan@fsw.leidenuniv.nl (M. van Putten).

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The phenomenon that people forego attractive opportunities only because they missed a more attractive opportunity in the past was first described by Tykocinski, Pittman, and Tuttle (1995). In these pioneering studies, they for example demonstrated that consumers did not enroll in the frequent flyer program when they could accumulate 5500 free miles, only because they missed the opportunity to accumulate 15,500 free miles had they enrolled earlier. They coined this effect the *Inaction Inertia* effect. The term *Inaction* refers to the missing out on the initial opportunity; the term *Inertia* refers to the finding that people stay inactive (i.e., are inert) after this missed opportunity.

The literature on inaction inertia suggests that consumers can get stuck into inaction, and decline further attractive opportunities that they would otherwise have happily accepted. This does not imply that all people are equally likely to fall prey to the inaction inertia effect, neither does it mean that inaction inertia should be seen as a given. In this article we will provide an overview of studies that show how consumers' inertia may be overcome by considering action opportunities in isolation, free from the history of earlier choices. In addition these studies reveal how an action-oriented mindset may reduce inaction inertia effects. In the following, we will review the economic psychology of inaction inertia, and discuss the self-regulatory processes and motivational orientations that promote and prevent inaction inertia.

2. Inaction inertia: Getting stuck in the past

One of the most important determinants of inaction inertia is the inability to get over missing a more attractive opportunity. A basic and very consistent finding is that the more attractive the missed opportunity was, the lower the likelihood that a subsequent opportunity is taken (Tykocinski et al., 1995). In other words, the more painful missing an opportunity is, the more likely it is that inaction inertia occurs. For example, people are less willing to buy a ski pass on discount for $90 instead of the $100 regular price, if they could have bought the ski pass for $40 than if they could have bought the ski pass for $80 earlier (Tykocinski et al., 1995). Not just missing discounts, but also missing extra bonuses may turn out difficult to regulate (Tykocinski & Pittman, 2001). This effect is not restricted to purchasing products, but also generalizes for example to signing up for attractive events. For example, students are less willing to enroll in a course if they could have enrolled with an excellent teacher than if they could have enrolled with a mediocre teacher (Tykocinski & Pittman, 2001).

So why are people especially likely to become inert after missing out on a highly attractive opportunity? Why do not they act on the second opportunity? According to Tykocinski and Pittman (1998) the answer is that people feel that if they would act on the second opportunity, they would constantly be reminded of the missed opportunity. After buying the $90 ski pass, one would constantly be reminded of the fact that one missed out on the $40 pass; by taking the class, one would constantly be reminded of the missed class with the excellent teacher. Viewed this way, inaction inertia should thus be seen as a means to regulate the negative outcomes of prior inaction.

This regulatory effect was cleverly demonstrated by Tykocinski and Pittman (1998). Participants decided about renting an apartment 12 min away from the university entrance after they had either learned that they missed an opportunity to rent an apartment 2 min away from the entrance or that they missed the opportunity to rent an apartment 10 min away from the entrance. These participants showed the typical inaction inertia effect in that they were less likely to rent the apartment when they missed the opportunity to rent an apartment 2 min away than when they missed the opportunity to rent an apartment 10 min away. Interestingly, Tykocinski and Pittman also informed part of their participants that on their way to the university they would always pass the missed, more attractive apartment. For these participants, not renting the apartment was not a viable option to regulate the negative consequences of having missed an attractive apartment: Even if one would not rent the apartment this would not prevent one to dwell over the missed opportunity. In agreement with this reasoning, the findings showed that for these participants, attractiveness of the missed apartment was not important, and their likelihood to rent the apartment was high.

3. Decoupling missed opportunities

The findings and reasoning described above suggest that the chances of consumers to fall prey to the inaction inertia effect will be increased to the extent that the new opportunity acts as a reminder of missed opportunities. Opportunities that remind consumers of attractive missed opportunities are likely to be rejected. A way to avoid inaction inertia then also seems to break this strong association between opportunities. Research in economic psychology already showed that consumers are less likely to purchase a new theater ticket after they lost their ticket earlier than when they lost an equivalent amount of money (Thaler, 1985, 1999). Hence, the stronger a prior loss is associated with, or coupled to a subsequent purchase, the bigger the influence this prior loss exerts on the current purchase. Likewise, consumers are more reluctant to pass up a day of skiing under bad weather conditions if it means not using their ski pass that was issued for that particular day than if it means not using their weekly ski pass for that single day. Here, the 1 day skiing was more strongly coupled to a 1 day skiing pass than to a weekly skiing pass (Soman & Gourville, 2001). These studies and related ones on "transaction decoupling" (Gourville & Soman, 1998; Van Dijk & Zeelenberg, 2003), show that the more two opportunities are perceived as part of the same mental account, the more they are seen as "coupled" to each other (Prelec & Loewenstein, 1998). This literature has thus shown that coupling factors in economic transactions can have a profound influence on consumer decision making.

These insights are highly relevant for the question of how one might reduce consumers' susceptibility to fall prey to the inaction inertia effect. After all, when factors can be coupled, they can also be decoupled. When an action opportunity could be seen as being decoupled from a prior missed opportunity, consumers might also show less trouble taking it, and inaction