

Budgeting backfires - Shoppers unconsciously spend more when trying to limit costs

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(PhysOrg.com) -- Setting a price limit when shopping often backfires, according to new research from Brigham Young University and Emory University marketing professors. The study found that merely thinking about prices leaves you likely to spend more than you would otherwise.

The researchers found that [consumers](#) spent up to 50 percent more when they started shopping with a price in mind than those who didn't. The findings were so counterintuitive that the researchers tested them with six separate experiments, and the results held up each time.

“We don't mean to repudiate budgeting, because its positives probably still outweigh the negatives,” said author Jeffrey S. Larson, assistant

professor of marketing at BYU's Marriott School of Management. "But it's important for consumers to realize how budgeting can affect our thought process and actually prompt us to spend more than we intended."

Experiments tested consumers' thinking about buying televisions, pens, laptops, earbuds, garage doors, mattresses, Blu-ray players and luggage. Various approaches got shoppers thinking about price – they could select a target price from a set of choices, identify their own target price, select a maximum price they were willing to pay, or determine a budget for a specific purchase.

"The results were always the same – a preference for higher-quality, higher-priced items," said Larson. "The most surprising aspect of this study was that people's decision-making process can change so easily. Doing something as simple as asking, 'Hey, how much would you budget for this product?' completely changes their thinking."

The researchers reassure us that "aggregate" budgets still achieve their intended result. It's only when we focus on purchasing one specific product that budgeting can backfire. They wrote, "A \$100 budget for a grocery trip would not leave a shopper exaggerating quality differences between the \$3 block of cheese and the \$5 one."

The study, coauthored by Ryan Hamilton of Emory University's Goizueta Business School, will be published in the next issue of the *Journal of Marketing Research*, a top journal in the field.

Our thought process

Here's what goes on in our minds, explained Larson, who earned his doctorate at Penn's Wharton School of Business. When we start off the purchasing decision process with price in mind, we first narrow down our options based on price. If we decide we'll spend about \$500 on a new

TV, we look only at TVs around that price range. Of course, once we do that, we start to notice that higher-priced sets within that range have more features and better quality, so we lean toward those. Larson's study found that after we screen our choices based on price, we essentially ignore price after that and focus on quality. And better quality products usually cost more.

For example, in one of the experiments, the researchers asked a group of consumers how much they would be willing to spend on a new TV. Those consumers were then given the option of choosing a TV \$18 above their target price and a lower-quality one \$18 below. About 55 percent of them chose the higher-priced option that was above their target price range. But among a set of consumers who were given the same options WITHOUT being asked how much they would be willing to spend, only 31 percent chose the higher-priced option. Those who set a maximum price first also rated the difference in quality between the choices as much greater than those who didn't.

In another experiment, research subjects were given \$6 for participating in the study and given an option to purchase a steeply discounted pen on their way out. Those who were asked how much they planned to pay spent an average of \$2.10, compared to the average of \$1.64 spent by those who were not asked.

What should we do instead?

So if we're concerned about spending too much, and setting a budget backfires, how in the world are we supposed to approach [shopping](#)? Don't fret, Larson says – the fact that you've read this means you're now well on your way to developing immunity to this phenomenon. There are two steps we can take to protect ourselves from the effect his study identified.

1. After you evaluate your choices based on quality, force yourself to re-consider price. The researchers found that the effect disappeared after consumers had their attention drawn back price after they had evaluated quality. “Just knowing that the effect is there is going to be enough for most consumers to be able to overcome it,” Larson said.

2. Start by determining what features and quality levels matter most, before you think about price. “We haven’t tested it yet, but our initial research would indicate that if you decide on the [quality](#) level you’re comfortable with, you will then focus on price and end up spending less money,” Larson said.

Provided by Brigham Young University

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