Journal of Business Research 92 (2018) 321–328

Contents lists available at ScienceDirect

Journal of Business Research

journal homepage: www.elsevier.com/locate/jbusres

When indulgence gets the best of you: Unexpected consequences of prepayment

Ali Besharat*, Gia Nardini

Daniels College of Business, University of Denver, 2101 S. University Blvd., Denver, CO 80208, United States of America

ARTICLE INFO

Keywords:
Escalation of commitment
Prepayment
Increased spending
Food consumption
Consumption experience

ABSTRACT

Consumers often pay for consumption events up front. For example, consumers may pay an entrance fee for a food festival or a VIP pass to skip the line at a nightclub. However, research has yet to investigate how this prepayment affects consumers' subsequent consumption decisions. This paper investigates the effect of prepayment on escalation of commitment and the unexpected effects on subsequent consumption decisions. Specifically, we investigate consumers' inclination to indulge and spend once they have made a prepayment in the form of money or time. Our findings from a field study and two experiments suggest that under certain conditions, prepayment results in increased spending and indulgent consumption.

1. Introduction

Mrs. Anderson works in an office in Manhattan, New York. Twice a week, Mrs. Anderson and her coworkers meet at a local bar for happy hour. The local bar charges a $10 entrance fee on Fridays, but it is free to enter during the rest of the week. Although the menu does not change on Fridays, Mrs. Anderson notices that her bill is more expensive on Fridays than on any other day that she visits the bar.

Like Mrs. Anderson in this scenario, consumers often encounter circumstances in which they make a prepayment before a consumption decision. For example, consumers prepay for goods or services when they purchase Online Daily Coupons (ODCs) that provide a large discount (e.g., paying up front for discounted restaurant meals or haircuts). Similarly, they may pay a $5 convenience fee to buy a movie ticket online or purchase a $50 membership to a warehouse club. However, research has yet to investigate how this prepayment affects consumers' subsequent purchase decisions. After making an initial investment, consumers may be reluctant to spend more money, and they may choose more responsible, utilitarian options over more indulgent, hedonic items. On the other hand, they may feel compelled to justify their initial payment by spending even more money and choosing more rewarding, indulgent options.

We propose that prepayment escalates an individual's commitment to the course of action (Kahneman & Tversky, 1979) causing consumers to make unexpected financial and non-financial decisions as they attempt to validate their initial investment. Because spending money is painful (Prelec & Loewenstein, 1998), once consumers make a payment, they should be more inclined to continue that course of action than if they had not made the prepayment to ensure that their prepayment was not made in vain (Kahneman & Tversky, 1979). Drawing on this logic, making a payment toward a consumption goal (hereafter prepayment) should result in an escalation of commitment. However, unlike the traditional research on escalation of commitment that investigated situations where only one course of action was available (e.g., continue investing in a failing project, Staw, 1996), we investigate the effects of escalation of commitment in sequential decisions that have multiple options. That is, consumers are constrained at one level (e.g., eating at a restaurant for which they have prepaid) but not at a deeper level with multiple alternatives (e.g., the choice of food options at the restaurant). We propose that prepayment escalates commitment with consumption experiences as consumers attempt to ensure that their prepayment is justified. Consumers are cognizant of prepayments, and they will pursue actions to justify the cost of their investment. However, the outcome differs from traditional investigations of escalation of commitment; rather than investing in a failed project, people who prepay make decisions that are focused more on justifying the initial prepayment than on making a good decision.

In line with and extending the literature on escalation of commitment, we propose that consumers who make a prepayment will continue spending toward that consumption goal even when there are multiple courses of action that are possible (Kahneman & Tversky, 1979; Staw, 1996). For example, although consumers may spend as little or as much as they like at a festival for which they paid an entrance fee, we contend that those who pay the entrance fee upfront will

* Corresponding author.
E-mail addresses: ali.besharat@du.edu (A. Besharat), gia.nardini@du.edu (G. Nardini).

https://doi.org/10.1016/j.jbusres.2018.07.051
Received 31 January 2017; Received in revised form 24 July 2018; Accepted 30 July 2018

spend more at the festival than those who pay the fee upon leaving because the entrance fee becomes an investment that must be justified. Importantly, we propose that consumers do not necessarily overspend or spend irrationally, such as when they buy memberships to warehouse clubs in which increased spending is associated with increased saving. However, we maintain that consumers will spend more if they pay for the membership at the beginning of the year than at the end of the year. Thus, we propose that prepayment increases the amount that people spend, but this spending is not always irrational.

Further, hedonic activities are more amenable to "going all the way" (Kivetz, 1999), and the benefits of hedonic consumption are more salient and immediately gratifying than are the benefits of utilitarian consumption (Homburg, Koschate, & Hoyer, 2006). Future hedonic consumption is also perceived as providing greater reward than future utilitarian consumption. This perception occurs because thinking about future hedonic consumption is more enjoyable than considering utilitarian consumption (Nowlis, Mandel, & McCabe, 2004). Thus, we propose that consumers should seek to validate their initial investment (i.e., prepayment) by choosing more indulgent options that offer immediate positive feedback. For example, a consumer who pays for their buffet meal up front will be more likely to choose indulgent drinks and food to justify the cost of the initial payment than will a consumer who pays at the end of the meal. The pain of paying up front increases the commitment that must be justified.

This research provides several important contributions. Typically, consumers pay during or after consumption, and much research has investigated how various payment methods affect consumer decision making (Besharat, Carrillat, & Ladik, 2014; Thomas, Desai, & Seenivasan, 2011). However, there are many situations in which consumers make a payment toward a consumption goal. To our best knowledge, we are the first to investigate the effects of prepayment on subsequent consumption decisions. We demonstrate the unexpected consequences of prepayment on indulgent behavior and increased spending. Further, we explore two moderators – anticipation of prepayment and the type of prepayment (i.e., monetary vs. non-monetary) – that shape the effect of prepayment on subsequent behaviors. In the following sections, we present theoretical background and hypotheses that we subsequently test in one field study and two experiments.

2. Literature review and theoretical development

2.1. Prepayment, escalation of commitment, and downstream effects

Consumers' commitment to attain a planned decision escalates if they have already devoted resources to its attainment (Monga & Saini, 2009). This escalation of commitment usually results in suboptimal monetary and non-monetary decisions (Kelly & Milkman, 2013). For example, consumers are more likely to invest in failing projects once they have made an initial investment, thereby escalating their commitment to sub-optimal outcomes (Staw, 1996). Further, if consumers highly value the given course of action, they are more susceptible to escalation of commitment (Schulz-Hardt, Thurow-Kröning, & Frey, 2009). Therefore, we propose that prepayment should result in escalation of commitment as consumers typically prepay for goods and services that they deem valuable.

The negative feeling of the depletion of financial resources (i.e., pain of payment) that consumers initially experience could cause one of two subsequent actions: 1) Consumers may be reluctant to spend money subsequently or they may want to spend their money responsibly to counteract the initial payment; or 2) Consumers may be inclined to spend more subsequently on more indulgent options to justify the initial expense. However, refraining from subsequent spending or choosing more responsible options (option 1) may leave the consumer feeling that the initial payment has been wasted. For example, an individual who purchased the most expensive Costco membership should feel more comfortable spending to get his initial investment's worth than someone who bought the basic membership. Therefore, we contend that prepayment should escalate commitment as consumers attempt to recoup the cost they have just incurred.

As we noted earlier, making a prepayment is painful (Prelec & Loewenstein, 1998). When consumers make a payment, they feel the pain of the incurred cost that may mitigate the positive feelings associated with future consumption (Gourville & Soman, 1998). One way to alleviate this pain is to indulge in rewarding behaviors that provide immediate gratification (Bagchi & Block, 2011). Given that a hedonic choice represents an affective decision (Homburg et al., 2006), prepayment may create a situation where consumers, in an attempt to lessen the pain of payment, increase their commitment to more indulgent outcomes (i.e., choosing more indulgent options and/or spending more on hedonic items).[1]

3. Hypotheses

Since a decision maker has an internal need to validate prior investments to avoid considering them as wasteful (Schaubroeck & Davis, 1994), we propose that consumers who make a prepayment will continue spending toward that consumption goal (Kahneman & Tversky, 1979; Staw, 1996). They will choose more indulgent options to help rectify the pain of payment. Thus, the desire to compensate for the perceived loss of a prepayment guides consumers toward increased spending and indulgent consumption compared to those who do not make a prepayment. For example, if a person, upon his arrival, is charged a $10 valet parking fee to go to his favorite restaurant, he will spend more money on food (and/or choose more indulgent items) to compensate for the fact that he paid $10 to get into the restaurant (e.g., "I paid to be here, so I better get my money's worth!"). Therefore, we hypothesize that when consumers make a prepayment toward a consumption goal, they are more likely to subsequently spend excessively and/or make an indulgent choice than are consumers who don't prepay.

H1. People who make a prepayment toward a consumption goal subsequently spend more and choose more indulgent options than people who do not make a prepayment.

3.1. Non-monetary prepayment and anticipation

Thus far, we have focused on the effects of prepayment on consumers' subsequent purchase decisions, and we have assumed that prepayment is monetary. However, prepayment can also be non-monetary such as when consumers spend time in the pursuit of a consumption decision. How might non-monetary prepayments affect subsequent purchase decisions?

We propose that prepayments made with time also result in more indulgent behaviors, but the magnitude of the effect compared to the monetary prepayment depends on the anticipation of payment. When making monetary investments, consumers tend to plan better and spend

[1] Unlike pre-commitment to indulgence, consumers' options are not constrained upon prepayment (Kivetz & Simonson, 2002). All forms of pre-commitment involve consumers opting for a binding decision to counteract time-inconsistent preferences (Ariely & Wertenbroch, 2002). For example, people may prefer to save money (Thaler, 1980) or indulge in the future (Kivetz & Simonson, 2002), but their preferences change in the present—opting for spending money and paying bills, respectively. Therefore, people pre-commit to a course of action to ensure that their long-term preferences are satisfied. Conversely, prepayment simply involves making a payment before a consumption experience without binding people to a specific outcome. This does not mean that prepayment will always occur without pre-commitment, but rather that it can, and it can lead to escalation to commitment. For example, one could have prepayment with or without pre-commitment to a specific purchase such, as when paying for futures of wine since consumers would know exactly which wine they will be getting in the future, when it is bottled.