



## Income effects on relative importance of two online purchase goals: Saving time versus saving money?<sup>☆</sup>

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### ABSTRACT

The premise of the article is that income levels influence the relative importance of two objectives most consumers identify as reasons for shopping online, namely, saving time and saving money. The paper proposes and examines twin hypotheses that higher-income consumers may be more interested in saving time, while lower-income consumers may be more interested in saving money. The results show that higher-income consumers exhibit a greater tendency toward saving time than lower-income consumers, while the relationship between income level and saving money is less certain. The findings have important implications for marketing managers and public policy makers. Marketing managers need to be aware of the relative importance of saving time versus saving money to online shoppers while selecting the product assortment to be made available online. Public policy makers want to educate lower-income consumers on the importance of having saving money as an important shopping goal.

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Time is the main resource that consumers spend when they shop online or in traditional retail settings (Bhatnagar et al., 2000). The average American has less free time than in any period in modern history (Comor, 2000). Shopping on the Internet normally takes less time than shopping in traditional retail outlets because of the many time-consuming activities associated with the latter (e.g., driving to the store, finding a parking space, waiting in line at the check-out) (Bellman et al., 1999; Rohm and Swaminathan, 2004). Shopping on the Internet also enables consumers to save money. The money-saving potential of the Internet is often stated as an important reason for shopping online by many consumers. But not all consumers may be realizing these benefits.

The above observations lead to a number of potential research questions. Consumers can choose to focus on either the cost of search (e.g., saving time), or the benefit of search (e.g., saving money), or make a cost–benefit trade-off (e.g. balance time spent with money saved) (LeClerc et al., 1995; Okada and Hoch, 2004). As a practical matter, a majority of consumers focus either on saving time or saving money while shopping online (Horrigan, 2008), because many find it difficult to estimate the economic (i.e., monetary) value of their time and weigh it against the amount of money saved. Who are the people who focus more on saving time than money while shopping online?

Do they tend to have higher income? Or is this goal shared by lower-income consumers too? Similarly, is the goal of saving money shared by all online shoppers? Or only by lower-income consumers?

Lower-income consumers are often disadvantaged in traditional retail settings because they tend to pay more for goods and services as there are fewer stores in the neighborhoods in which they live (Bell and Burlin, 1993). With the advent of the Internet, a major concern was that a “digital divide” would magnify the differences between the rich and the poor due to unequal access to (and use of) new information and communication technologies (Mossberger et al., 2003; Wilson, 2004). Fortunately, the widespread availability of broadband in schools, colleges, public libraries, and offices has considerably narrowed the “digital divide” to the point that only minor differences in information technology use across income levels remain.

Yet, research indicates that certain segments of consumers may have benefited disproportionately more from the Internet than other groups (Zettermeyer et al., 2005). Despite the significant decline in the cost of Internet access, some segments of society, such as the elderly and the less-educated, have been slow to adopt and use the Internet because it is not considered an essential good (Moss and Mitra, 1998). Less-educated consumers possibly avoid the Internet because of the predominance of content directed at their better-educated counterparts (Mills and Whitacre, 2003). Thus, lower-income consumers are not realizing the same benefits of e-commerce as their higher-income counterparts (Baye et al., 2003). A recent US government report issued by the Federal Communications Commission (FCC) titled “Connecting America” (accessible at [www.broadband.gov](http://www.broadband.gov)) has made providing broadband access to lower-income Americans and enhancing their digital literacy a national priority (Commission Federal Communications, 2010). Hence,

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attempting to understand differences in online shopping behavior across the privileged and less-privileged segments of society is both timely and relevant.

## 1. Hypotheses and conceptual framework

The purpose of the research is to investigate the significance of two scarce resources (time and money) on the online purchase goals of consumers. The specific research question of interest is whether income levels influence the relative importance of two important objectives most consumers identify as an important reason for shopping online, namely, saving time and saving money. The twin hypotheses that higher-income consumers are more interested in saving time (because they value time more than money), while lower-income consumers are more interested in saving money (because they value money more than time) are examined. Several factors potentially moderate the primary relationships of interest, because they either augment or attenuate the effect of income. For instance, education and employment status could potentially influence the relative importance of both online purchase goals. Similarly, generational age (e.g., Gen Y, Gen X, leading boomers) and the extent to which the Internet is used at work or at home could also have an effect.

To consider the main and secondary effects in a systematic manner a cross-disciplinary approach, based on concepts and theories from economics, mental accounting, cognitive psychology, and regret theory is used to formulate the hypotheses. By so doing, a more detailed understanding of how income and related demographic and attitudinal variables potentially influence the online purchase goals of consumers can be obtained.

### 1.1. Economic perspective

Income affects the valuation of time. Higher-income consumers value their time more because of its opportunity cost (Goldman and Johansson, 1978; Stigler, 1961). They have been found to spend less time online than lower-income consumers (Goldfarb and Prince, 2008; Goolsbee and Klenow, 2006; Ratchford et al., 2003). But, higher-income consumers are also known to derive a greater benefit from online services because they use them more intensively to satisfy a wide-ranging set of needs. Economic theory predicts that consumers will balance the costs of search (e.g., time spent) against the benefits of search (e.g., money saved) based on the economic value of their time. The wage rate has commonly been used to denote the economic value of time (Stigler, 1961; Biswas, 2004). Consumers who are “time rich and income poor” find online shopping to be attractive mainly for the money savings potential, while those who are “income rich and time poor” may be attracted to it because it saves time, which leads to the following hypotheses:

**H1.** Income relates positively to saving time as an online purchase goal.

**H2.** Income relates negatively to saving money as an online purchase goal.

However, the effect of income on online purchase goals may not be that straightforward. For consumers to strike the right balance between “time spent” and “money saved” they need to be able to estimate the opportunity cost (i.e., economic value) of the time spent in search. Most consumers are in occupations where such exchanges are not the norm, except for those where the use of a billing rate for time expenditures is common (e.g., lawyers, consultants). Not all consumers can readily exchange time for money (LeClerc et al., 1995; Okada and Hoch, 2004). Some consumers only work part-time. Thus, estimates of the opportunity cost of time could be influenced by the employment status of the consumer, leading to the hypothesis:

**H3.** The positive relationship between income and saving time as an online purchase goal is stronger for shoppers who work full-time in comparison to those who work part-time.

### 1.2. Mental accounting perspective

The mental accounting model has been used to understand how consumers make trade-offs between scarce resources. According to the model, consumers create separate “mental accounts” for resources such as time and money and have difficulty transferring these resources between accounts (Duxbury et al., 2005; Thaler, 1999). Time and money are the two main resources consumers have available while shopping. Either or both of these resources can be *spent* or *saved* while shopping.

Thus, consumers may have one mental account for “spending time” and a different one for “saving money” while shopping online (LeClerc et al., 1995). Hence, consumers may not use the economic value of time to make the trade-off between the costs of search (e.g., time spent) and the benefits of search (e.g., money saved) (Thaler, 1999). Instead, the trade-off may be based on the subjective importance of saving time and saving money as online purchase goals. Decisions relating to spending time or saving money are then based on the denomination in which the mental account is held (i.e., time or money). It is possible that some consumers may have several mental accounts for “spending time” that enable them to distinguish between low-value and high-value online pursuits.

Lower-income consumers are more likely to use the Internet for recreation rather than consumption (Comor, 2000; Goldfarb and Prince, 2008). Hence, they are less likely to use a “time is money” approach while shopping online. In other words, lower-income consumers may lump time spent on all online activities into a single “mental account” and not adequately distinguish between low-value pursuits and high-value activities. In contrast, higher-income consumers who use the Internet more for consumption than for recreation (Comor, 2000) are more likely to have separate mental accounts for time spent on low-value versus high-value online pursuits. Hence, they are more likely to treat both “saving time” and “saving money” as important online purchase goals, leading to the hypothesis:

**H4.** Income relates positively to a combined focus on saving both time and money as an online purchase goal.

Thus, the mental accounting model prediction complements the economic model prediction regarding the effect of income on saving time and money as online purchase goals, due to the assumptions in the two theories regarding the behavior of consumers. Specifically, higher-income consumers will also focus on saving money in addition to saving time as an online purchase goal to a greater extent than lower-income consumers.

There are important generational differences in the use of the Internet. Thus, it is possible that generational age potentially moderates the effect of mental accounts on the two online purchase goals of interest. Younger consumers (e.g., Gen Y and Gen X) are almost always “connected” and lead wired lifestyles. Hence, they are less likely to have separate mental accounts for offline and online time. Older consumers (e.g., leading boomers and matures) in comparison are more likely to have one mental account for “Internet time” and a different one for time spent in the physical world. The separation in mental accounts for offline and online activities can be attributed to the differential adoption rates of new information and communication technologies by older consumers (Gilly and Zeithaml, 1985; Phillips and Sternthal, 1977), which leads to the hypothesis:

**H5.** The positive relationship between income and saving time as an online purchase goal is stronger for younger shoppers in comparison to older shoppers.

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