



Sunk costs and travel cancellation: Focusing on temporal cost



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H I G H L I G H T S

- This study identified that temporal distance can be converted to monetary costs.
- Monetary and temporal sunk costs reduce cancellation intention independently.
- Making reservation early can reduce potential travelers' cancellation intention.
- Imposing higher cancellation penalty can reduce potential travelers' cancellation intention.
- Compared to first-timers, revisitors showed lower cancellation intention when temporal costs were greater than 4 months.

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A B S T R A C T

Tourism products differ from ordinary retail products in terms of the spatial and temporal separation between the purchase and experiencing the product. Despite its importance, temporal separation has not drawn much attention in tourism research. The main objective of this study is to understand the effects of temporal sunk costs on potential travelers' cancellation intentions, in addition to monetary sunk costs. The results of this study suggested the possibility that temporal costs can be converted into monetary costs, but the conversion relationship may not be linear. This study also indicated that travelers' intentions to cancel a travel product decreased as the temporal and monetary sunk costs increased. Further, prior experience moderated the relationship when temporal sunk costs were involved, suggesting that repeat visitors' intentions to cancel their reservations are more influenced by temporal sunk costs than first-time visitors. Further discussion and implications are provided in the main body of this paper.

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1. Introduction

It is a well-known fact that tourism products differ from ordinary retail products in various aspects – such as intangibility, separation of purchase and experience, tourists' novelty seeking behaviors, considerable risk taking, and so forth (Reisinger, Kandampully, Mok, & Sparks, 2001; Sirakaya & Woodside, 2005). More specifically, the separation between purchasing and experiencing the product means that tourists actually consume the product at a different location (i.e., spatial separation) and time (i.e., temporal separation) than the purchase. These separations have led to various studies focused on influential factors that affect travelers' behavioral intentions, such as pull-factor (Uysal & Crompton, 1985), perceived risk (Quintal, Lee, & Soutar, 2010), and perceived value

(Sánchez, Callarisa, Rodríguez, & Moliner, 2006). However, these influential factors are mainly related to the spatial separation and are largely considered at the moment of purchase. Further, two different types of costs (i.e., monetary and non-monetary) are considered when purchasing a tourism product (Sirakaya & Woodside, 2005). Monetary costs are the price of the desired product, while non-monetary costs refer to such things as the risk of making a bad decision or spending a long time searching for the right product (Sirakaya & Woodside, 2005). Further, after purchasing a tourism product, most travelers have to wait for the actual tourism experience. This waiting time can be considered another form of non-monetary costs, a temporal cost.

Indeed, the importance of temporal costs has long been stressed in other research areas, such as social psychology (Liberman & Trope, 1998; Liberman, Sagristano, & Trope, 2002; Malkoc, Zauberman, & Ulu, 2005) and psychological economics (Rajagopal & Rha, 2009). Specifically, with the wide acceptance of the notion that time has a certain value (Becker, 1965), the possibility of time affecting consumer behavior has been suggested (Arkes & Ayton, 1999; Arkes & Blumer, 1985; Soman, 2001). Previous studies have

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utilized the concept of the sunk cost effect and found that as the prior investment (i.e., time, money, and effort) gets larger, the tendency to stick with the initial decision increases even if a certain level of risk exists (Arkes & Blumer, 1985). Extending the concept of the sunk cost effect to tourism, the temporal costs due to the temporal separation between purchase and consumption can be considered to have a certain value that may affect potential travelers' behavior.

Currently, tourism product suppliers, such as airline companies and online travel agencies, impose significant penalties for changes or cancellations without understanding travelers' temporal costs. Moreover, past tourism studies have focused on factors related to spatial separation, even though some studies implied that temporal separation could be one of the most unique characteristics of tourism products (Reisinger et al., 2001; Sirakaya & Woodside, 2005). Considering the nature of tourism products, the role of temporal costs should be prioritized in tourism studies. Thus, this study was designed to answer the following research question: "Do temporal sunk costs have a significant influence on potential travelers' behavioral intentions in combination with monetary sunk costs?"

Answering this research question provides important implications for academic research, as well as tourism product suppliers. By identifying the influential role of temporal costs on potential travelers' behavioral intentions, this study provides a new research direction that includes temporal factors in the tourism decision-making process. Providing evidence that temporal sunk costs play a role in reducing cancellation intentions would contribute to tourism industry in that imposing too large of cancellation penalties could cause a negative attitude toward tourism product suppliers. Thus, this study aims to fulfill the following research objectives: (1) to examine potential travelers' perceptions of whether temporal distance can be converted into monetary value, (2) to examine the effect of sunk costs (i.e., monetary and temporal) on potential travelers' intentions to cancel their purchased product, and (3) to identify the moderating effect of prior experience on the relationship between sunk costs and cancellation intentions.

2. Literature review

2.1. The value of time

The phrase "Time is money" is commonly known, implying that time is a scarce resource (Bornemann & Homburg, 2011; Leclerc, Schmitt, & Dubé, 1995). Indeed, time is a scarce resource for everyone because there are only 24 h in a given day. Thus, time can be considered as the scarce resource, instead of a scarce resource (Arkes & Blumer, 1985; Leclerc et al., 1995; Rajagopal & Rha, 2009; Soman, 2001). The scarcity of time has been identified in various studies in economics, sociology, and social psychology (Jacoby, Szybillo, & Berning, 1976). Three major streams of time studies exist. First, researchers have used time diaries to understand how individuals use their time (Hendrix, Kinnear, & Taylor, 1979; Saini & Monga, 2008). Second, researchers have explored how people make decisions about allocating time between different activities using a rational-choice paradigm (Becker, 1965), which assumes rational behavior. The third stream is relatively recent and attempts to explore how people make decisions with respect to time (Leclerc et al., 1995), particularly in terms of time and money constraints (Arkes & Blumer, 1985).

The basic foundation of this third type of study is that time has a certain value due to its scarcity. Along the same lines, time has often been considered in combination with opportunity costs (Becker, 1965; Kahneman & Tversky, 1979; Thaler, 1985). More specifically, Becker (1965) suggested that temporal opportunity costs can be

calculated in monetary terms (i.e., an hour of time spent is equivalent to an hour's worth of monetary wages one could have earned), meaning that consumers consider time as equivalent to money. Since it is widely known that time can be converted into monetary term studies in social psychology and psychological economics have started to consider time as important (Dhar & Nowlis, 1999; Homburg, Koschate-Fischer, & Wiegner, 2012; Leclerc et al., 1995; Read & Loewenstein, 2000). As previous studies have suggested, individuals may consider the costs of time in much the same way as they think about monetary costs (Arkes & Blumer, 1985). Moreover, time can be bought and spent as well as being saved or wasted (Soster, Monga, & Bearden, 2010). Thus, if the value of time can be accumulated like wages, it would be possible to assume that people would perceive the value of time differently according to its length.

For tourism products, overbooking is one of the most common practices that tourism suppliers, such as airline companies, hotels, and travel agencies, use to minimize losses from late cancellations and no-shows (Kimes & Chase, 1998). When a plane is overbooked and all the passengers showed up unexpectedly, airline companies look for passengers who will give up their seats voluntarily and provide a certain amount of compensation (U.S. Department of Travel, 2012). Following the notion that time has a certain value (Becker, 1965), the temporal distance between the purchase and the actual travel can be converted into a monetary value. That value should vary according to when the potential traveler made the reservation. If potential travelers perceive the value of the time differently based on how long the wait was between the purchase and the actual experience, travelers would ask for different amounts of compensation in an overbooking situation. Therefore, this study hypothesizes:

H₁: Potential travelers who made their reservation earlier would demand more compensation than those who made reservations later.

2.2. Sunk cost effect

Sunk costs, also referred to as 'stranded costs', are costs that have been incurred and cannot be recovered. The sunk cost effect refers to the fact that people are more likely to continue an endeavor once an investment (i.e., money, effort, or time) has been made and is known as an irrational economic behavior (Arkes & Blumer, 1985). Prior to a study by Arkes and Blumer (1985), sunk costs were not identified as influential factors in the decision-making process. Specifically, they found that consumers are more likely to stick with their decisions when a large initial investment was made, regardless of participants' economic knowledge or preferences (Arkes & Blumer, 1985).

Theoretically, the sunk cost effect is associated with cognitive dissonance theory (Festinger, 1957). According to this theory, once a subject is induced to expend effort on a challenging task, the worth of the task is revalued upward (Aronson & Mills, 1959). Such revaluation would presumably result in an increased willingness to expend further resources on the task compared to the resources that would be voluntarily allocated by a subject not having made a prior expenditure. From this perspective, the sunk cost effect is similar to cognitive dissonance theory (Arkes & Blumer, 1985). The sunk cost effect can also be explained by research on entrapment (Brockner, Shaw, & Rubin, 1985). Subjects in entrapment situations typically incur small, continuous losses as they seek or wait for an eventual goal. Brockner et al. (1985) suggested that time already spent waiting could be identified as a sunk cost. In other words, time spent waiting for a certain object can increase the probability of such waiting behavior.

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