



The effect of physical possession on preference for product warranty

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ABSTRACT

Peck and Shu (2009) found that touching a product causes greater endowment effect. We seek to replicate and extend this finding to the case that whether touching a product consumers have just bought may increase the willingness to pay (WTP) for warranty. Loss aversion, the tendency to prefer avoiding losses over obtaining equivalent monetary gains, often explains product warranty purchases. This tendency will be stronger when the buyers consider the product as part of their endowment. Touching the product promotes stronger ownership perception and thus shifts consumer's reference point. The new reference point causes consumers to anticipate greater pain from the loss of the product and thus leads to higher WTP for product warranty protection. We find support for this hypothesis in two field studies with a total of 104 participants.

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1. Introduction

In their seminal research, Kahneman, Knetsch, and Thaler (1990) demonstrated the endowment effect due to the framing of ownership or possession of an object. Specifically, consumers tend to consider ownership as the reference point and expect a much higher price (the willingness to accept or WTA) to give up an object than what they would be willing to pay (WTP) to acquire it (Kahneman et al., 1990). While several researchers demonstrated the robustness of this effect, recent research focused on the factors that cause the shift in the reference point and found that even certain irrelevant factors can enhance the feeling of ownership. Peck and Shu (2009) showed that merely touching a product enhances perceived ownership and augments the valuation of the product. We seek to conceptually replicate this finding. At the time of we wrote our paper, Peck and Shu (2009) was among the five most cited papers among those published in the Journal of Consumer Research in 2009. Our focus, however, is not on the endowment effect; instead, it is on the owner valuation, and, indirectly, loss aversion as measured by willingness to pay for warranties.

An important tenet of loss aversion, a pervasive tendency that leads to the endowment effect, is that outcomes are coded as gains and losses from a reference point (Tversky & Kahneman, 1991). Prior research has shown that the reference point that determines whether an outcome is coded as gain or loss is quite malleable (Tversky & Shafir, 1992). Apart

from the sudden changes in the reference point due to exogenous manipulations such as possession of an object, a reference point may also change gradually and continuously (Hoch & Loewenstein, 1991). Peck and Shu (2009) showed that touching a product enhances this adaptation process. When evaluated from the new reference point, the loss of the item which consumers had touched may cause greater pain. Specifically, Peck and Shu found that for the “buyers,” who are nonowners of the product, either touch of the product or ownership imagery (imagining that one owned the product) could enhance perceived ownership of the product and lead to greater valuation of the product. Surprisingly, touch enhanced the perceived ownership and product valuation even for the “legal owners” (those who were endowed with the product and assigned the role of sellers). The objective of our research is to conceptually replicate this intriguing effect pertaining to the legal owners. While Peck and Shu studied the effect of touch on the endowment effect in a buyer–seller context, the shift in reference point, the mechanism that accounts for their effect, is the focus of our research.

We examined the difference in valuation between two groups of owners of the product – those who took physical possession of their product (and thus touched the product) versus those who did not. It is conceivable that those who took physical possession had higher level of perceived ownership and greater affective reaction toward the product. A shift in the reference point causes their valuation of the product to be higher compared to those who bought the product but did not physically touch it. We considered the amount consumers would be willing to pay (WTP) to buy warranty for the product as a measure of product valuation and the degree of loss aversion.

Often consumers buy warranty because they are loss averse (Jindal, 2011). When a consumer touches a product, if the reference point shifts

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and her valuation of the product increases, does this increase her intention to purchase a warranty? Two field studies were designed to find out. The participants were buyers who had already paid for their purchases. Their reference points were manipulated by intercepting half of them before they had collected the product and the other half after they had collected their gadget. The dependent variable was the WTP for a one-year warranty.

2. Study 1

2.1. Method

This study was conducted during a promotional sale of Apple iPhone for the staff of an Asian university. Thirty-seven buyers were interviewed by our experimenter for a reward of approximately USD 2.50. The participants were randomly selected to be intercepted. While one-half of participants were intercepted while entering the pickup point, the other half was intercepted while exiting the pickup point. Participants who were exiting had already touched their new smartphones but those entering had not. Participants in either condition were asked to state their maximum WTP for a one-year warranty.

2.2. Results

The participants exiting stated higher WTPs for a warranty than those entering ($M_{\text{exit}} = 655.2$, $n = 21$; $M_{\text{enter}} = 415.6$, $n = 16$; $t = 2.68$, $p < .006$, Cohen's $d = 0.93$). Although both groups had paid for their smartphones, the only difference was with respect to whether they had touched them. However, there was a significant difference in the WTP between the two groups.

3. Study 2

We used a different product category (notebook computers) in this study. The participants were buyers of different brands, so the design helps ruling out the possibility that the effect is unique to a particular product or brand. The participants were students in another Asian country.

3.1. Method

Sixty-seven undergraduate students who had purchased notebook computers were asked to fill out a simple questionnaire about their purchases. Touching the product was the only factor manipulated. The participants were again randomly selected to be intercepted while either entering or exiting the pickup point. Only those exiting the collection point had touched their computers. Both groups were asked to state the brand of their computers (from eight brands) and their WTPs for a one-year warranty.

3.2. Results

The participants exiting were willing to pay more ($M_{\text{exit}} = 62.2$, $n = 36$) than those entering ($M_{\text{enter}} = 41.9$, $n = 31$; $t = 2.12$, $p < .02$,

Cohen's $d = 0.55$). The reference point manipulation again demonstrated a strong effect on warranty value.

4. Discussion

Previous research has shown that the perceived ownership and the valuation of product depend on whether a person has touched the object (Peck & Shu, 2009). The two field experiments in the present research have shown that the perceived value of warranty protection is a function of an owner's reference point and that this can be affected by events during the purchasing experience. This is true even after a consumer has decided to purchase and even after the payment has been made. Thus, we replicate and extend the findings of experiment 2 and 3 in Peck and Shu (2009) with another measure for loss aversion. There are notable differences between the constructs "manipulated" and the measures obtained in our study and those in Peck and Shu's. Physical possession of the product is more than mere touch and the WTP for warranty is a different and hitherto unused measure of product valuation. However, the effects offer converging evidence to the reference point shift mechanism.

The present research also contributes to the product warranty literature. Although loss aversion has been proposed to be an explanation to warranty purchases (e.g., Jindal, 2011), no direct evidence was presented by manipulating any antecedents of loss aversion. Following Jindal (2011), we interpret willingness to pay for warranties as a measure of loss aversion; under that interpretation, we show that touching the product provides a direct way to manipulate the effect of loss aversion. This research offers an important implication for the marketers. Inasmuch as physical possession of the product affects product valuation, it may be better to sell warranty after consumers take possession of the product than just after closing the deal.

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Appendix A. Supplementary data

Supplementary data to this article can be found online at <http://dx.doi.org/10.1016/j.ijresmar.2013.07.004>.

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