

Paying before consuming: Examining the robustness of consumers' preference for prepayment

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Abstract

Prior research on consumers' preference for timing of payment suggests that consumers prefer to prepay for certain kinds of purchases (e.g., vacations) and postpay for others (e.g., washer dryers). This research extends this finding by first comparing preference for timing of payment for products that vary by type (hedonic vs. utilitarian) and durability (nondurable vs. durable) to reveal that it is only hedonic–nondurable products that elicit a preference for prepayment (study 1). The two studies that follow examine the robustness of the prepayment preference by (1) varying the favorability of the transaction (study 2), and, (2) by eliminating the choice of payment timing from the transaction (study 3). Results reveal that the preference for prepayment for hedonic–nondurable goods is robust when transaction characteristics are favorable but shifts when transaction characteristics are unfavorable. Furthermore, when the choice of payment timing is not offered, consumers become indifferent towards when they prefer to pay for hedonic–nondurable products. The implications of these findings for marketers and retailers are discussed.

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Introduction

In recent years, research in marketing has focused not only on what price marketers should charge for their products or services but also on how, when, where and in what form this price should be charged. This stream of research that deals with the psychology of pricing is gaining increasing importance since the use of the “right” pricing scheme is often critical to the success of a brand, consumers' willingness to purchase the brand, satisfaction with the brand and the development of brand loyalty (Gourville and Soman 2002; Monroe 1990; Winer 1988). But what constitutes the “right” pricing scheme within a marketing mix?

A number of factors that influence consumer price perceptions have been examined by the extant marketing literature. For instance, unbundling price into “pennies-a-day”

affects the decision to purchase (Gourville 1998), providing incommensurate benefits alters consumers' response to sales promotions (Nunes and Park 2003), the presentation of price information (Krishna et al. 2002), the salience of a discount (Wathieu et al. 2004) and the framing of a deal (Chen and Monroe 1998; Inman et al. 1997) influence price-perceptions. One issue, which still remains to be fully understood, is with regard to consumers' preference for timing of payment. Understanding *when* consumers are willing to pay for products and services and the factors that drive these preferences is a crucial element of the pricing mix and the focus of this research.

Previous research that has examined preference for payment timing suggests that consumers have an inherent preference to *prepay* for one-shot hedonic consumption such as vacations and to *postpay* for durable utilitarian consumption such as washer dryers (Prelec and Loewenstein 1998). This research proposes a mental accounting framework to explain the reasons for consumers' preference for payment timing. The model proposed is based on two main assumptions. First, that payment is painful and consumers are motivated to avoid

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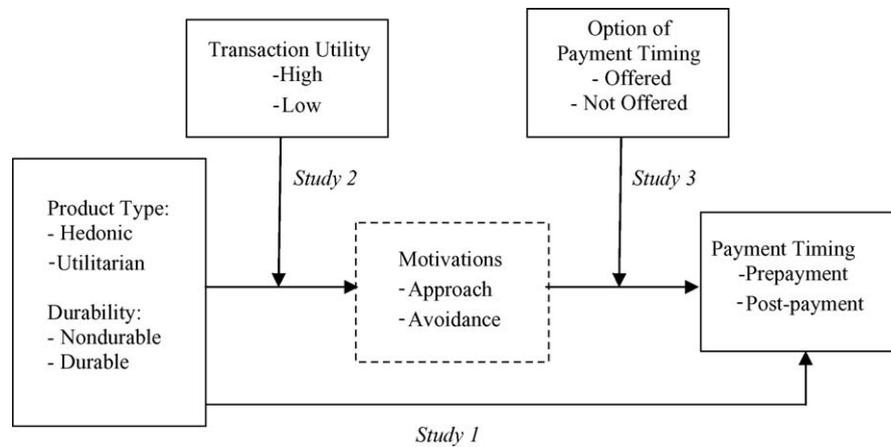


Fig. 1. Conceptual framework.

the pain of paying, and, second, that this pain of payment is diminished if extended over time.

In light of this extant research, we present a series of studies that examine consumers' preferences for payment timing and the robustness of the preference for prepayment under different conditions. In the first study, conducted in two parts using different products and replicating the results using a single product, we compare the preference for timing of payment for products that vary along two dimensions, namely, product type (hedonic vs. utilitarian) and durability (nondurable vs. durable). Results of these studies reveal that only hedonic–nondurable purchases elicit a preference for prepayment. We theorize that the preference for prepayment is driven by the motivation to enhance the pleasure of consumption (approach focus) while the preference to postpay is driven by a motivation to prevent the occurrence of negative outcomes (avoidance focus). In the two studies that follow we examine the robustness of this preference for prepayment by (1) varying the favorability of the transaction (study 2), and, (2) by eliminating the choice of payment timing from the transaction (study 3). The results of study 2 reveal that the preference for prepayment for hedonic–nondurable goods is robust when transaction characteristics are favorable but shifts when transaction characteristics are unfavorable, due to the increase in avoidance focus elicited by unfavorable transaction characteristics. Furthermore, in study 3 we demonstrate that when the choice of payment timing is not available to consumers, it becomes less salient in the transaction, making consumers indifferent about when they prefer to pay for hedonic purchases. Fig. 1 illustrates the conceptual framework that guides this research.

Preference for timing of payment

Marketers have traditionally assumed that consumers prefer to pay *after* the consumption of a good or service. Despite this, consumers do prepay for a number of goods and services and marketers are finding prepayment a viable and profitable

strategy and are increasingly making prepayment an option available to consumers (Xie and Shugan 2001). However, the types of products, and the conditions under which consumers prefer prepayment (vs. postpayment) are not fully understood and form the focus of this research.

Prelec and Loewenstein (1998) propose a “double-entry” model to explain why preferences for prepayment and postpayment exist. These authors suggest that consumers have an aversion to making a payment when the utility from consumption is forgone and to avoid this “pain of payment” they prefer to pay in advance for consumption. In these cases, prepayment diminishes the sum of residual payments and increases net enjoyment of the consumption experience itself. Moreover, in the case of prepayment, as the temporal distance between payment and consumption increases, a consumer is said to “adapt” to the payment, giving the illusion that consumption is free (Gourville and Soman 1998), thereby enhancing consumption enjoyment. This tendency to accelerate payment in order to enhance consumption enjoyment is likely to be greater for purchases that are inherently enjoyable and associated with pleasure during or after consumption, namely hedonic purchases.

Prelec and Loewenstein also examine the impact of time discounting. These authors show that while prepayment often provides future benefits, these benefits may not be large enough to overcome the opposing influence of time discounting. Time discounting allows consumers to depreciate the cost of the product through usage of the product over time. Thus, time discounting fosters a preference for postpayment, especially for goods that are used over a long period of time. Consequently, for consumption that is one-shot, whose utility diminishes relatively quickly after consumption, prepayment is preferred over postpayment.

Prelec and Loewenstein conclude that consumers prefer to prepay for a vacation (hedonic) but postpay for a washer dryer (durable). However, there is a potential confounding in the extant research between product type and durability. Prelec and Loewenstein's conclusions do not clearly indicate whether, a sports car which may be considered

both hedonic and durable, would elicit a preference for prepayment (because it is hedonic) or postpayment (because it is durable). In order to examine the robustness of consumers' preference for prepayment, we first investigate this potential confounding that remains unresolved in the extant literature.

The role of product type and durability in the preference for payment timing

Prior literature suggests that preferences for payment timing vary depending on product type (hedonic vs. utilitarian) and durability (durable vs. nondurable). In this research we begin by disentangling the effects that each of these dimensions independently exert on the preference for timing of payment.

Broadly speaking, hedonic consumption is characterized by aesthetic and sensory experience and hedonic products are consumed for fun, pleasure and excitement while utilitarian consumption is primarily instrumental and is characterized by products designed to accomplish a functional or practical task (Dhar and Wertenbroch 2000; Holbrook and Hirschman 1982). A considerable amount of research has demonstrated that product type has an impact on choice (Dhar and Wertenbroch 2000; Okada 2005) and evaluation (Voss et al. 2003).

Bazerman et al. (1998) examine a parallel pair of constructs that map onto hedonic and utilitarian product dimensions, namely "wants" and "shoulds" (see Okada 2005). This research establishes that hedonic consumption is more likely to be motivated by "wants" while utilitarian consumption is more motivated by "shoulds."

Previous research suggests that one of the key characteristics of hedonic consumption is the pleasurable anticipation of the experience (Nowlis et al. 2004; Loewenstein 1987). Since the thought of debt might potentially interfere with the anticipatory feelings of pleasure, consumers' are likely to prefer to pay in advance (debt aversion principle, Prelec and Loewenstein 1998). We therefore expect that in order to enhance the pleasure of consumption, consumers prefer to prepay for this consumption. In contrast, utilitarian consumption does not typically involve the savoring of future consumption and consumers purchase these products only because they "should" in order to accomplish a functional goal. In this case there are no hedonic advantages to prepayment and therefore consumers prefer postpayment.

Examining the effects of durability on preferences for timing of payment, the principle of time-discounting adequately applies. For a product whose utility is long-lasting (durable) consumers are likely to prefer to pay for the product over the lifetime of the product so as to derive the greatest utility. Moreover, for durable products, consumers can protect themselves from negative product experiences, by refusing to pay for a defective product or remedying any problems through repairs or returns. These similar benefits are not

available for products that are short-lived (nondurable) and thus postpayment may not be preferred. Moreover, making a payment for a product whose utility is forgone is undesirable. Thus, the less durable the product the more likely consumers would want to pay before consumption. Based on this theorizing, products that differ along the durability and product type dimensions are likely to differ in the preference for prepayment. We expect that the preference for prepayment is elicited when the motivation to enhance future consumption enjoyment exists (hedonic) and when the consumption is short-lived (nondurable). Specifically, we hypothesize,

H1. Products that are both hedonic and nondurable are most likely to elicit a preference for prepayment compared to products that have any other product type-durability combination.

We test this hypothesis in study 1.

Study 1

The objective of this set of studies was to compare the preference for timing of payment for products that vary on the product type (hedonic vs. durable) and durability (nondurable vs. durable) dimension. The study was conducted in two parts. First, the preference for payment timing was assessed using *different* products that vary on the product type and durability dimensions (study 1a). These results were then replicated using a *single* product (vacation), while manipulating the consumption goal (hedonic vs. durable) and the durability (single use vs. multiple uses) (study 1b).

Study 1a

To identify four products representative of the combinations of product type and durability, a pretest was conducted with 18 undergraduate participants. Each participant was asked to indicate whether a given list of products were typical of one-time use/experience or repeated use/experience. The participants were given a list of similar products and asked to indicate whether the products were consumed primarily for pleasure or for a functional/useful purpose. From the list of products, the majority of participants considered a vacation to the Caribbean (95 percent) and pest-control service (78 percent) to be one-time use purchases while all participants considered washer dryer (100 percent) and home-entertainment systems (100 percent) to be repeated use purchases. Similarly, participants categorized the vacation to the Caribbean (100 percent) and the home-entertainment system (100 percent) to be purchased primarily for pleasure while the washer dryer (100 percent) and pest-control service (91 percent) to be purchased for their functionality. These four products were used as stimuli in the main study.

Respondents in the main study were 64 undergraduate students at a large east coast university who participated in

this study for course credit. The study was a 2×2 between-subjects design in which the product type (hedonic vs. utilitarian) and durability (durable vs. nondurable) were manipulated. Participants were randomly assigned to one of four conditions.

Participants were asked to imagine that they had decided to “go on vacation in six months”, “purchase a washer dryer for their apartment in six months”, “employ a pest-control service to fumigate their apartment in six months” or “purchase a home-entertainment system in six months.” They were then informed that the purchase would cost \$1,200 and that they could pay for their purchase: (1) in six monthly payments of \$200 starting six months before the purchase (pay before option), or (2) in six monthly payments of \$200 for six months after the purchase (pay after option). Participants were asked not to consider any interest charges.

Preference for payment timing was assessed on a seven-point scale (1 = prefer paying before to after, 7 = prefer paying after to before). Payment timing preference was also assessed by asking participants to choose between the two payment timing options. In order to ensure that each purchase was equally relevant to the participant pool, respondents were asked to rate how relevant the decision to purchase the item was and how likely they were to face a similar decision in their daily life.

Results of study 1a

A 2×2 ANOVA with product type (hedonic vs. utilitarian) and durability (durable vs. nondurable) as the independent variables and preference for payment timing as the dependent variable revealed that participants in the hedonic–nondurable condition preferred prepayment ($M = 3.05$) significantly more than participants in the hedonic–durable ($M = 5.75$), utilitarian–nondurable ($M = 5.31$) and utilitarian–durable ($M = 4.30$) conditions. These results revealed a significant product type \times durability interaction ($F(1,60) = 17.54$, $p < .05$), consistent with Hypothesis 1. Furthermore, results of the choice between the two payment timing options revealed that the majority of respondents in the vacation condition, that is, 15 of 17 (88.23 percent) chose prepayment as the preferred timing of payment while only 4 of 15 (26.66 percent) in the washer dryer condition, 1 of 16 (5.88 percent) in the pest-control condition, and, 2 of 17 (11.76 percent) in the home entertainment condition chose prepayment. A chi-square analysis ($\chi(3) = 34.18$, $p < .05$) revealed that these differences are statistically significant lending support to Hypothesis 1. Participants reported no differences in how relevant the decision to purchase the products was ($F(3,59) = 1.54$, ns) and how likely they were to face the decision in their daily life ($F(3,59) = 2.63$, ns).

Study 1b¹

The objective of study 1b was to replicate the results of study 1a using a single product. Sixty-five participants participated in a 2×2 study design in which the consumption

goal (hedonic vs. utilitarian) and the durability (single use vs. multiple uses) were manipulated. Participants were asked to imagine that they were planning a one-week trip to Paris. About half the participants were told that they were going on vacation and would see all the great sights of Paris (hedonic condition) while the other half were told that they were going on a business trip and would be in their hotel room in meetings all day (utilitarian condition). In this study durability was operationalized as multiple usage of the same product. Thus, to manipulate durability, participants were told that they would be making three one-week trips to Paris over the next three years (durable condition) because it was their favorite vacation spot (hedonic) or because they had business to conduct (utilitarian). The participants in the nondurable condition were told that they had to make just one trip.

All participants were informed that the trip to Paris would cost \$1,200 and that they had a choice as to when they could pay for their purchase: (1) in six monthly payments of \$200 starting six months before the trip (pay before option), or (2) in six monthly payments of \$200 for six months after the trip (pay after option). Again, participants were asked not to consider any interest charges. Preference for payment timing was assessed on a nine-point scale (1 = prefer paying before to after, 9 = prefer paying after to before). Manipulation check measures for the number of trips scheduled and the goal of each trip were included.

Results of study 1b

The success of the consumption goal manipulation was assessed by asking participants to agree or disagree with the statements “The main goal for going to Paris is to have a fun and enjoyable vacation” and “The main goal for going to Paris is to have a productive work-related trip” assessed on nine-point scales. Participants in the hedonic condition agreed with the first statement significantly more than participants in the utilitarian conditions ($M = 7.57$ vs. $M = 2.06$, $F(1,62) = 391.33$, $p < .05$) and vice versa for the second statement ($M = 1.69$ vs. $M = 7.67$, $F(1,62) = 478.37$, $p < .05$).

The success of the durability manipulation was assessed by asking participants to agree or disagree with the statements “I will be going to Paris for just one trip” and “I will be going to Paris for three consecutive trips” assessed on nine-point scales. Participants in the nondurable condition agreed with the first statement significantly more than participants in the durable conditions ($M = 6.84$ vs. $M = 1.78$, $F(1,62) = 53.21$, $p < .05$) and vice versa for the second statement ($M = 1.94$ vs. $M = 7.53$, $F(1,62) = 66.69$, $p < .05$).

A 2×2 ANOVA with consumption goal and durability as the independent variables and preference for payment timing as the dependent variable revealed that participants in the hedonic–nondurable condition preferred prepayment ($M = 1.43$) significantly more than participants in the hedonic–durable ($M = 5.11$), utilitarian–nondurable ($M = 5.77$) and utilitarian–durable ($M = 5.26$) conditions. These results revealed significant main effects for consumption goal ($F(1,62) = 8.43$, $p < .05$) and for durability ($F(1,62) = 3.26$, $p < .05$) and was qualified with a significant consumption goal \times durability interaction ($F(1,62) = 18.66$, $p < .05$). This is consistent with Hypothesis 1 and replicates study 1a using a single product.

¹ We thank Reviewer 1 for this suggestion and acknowledge the guidance of the editor, Dhruv Grewal, in the design of this study.

Discussion

Studies 1a and 1b address the confounding between product type and durability using different products and a single product, respectively, to address an issue that was unresolved in previous research. The results confirm that it is the combination of hedonic and nondurable dimensions of a product that elicit the motivation to prepay. Our focus in this paper is to assess the robustness of consumers' preference for prepayment and study 1 replicates and extends the previous findings regarding the preference for prepayment, to indicate that prepayment is most likely for purchases that are both hedonic and nondurable.

In the studies that follow we examine the preference for prepayment for hedonic–nondurable products relative to the well-established preference for postpayment for utilitarian–durable purchases by proposing a process explanation and investigating the boundary conditions for this preference.

Drivers of payment timing preference

Since hedonic purchases are based on “wants” while utilitarian purchases are based on “shoulds,” (Okada 2005), consumers make hedonic purchases with pleasurable anticipation (an approach motivation) but make utilitarian purchases with a focus on minimizing or avoiding negative outcomes (an avoidance motivation). Consistent with this notion, Chernev (2004) finds that the hedonic attributes of a product elicit an approach (promotion) focus while utilitarian attributes elicit an avoidance (prevention) focus.

Regulatory focus theory (Higgins 1997, 1999) suggests that when people adopt a “promotion focus” they are sensitive to the presence or absence of positive outcomes but when they adopt a “prevention focus” they are sensitive to the presence or absence of negative outcomes. Thus, a promotion focus influences preferences by either *maximizing* or *enhancing* the presence of positive outcomes or *minimizing* or *preventing* their absence. On the other hand, a prevention focus influences preferences by *minimizing* the presence of negative outcomes or by *maximizing* their absence.

In the context of preference for payment timing, we propose that the motivations underlying the consumption of hedonic and utilitarian products are different and these differences drive the preferences for timing of payment (see Fig. 1). Specifically, we suggest that hedonic purchases elicit a motivation to enhance or maintain the pleasure of consumption, reflected by an approach focus, while utilitarian purchases elicit a motivation to minimize any displeasure or pain associated with consumption, reflected by an avoidance focus.

Indeed, promotion-focused individuals favor approach strategies while prevention-focused individuals favor avoidance strategies (Aaker and Lee 2001). Under a promotion or approach focus, an individual's strategic inclination is

to facilitate end-states they would like to achieve (Higgins 1999), such as paying before consumption so as to enhance consumption enjoyment. In contrast, a prevention or avoidance focus fosters a tendency to avoid negative end-states. Here consumers prefer to maintain status quo and shield themselves from negative consequences and potential loss by opting to pay after consumption.

In the study that follows, we examine the role of transaction utility as a factor that influences consumers' preferences for payment timing and examine the motivations underlying consumers' preference for timing of payment.

Transaction utility and the preference for payment timing

The investigation of the role of transaction characteristics in consumers' preference for payment timing is important for two main reasons. Consumers prefer prepayment primarily in order to enhance consumption enjoyment (especially when the product experience is short-lived). However, a transaction that is unfavorable might potentially diminish future consumption enjoyment. Thus, to examine the robustness of consumers' preference for timing of payment it is important to understand the role of the favorability of the transaction. Moreover, earlier demonstrations of consumers' preference for payment timing were obtained using scenarios devoid of any transactional information. Participants in those studies were simply asked to choose between paying before or after for a hedonic purchase (e.g., vacation) or a utilitarian purchase (e.g., washer dryer), without any other transactional details included. Thus, in examining the robustness of consumers' preference for prepayment we investigate the role of the favorability of the transaction itself.

Transaction utility (henceforth TU; also referred to as transaction value, Grewal et al. 1998) may be defined as the pleasure or displeasure that arises from the “difference between the amount paid and the ‘reference price’ for the good, that is, the regular price that the consumer expects to pay” (Thaler 1999, p. 188). Thus, TU is the perceived value or merit of the deal arising from the “psychological satisfaction or pleasure obtained from taking advantage of the financial terms of the price deal” (Grewal et al. 1998, p. 48).

The transaction utility of a purchase has consequences that influence the evaluations of that purchase depending on whether the purchase is hedonic or utilitarian (Monroe and Krishnan 1985). Here we propose that perceived transaction utility is likely to have a stronger influence on the preference for timing of payment for a hedonic–nondurable product than for a utilitarian–durable product.

A hedonic product, such as a vacation, is consumed predominantly for the pleasure that it delivers. If a vacation deal has high TU, we expect that consumers' anticipated pleasure with the vacation is enhanced by the favorable conditions of the deal. Thus, the anticipation of the pleasure

of consumption coupled with favorable transaction characteristics lead consumers to adopt an approach or promotion focus and prefer prepayment (see study 1). However, if TU is low, the decreased favorability of the transaction threatens to reduce the anticipated pleasure associated with consumption. Thus, in order to protect themselves from any negative consequences, consumers adopt an avoidance or prevention focus and are motivated to delay payment till after consumption.

In contrast, for utilitarian consumption, the benefits of consumption are functional, not hedonic, and the pleasure (vs. pain) associated with high (vs. low) TU is not likely to influence consumers' preference for timing of payment. We propose that utilitarian purchases promote a prevention focus and that consumers' will reveal a preference for postpayment. In sum, we propose that the preference for payment timing is not dependent only on the type of product and durability but also on the perceived TU. We therefore propose,

H2. The nature of the product interacts with perceived transaction utility to influence consumers' preference for timing of payment. Specifically,

- a. For hedonic purchases, consumers' preference for prepayment is stronger when the perceived transaction utility is high than when it is low, and
- b. For utilitarian purchases, consumers' preference for postpayment remains strong regardless of the perceived degree of transaction utility.

We examine **Hypothesis 2** in the study that follows.

Study 2

The design was a 2 (level of transaction utility: high vs. low) \times 2 (type of product: vacation vs. washer dryer). Two baseline conditions, one for vacation and one for washer dryer, in which no transaction characteristics were mentioned, were included. The choice of the two products used in this study is the same as those used by **Prelec and Loewenstein (1998)**.

Respondents were 215 undergraduates who participated for course credit. They completed one of six versions of a questionnaire. Participants were asked to imagine that they were either "planning a one week vacation to the Caribbean six months from now" or planning to purchase a clothes washer dryer six months from now." They were then told that the purchase would cost \$1,200. Participants were randomly assigned to conditions that manipulated high or low TU and answered a series of questions that followed.

Manipulating transaction utility

Transaction utility was manipulated by creating a favorable or unfavorable price deal by comparing the consumers' price with the price a friend paid (see **Chandrashekar**

(2004)) for a discussion on how redundant price comparisons influence perceived transaction utility). In the high TU condition, participants read that "a close friend was very surprised to hear that you were able to get the vacation/washer dryer at \$1,200 and informed you that for the same vacation/washer dryer, he had to pay 1,600." They were told that they were able to obtain such a fantastic deal from the travel agent/store manager. In the low TU condition, participants read that "a close friend was very surprised to hear that you got the vacation/washer dryer at \$1,200 and informed you that for the same vacation/washer dryer, he had to pay \$800." They were then told that they were not able to obtain a good deal from the travel agent/store manager.

In the baseline condition, participants in both conditions were told that \$1,200 was a fair price for what they were getting and fit the range of expenses they were accustomed to for big-ticket items. In addition, they were told that a close friend agreed that the amount to be spent was what she had spent on similar purchases in the past.

All participants were asked to consider the information they read in the scenario and choose one of two payment options, six monthly payments of \$200 dollars each, either six months before or six months after the purchase. They completed a set of manipulation checks and listed the thoughts that went through their minds while choosing the payment plan.

Results

Manipulation checks

For the TU condition, respondents were asked to evaluate on three seven-point semantic differential scales the purchase as a poor deal versus good deal, poor value versus good value and poor buy for the money versus good buy for the money. An index of TU (higher numbers indicate higher TU) was created (Cronbach alpha = .90). For both the vacation condition and washer dryer condition, TU was significantly higher for the high conditions compared to the low condition ($M = 5.69$ vs. $M = 3.62$, $F(1,80) = 79.74$, $p < .05$ for vacation and $M = 5.69$ vs. $M = 3.63$, $F(1,66) = 52.16$, $p < .05$ for washer dryer). In addition, the pleasure obtained from the transaction (see **Grewal et al. 1998**) was assessed by asking participants to report how happy they were with the deal on a seven-point scale (1 = not at all happy, 7 = extremely happy). Results revealed that for both the vacation and washer dryer condition, consumers were significantly happier with the deal in the high TU condition compared to the low TU condition ($M = 5.79$ vs. $M = 4.37$, $F(1,80) = 22.35$, $p < .05$ for vacation and $M = 5.85$ vs. $M = 3.37$, $F(1,66) = 69.46$, $p < .05$ for washer dryer).

Choice of prepayment versus postpayment by varying TU

As **Table 1** shows, participants in the baseline condition (no transaction characteristics manipulated) reveal a preference for prepayment for the hedonic (vacation) condition ($\chi^2(1) = 3.125$, $p = .08$) and a preference for postpayment in the utilitarian (washer dryer) condition ($\chi^2(1) = 6.82$, $p < .05$).

However, when TU was manipulated, there was a significant preference for prepayment when TU for the vacation condition was high ($\chi^2(1) = 3.6$, $p < .05$), but no difference in preference for timing

Table 1
Preferences for prepayment and postpayment (study 2)

Condition	Extent	Vacation		Washer dryer	
		Preference for prepayment	Preference for postpayment	Preference for prepayment	Preference for postpayment
Transaction utility	High	26	14*	2	32*
	Low	21	19	9	26*
Baseline		23	10*	6	27*

* Significant differences between preference for prepayment and preference for postpayment, $p < .05$.

of payment when TU for vacation was low ($\chi^2(1) = .10, ns$).² This is consistent with Hypothesis 2a. In contrast, there was a clear preference for postpayment for washer dryer condition, for both high and low TU ($\chi^2 = 25.48, df = 1, p < .05$ and, $\chi^2 = 5.12, df = 1, p < .05$, respectively). This is consistent with Hypothesis 2b. This result supports Hypothesis 2 that under unfavorable transaction conditions, that is, low TU, a shift in preference of timing of payment occurs for hedonic purchases, but has no impact on the preference of timing of payment for utilitarian purchases. The results show no shift in the preference for postpayment for the washer dryer between the low and high TU conditions.

Analysis of open-ended responses

In order to demonstrate that approach versus avoidance focus is the process that underlies consumers' preference for timing of payment for hedonic and utilitarian purchases under different transaction conditions, two independent coders coded participants' open-ended responses as being indicative of approach focus versus avoidance focus. An approach focus was indicated by consumers' open-ended responses being consistent with looking forward to consumption (e.g., "I am going to get my money's worth. After coming back from the vacation, I'll be relaxed and I won't have to worry about paying for the vacation after because I have already done so prior to going") while avoidance focus was indicated by consumers' open-ended responses being consistent with avoiding negative consequences (e.g., "I would pay after in case the machine was not up to my expectations I would return it.") or protecting themselves from future failure ("If there is something wrong with it, by paying after you have leverage in case the washer dryer is defective or unsatisfactory"). Overall approach focus or avoidance focus was indicated for each respondent based on their open-ended responses. An inter-coder reliability of .76 was first achieved and was increased to .97 after discussion.

A repeated-measures ANOVA for the vacation condition with transaction utility (high vs. low) as the independent variable and approach focus and avoidance focus as the repeated factors revealed a significant transaction utility \times focus interaction ($F(1,29) = 5.89, p < .05$) consistent with the notion that for hedonic purchases, participants are more likely to reveal an approach focus than an avoidance focus when transaction utility is high but are more likely to reveal

an avoidance focus than an approach focus when transaction utility is low (see Fig. 2). A similar ANOVA for the washer dryer condition shows only a main effect of focus ($F(1,30) = 225.0, p < .05$) consistent with the notion that for utilitarian purchases, participants are more likely to reveal an avoidance focus than an approach focus regardless of transaction utility.

Discussion

This study was designed to test the robustness of consumers' preference for prepayment for hedonic–nondurable purchases. The results of this study reveal that for hedonic–nondurable purchases the preference for prepayment was dependent on the characteristics of the transaction, while for the utilitarian–durable purchase the preference for postpayment was independent of transaction characteristics. When transaction characteristics were favorable, hedonic

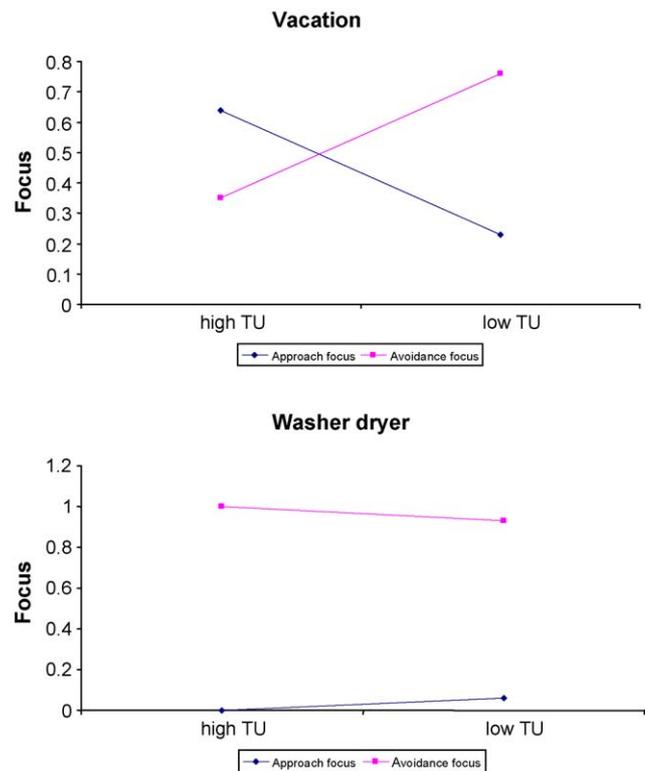


Fig. 2. Study 2: Comparing thought focus across products.

² In order to confirm that this lack of difference is due to an indifference regarding the timing of payment and not due to an indifference to the purchase itself, a pretest was conducted that gave participants the same instructions as study 1 but offered participants the choice of paying before, after and no preference. The results of the pretest reveal that the inclusion of the no-preference option did not alter the proportion of preferences for prepayment vs. postpayment.

purchases elicited the anticipation of the pleasure of consumption that increased the preference for prepayment as evidenced by the increase in approach-related thoughts. However, this preference shifted to postpayment when unfavorable transaction situations did not warrant such pleasure. On the other hand, utilitarian purchases elicited a preference for postpayment, regardless of transaction characteristics, also supported by the predominance of avoidance-related thoughts. In sum, the study reveals a boundary condition for the preference for prepayment, namely the favorability of the transaction (or high transaction utility).

Next, we examine a second boundary condition, namely the salience of timing of payment in a transaction. We suggest that the salience of the choice of when to pay is a particularly important issue because sellers rarely offer consumers this choice in reality. We thus examine whether the increased salience of payment timing, manipulated by having consumers make a choice about when to pay, influences consumers' intentions to purchase the product under different transaction conditions.

Offering versus not offering payment timing as an option

In this study, we assess the importance of payment timing by *not* offering participants the option of when they would prefer to pay. Instead they were given a fixed timing for payment (either prepayment or postpayment) and the impact on purchase intent was evaluated.

In the majority of prior research about payment timing, the importance of payment timing and consequently the choice regarding when to pay has been implicitly assumed to be high. However, simply soliciting a decision about payment timing, might make the issue of payment timing salient by focusing greater attention on it (Berlyne 1974) and subsequently causing it to receive disproportionate weight in judgments and choices (Taylor and Thompson 1982). In the domain of pricing, Wathieu et al. (2004) find evidence that price salience is contextual and has an impact on consumers' price sensitivity.

Here we examine the impact of salience of payment timing on purchase intent by not giving participants a choice about when to pay. We expect that by not giving participants a choice about when to pay, the reduced salience of the payment timing would make participants in the hedonic consumption condition focus their attention primarily on the extent of their anticipated consumption pleasure under different transaction characteristics.

On the other hand, respondents in the utilitarian consumption condition are expected to reveal a different pattern of their preference for postpayment, depending on timing of payment. As pointed out earlier, due to the avoidance motivation associated with utilitarian consumption, respondents prefer postpayment over prepayment. In addition, since they do not experience the pleasure of anticipating consumption, consumption utility is inherently tied to paying after.

We therefore expect the following:

H3a. For hedonic consumption, consumers' purchase intent does not vary significantly under the two different payment timings.

H3b. For utilitarian consumption, consumers' purchase intent is higher when the payment timing option is postpayment than when the option is prepayment.

We examine this hypothesis in study 3.

Study 3

One hundred and fifty-five undergraduates participated in exchange for course credit. The study involved the manipulation of transaction utility (high vs. low), the type of product (vacation vs. washer dryer) and the timing of payment (prepayment vs. postpayment). The scenarios used were similar to study 2 except that timing of payment was also manipulated. All participants were asked to imagine that they were planning either "a one week vacation to the Caribbean six months from now" or "to purchase a washer dryer six months from now." They were told that the purchase would cost \$1,200 and would accrue no interest charges. Transaction utility (high vs. low) was manipulated as it was in study 2.

To manipulate timing of payment, participants in the vacation condition assigned to the prepayment (postpayment) condition were informed that they had to pay for the vacation in six monthly payments of \$200 per month for six months before (after) the vacation. Participants in the washer dryer condition assigned to the prepayment (postpayment) condition were informed that they had to pay for the washer dryer in six monthly payments of \$200 per month for six months before (after) possession of the washer dryer. Purchase intent was measured using a two-item scale, which included a report of how willing and how eager they were to go on the vacation/purchase the washer dryer. A purchase intentions index was created using these two items (Cronbach alpha = .95).

Results

Manipulation checks

The manipulation check for timing of payment had participants indicate when they were required to pay for the vacation/washer dryer based on the information they had read. Seven respondents (three in the vacation condition and four in the washer dryer condition) wrongly reported when they were supposed to pay and were deleted from the analysis.

The manipulation check for the transaction utility of the deal was the same as that used in study 2. A TU index was created (Cronbach alpha = .93). The results show the significant main effects of TU index ($M = 5.11$ vs. $M = 3.01$, $F(1,98) = 75.75$, $p < .05$) for high versus low TU for vacation and ($M = 5.34$ vs. $M = 2.13$, $F(1,86) = 126.33$, $p < .05$) for the washer dryer.

In addition, the affective response to the conditions of purchase was measured by asking participants to indicate how they felt on a

Table 2
Purchase intentions for vacation and washer dryer (study 3)

Transaction utility	Vacation			Washer dryer		
	Prepay	Postpay	Total	Prepay	Postpay	Total
High	5.40	5.05	5.23 d	3.45 c	5.67 c	4.59 d
Low	4.08	3.83	3.95 d	2.34	2.95	2.66 d
Total	4.74	4.44	4.59 a	2.89 b	4.31 b	3.62 a

Letters (a, b, c) indicate significant differences ($p < .05$) between means in the same row. Letter (d) indicates significant differences ($p < .05$) between means in the same column.

seven-point semantic differential scale containing four pairs of emotions: bad-good, terrible-fantastic, annoyed-pleased and depressed-elated. An affect index was created by combining these four items (Cronbach alpha = .91). For both the vacation and washer dryer conditions, participants felt more positive in the high TU conditions than in the low TU conditions ($M = 4.82$ vs. $M = 3.96$, $F(1,100) = 6.59$, $p < .05$ for vacation; $M = 3.91$ vs. $M = 2.91$, $F(1,87) = 10.91$, $p < .05$ for washer dryer).

Purchase intent

A $2 \times 2 \times 2$ ANOVA with type of product, payment timing, and level of TU as the between-subjects factors (see Table 2). As would be expected, purchase intentions across both utilitarian and hedonic conditions were greater when transaction utility was high versus low, as revealed by the main effect of level of transaction utility ($F(1,186) = 49.43$, $p < .05$). The results also revealed a main effect of type of product ($F(1,186) = 18.99$, $p < .05$) and payment timing ($F(1,186) = 6.18$, $p < .05$). This was qualified by a significant product type \times timing interaction ($F(1,186) = 14.34$, $p < .05$).

Examining the means, for the hedonic versus utilitarian consumption conditions separately we find a main effect of transaction utility, that is, we find a greater purchase intent when TU was high versus low for hedonic ($M = 5.23$ vs. $M = 3.95$, $F(1,101) = 17.43$, $p < .05$) as well as utilitarian ($M = 4.59$ vs. $M = 2.66$, $F(1,89) = 26.94$, $p < .05$) consumption conditions. According to hypothesis 3a, we expect no difference between two payment timing options across the two levels of TU for the vacation condition. The results support this hypothesis (see Table 2). Comparing the purchase intentions for hedonic purchases for prepayment versus postpayment reveals no difference in purchase intent regardless of the level of TU ($M = 4.74$ vs. $M = 4.44$, *ns*). Pairwise comparisons reveal no difference between timing of payment (before vs. after) for either high or low level of TU for the hedonic purchase.

In contrast, participants revealed a strong preference for postpayment in the washer dryer condition across the two levels of TU ($M = 4.31$ vs. $M = 2.89$, $F(1,89) = 12.24$, $p < .05$). It is interesting to note that participants in the utilitarian consumption condition revealed even *greater* preference for the postpayment option despite the fact that they enjoy high TU ($M = 5.67$ vs. $M = 3.45$, $F(1,43) = 27.29$, $p < .05$). This suggests that high TU perhaps taps the avoidance motivation even more strongly for utilitarian purchases such that consumers want to ensure that the favorable transaction characteristics remain favorable.³ Further, participants in the low TU condition revealed a higher preference toward postpayment over

prepayment, although this difference was not significant ($M = 2.95$ vs. $M = 2.34$, $F(1,44) = 1.46$, *ns*). This result was not predicted but it suggests that the combination of low TU and utilitarian consumption was so distasteful that even postpayment did not elevate purchase intentions.

Discussion

This study examines the robustness of the preference for prepayment when participants were not given a choice of payment timing. The results of this study clearly demonstrate that timing of payment is of lesser concern for hedonic purchases when it is not made salient by choice. Specifically when participants are not given a choice between pre- and postpayment for a hedonic purchase, they did not consider the payment timing to be a critical factor for decision-making. In contrast, for utilitarian purchases, participants *did* consider payment timing to be an important factor for their decision. However, despite a strong preference for postpayment in the utilitarian condition, in general, payment timing did not seem to matter as much when TU was low. It appears that payment timing did not matter in this case because the transaction itself was too unattractive for participants to draw attention to the payment timing issue.

General discussion

There is increasing evidence in the theoretical and managerial domains of marketing that point to the importance of prepayment as a payment option for consumers (Prelec and Loewenstein 1998; Xie and Shugan 2001). This research extends this stream of literature by investigating the robustness of the prepayment preference. This research first examined the characteristics of products that are most likely to elicit a prepayment preference. In study 1, prepayment preference was assessed using four different products that varied on the product type (hedonic vs. utilitarian) and durability (durable vs. nondurable) dimensions, and, replicated using a single product in which these dimensions were varied. The results of these studies revealed that the hedonic–nondurable products were most likely to elicit a preference for prepayment.

Having identified the product characteristics that elicit a preference for prepayment, the two studies that followed examined the robustness of this preference by varying the

³ This is consistent with the results in study 2 where participants in the washer dryer condition exhibited a stronger preference for postpayment over prepayment in the high TU condition (32 vs. 2) than in the low TU condition (26 vs. 9).

favorability of the transaction and by eliminating the choice of payment timing from the transaction. To replicate Prelec and Loewenstein's research (1998), this preference for prepayment was compared with the preference for timing of payment for a utilitarian–durable purchase. Study 2 revealed that unfavorable transaction characteristics (low transaction utility) resulted in the shift of preference for prepayment for hedonic purchases but had no impact on utilitarian purchases. Importantly, it also provided insight into the process underlying this preference by demonstrating that hedonic purchases elicit a high proportion of approach thoughts to avoidance thoughts that lead to a preference for prepayment. On the other hand, utilitarian purchases elicit a majority of avoidance thoughts that are posited to lead to a preference for postpayment. Importantly, this study also demonstrates a shift in the proportion of approach to avoidance thoughts for hedonic purchases when transaction utility is low. In study 3, the option of choice of payment was eliminated from the transaction which had no impact on the purchase intent of hedonic purchases but did confirm the strong preference consumers have for postpayment for utilitarian purchases.

Managerial implications, limitations, and future research issues

The results of the present research suggest that consumers prefer prepayment for a hedonic product when the transaction conditions for the consumption of such a product are favorable. Notably, consumers' preference for prepayment for hedonic consumption does not hold when the transaction is unfavorable. Of particular importance to the retail industry is the insight that offering the option of prepayment to consumers while drawing their attention to the attractiveness of the transaction is critical for increasing the likelihood of a prepayment preference. Furthermore, based on the results of study 3 (the vacation condition), simply making the prepayment option available may be an effective strategy since this option is often not offered to consumers, due perhaps to the conventional view that consumers will not prefer it.

It should be noted that these studies were conducted using a homogeneous student population, and thus the results may be questioned about their generalizability. It is possible that the preference for payment timing may be influenced by factors such as income, age, life-stage, lifestyle, and personality. While some of these factors were effectively controlled by the use of a homogenous population, other factors may potentially limit the generalizability of the results. Another noteworthy factor to consider is the manipulation of transaction utility. Two potential issues might be considered as a result of the transaction utility manipulation. First, it is possible that participants who heard that their friend had to pay more inferred that prices were likely to rise and hence preferred to prepay for the hedonic product. Second, in study 2, it is likely that the timing of payment (before vs. after) influenced the perceived transaction utility leading to a potential confound.

The results of the present research point to several avenues for future research in this area of investigation. For example, when the unit price for a hedonic product is high (for instance a Jaguar convertible or a home theater system), consumers driven by financial considerations may opt for postpayment or they might choose prepayment to assuage the guilt associated with the high price and hedonic nature of consumption (see Kivetz and Simonson 2002 for a similar notion). In such a situation, a conflict might arise between the motivation to prepay and the motivation to postpay. Our research indicates that prepayment and postpayment are driven by approach and avoidance thoughts, respectively. The question that future research needs to address is: how do consumers strike a balance between these motivations so as to enhance overall well being associated with consumption?

The current research examines preference for timing of payment when consumers are offered installment plans or "streams" of payment before or after consumption (vs. lump-sum payments). The use of the installment plan option for the studies in this research was to replicate the conditions of Prelec and Loewenstein's research. However, the reliance on only the installment option is a limitation of the present research. While there exists no reason to expect that consumers' motivations for prepayment versus postpayment is likely to be influenced by whether the payment is made in installments or in a lump-sum, future research needs to empirically investigate the preference for timing of payment under installment versus lump-sum payment schemes for hedonic versus utilitarian purchases.

An important managerial concern involves how marketers can make consumers more flexible in their preference of when to pay. The results presented in this paper reveal that utilitarian consumption encourages a strong preference for postpayment. Since it is often in the best interest of marketers to have consumers pay as early as possible (e.g., the emergence of advance selling, see Xie and Shugan 2001), the tactics marketers can rely on to encourage consumers to prepay for utilitarian consumption is an area for future investigation. One approach, based on this research, is to add a strong hedonic dimension to a utilitarian product. We expect that by highlighting and promoting a strong hedonic dimension (e.g., colors of iMac computers) for a utilitarian purchase not only enhances or augments the functional utility derived from the product but increases consumers' savoring and anticipation of consumption, leading them to be willing to prepay (even at a premium price) for an essentially functional purchase.

Finally, with the advent and availability of new technologies to marketers, consumers increasingly have the opportunity to purchase goods and services well in advance of their consumption. Advance selling, from a marketer's perspective, is a phenomenon that has been growing at an accelerating pace due to increasing feasibility and ease of implementation (cf. Xie and Shugan 2001). From a consumers' point of view, however, there is little or no research in the marketing literature that addresses the notion of *advance buying*. Future

research needs to establish advance buying as a phenomenon of academic interest, and develop a systematic inquiry into the processes that guide consumers' decision-making in advance buying contexts.

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