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Promotional formats and inaction inertia☆

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ABSTRACT

Inaction inertia is the phenomenon in which people are less likely to accept an opportunity after having previously missed a relatively superior one. Based on mental accounting theory and the comparability of the current and missed opportunities, this study explores how promotional formats influence consumers' inaction inertia. The authors propose that when the missed and current promotions are monetary (vs. nonmonetary), consumers perceive that these opportunities are more comparable, which results in consumers expressing higher inaction inertia. Two imaginary scenario experiments and one incentive-compatible experiment were conducted to test this prediction, and the results provide empirical support for it. Additionally, devaluation was determined to be the internal mechanism connecting promotional format with inaction inertia. These findings have significant practical and theoretical implications, the details of which are discussed herein.

1. Introduction

Companies often conduct various types of promotions to attract consumers and increase sales, and the effectiveness of these promotions has been well documented (for a review, see Blattberg & Neslin, 1990). However, there are many instances when consumers might miss attractive promotions. And as Tykocinski and Pittman (1998) and Tykocinski, Pittman, and Tuttle (1995) indicated, after consumers miss an attractive opportunity, their likelihood of accepting a subsequent but relatively less attractive opportunity decreases. This has been termed the "inaction inertia effect" because initial inaction creates inertia that prevents the purchase of the subsequent promotional opportunity (van Putten, Zeelenberg, & van Dijk, 2007; Zeelenberg & van Putten, 2005). Since Tykocinski et al.'s (1995) article, the inaction inertia effect has been discussed and demonstrated in many product and service categories (Arkes, Kung, & Hutzel, 2002; Kumar, 2004; Tykocinski & Pittman, 1998) and in many decision contexts (Butler & Highhouse, 2000; Foster & Diab, 2017; Terris & Tykocinski, 2016; van Putten et al., 2007; Zeelenberg & van Putten, 2005). Many of these studies have investigated the phenomenon from the decision-maker's perspective (e.g., Cui, Xu, & Xie, 2016; Lu, Jia, Xie, & Wang, 2016). Few studies have explored how promotional formats influence the inaction inertia effect. This knowledge gap is surprising because many companies conduct consecutive promotions, and the same promotions might follow different formats. For example, a 50% price discount promotion for a 1L bag of coffee beans (NT$1000) is economically equivalent to a bonus pack promotion where purchasing one 0.5L bag of coffee beans (NT$500) is upgraded to a 1L bag for free. Furthermore, many managers routinely use just one or two preferred promotional formats without considering how these formats might interact and affect

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subsequent promotional outcomes. With a better understanding of how promotional formats influence consumers' inaction inertia, managers might be able to optimize their usage of particular promotions.

1.1. Inaction inertia and comparability

Inaction inertia occurs when people compare a current opportunity to a relatively more attractive previous opportunity. Because of the relative difference in value between the two opportunities, consumers tend to view the second promotion as a loss and reject it to avoid negative emotions (Arkes et al., 2002; Butler & Highhouse, 2000; Sevdalis, Harvey, & Yip, 2006; Tykocinski & Pittman, 1998; Tykocinski et al., 1995). This means that comparison of the current and previous opportunities is the main determinant of inaction inertia (Kumar, 2004; Tykocinski et al., 1995; van Putten, Zeelenberg, & van Dijk, 2009, 2013). Thus, when it is difficult, costly, or unnecessary to avoid comparing current and forgone opportunities, the inaction inertia effect is reduced (Tykocinski & Pittman, 1998).

1.2. Mental accounting, comparability, and inaction inertia

Mental accounting theory suggests that individuals and households track their financial activities in a manner similar to businesses (Thaler, 1985, 1999). Thaler (1999) indicated mental accounting entails assigning costs to specific accounts, though people can assign a single event in different ways (Shafir & Thaler, 2006; Soman & Gourville, 2001). Kahneman and Tversky (1984) suggested that prior events or outcomes assigned to the same (vs. different) mental account are more likely to influence subsequent decisions. Similarly, Soman and Cheema (2001) showed that windfall gains can decrease the sunk cost effect, but this effect exists only when the windfall gains are assigned to the same category as the sunk costs.

Building on previous studies in mental accounting, van Putten et al. (2007) suggested that the inaction inertia effect might be explained by the mental accounting principle and transaction decoupling (Prelec & Loewenstein, 1998; Soman & Gourville, 2001). In other words, when two transaction opportunities are associated with the same mental account, they are coupled to each other. Because inaction inertia requires the comparison of the current opportunity to a past opportunity, the extent to which a previous event affects the evaluation of the subsequent one depends on the strength of their coupling. van Putten et al. thus proposed that comparability determines how tightly two events are coupled, and a tight coupling of a missed and a subsequent opportunity is a necessary condition for inaction inertia to occur. Moreover, this implies that factors that enhance decoupling of the previous and current opportunities should reduce inaction inertia.

According to van Putten et al. (2007), the inaction inertia effect is weakened when information about the previously missed opportunity is ambiguous. Ambiguity weakens attention to the event (Shafir & Tversky, 1992), and thus decouples the two opportunities (Soman & Gourville, 2001). van Putten et al. tested this prediction in an experiment where participants missed a superior opportunity to buy a television (regular price €200) for €165 (small difference condition), €100 (big difference condition), or either €165 or €100 depending on the flip of a coin (ambiguous condition), or without any extra information about having missed the superior promotion (control condition). The results showed that the possibility of accepting an inferior promotion (€180) was lower in the big difference condition than in the small difference condition, which was also lower than the control and ambiguous conditions. However, participants were similarly likely to accept the inferior promotion in the ambiguous condition as in the control condition, which suggests that the inaction inertia effect disappears as a result of the decoupling of the missed and the current opportunities in the ambiguous condition.

van Putten et al. (2007) also examined the impact of comparability on inaction inertia. Mental accounting theory suggests that the more related two products are to each other, the more likely consumers assign them to the same mental account. van Putten et al. proposed that when the missed and subsequent opportunities belong to the same (vs. different) product category, higher comparability reduces transaction decoupling and induces inaction inertia. They empirically demonstrated that compared with missing a 50% discount for a chair (low comparability), missing a 50% discount for a sofa (high comparability) reduced consumers' purchase intentions for a subsequent promotional discount of 20% off for a sofa.

Inaction inertia occurs because consumers adopt the missed superior opportunity as a reference point, which leads to them to perceive the current inferior opportunity as a loss. Expanding on this reasoning, van Putten, Zeelenberg, and van Dijk (2008) found that when a current opportunity includes multiple options, rather than a single option, inaction inertia is reduced because consumers focus more on the options in the choice set rather than the missed opportunity (i.e., the missed and the current opportunities become decoupled). Participants in their experiment missed either a superior (large quality difference condition) or moderately superior (small quality difference condition) opportunity to purchase a home phone. Then they encountered either a single inferior offer or an offer with multiple inferior quality options for the phone. The results showed that the inaction inertia effect was active in the single inferior option condition but disappeared in the multiple inferior options condition. In short, when multiple options are available in a current offer, consumers use the other options as additional reference points for comparison, thereby reducing the negative impact of the foregone superior opportunity.

Furthermore, van Putten et al. (2009) also found that personality characteristics can moderate inaction inertia. Specifically, their experiment showed the inaction inertia effect was only active for state-oriented people, not for action-orientated individuals. The explanation for this result is that an action orientation enables people to easily get over past negative events and let go of failures compared to state-orientated people. In other words, action-orientated individuals are "natural decouplers." Accordingly, action orientated people are more likely to see a current opportunity as separated from the missed opportunity, so they are less likely to be influenced by the missed opportunity.

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