NEWS

# Cash vs. credit mindset

By Gregory Karp
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You know what they say about beauty and the beholder? It apparently lies in the eye of the cardholder too.

That's according to new academic research that shows consumers who pay with a credit card focus on the benefits of a

A take-away for consumers is that using credit cards can be dangerous to your wealth for more subtle reasons than paying finance charges on balances. It can affect not only how much you spend, but what you buy.

The new research comes from Promothesh Chatterjee and Randall Rose in a study, "Do Payment Mechanisms Change the Way Consumers Perceive Products?" to be published in an upcoming issue of the Journal of Consumer Research.



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When it comes to credit cards, it's well established in the field of behavioral economics that people who use plastic are unconsciously willing to spend more than those who pay with cash, a phenomenon known as the "credit card premium." That's because there's an emotional pain associated with handing over hard currency that curbs spending, as opposed to mindless purchasing when forking over plastic.

It provides a lesson for even financially prudent people — just because you pay off your card balances every month to avoid finance charges doesn't mean credit cards aren't harming you. You might be overspending, simply because of the payment method you choose.

The new study adds to that research, suggesting another reason why people spend more with credit cards. It found that the intention to pay with either cash or credit can determine whether a consumer concentrates on a product's benefits or its cost — to the point they might choose different products when they know they will be paying with credit.

"When (consumers are) exposed to new products and thinking about paying with credit, they tend to focus on the good things about the product — the aesthetics of it, the features that are better than other products they're considering, the camera's cost. In another, those who were thinking about credit were able to correctly identify more words related to the benefits of a laptop computer but fewer about its cost. The opposite was true for those primed to think about paying cash.

The authors note that this might happen because consumers from an early age are exposed to credit card advertising, which links use of credit cards with highly desirable products and lifestyles, as well as immediate gratification.

So what's the advice for consumers? Some financial gurus advise paying cash for most things, although that's becoming more unusual today, especially among young people who shop online. A compromise could be debit cards, which likely have a more moderate effect on overspending. Using a debit card involves handing over a piece of plastic, but there's a mindfulness because you have to think about your bank account balance. Another strategy is to continue to use credit cards but somehow be vigilant about price.

Of course, these are generalities. Other research shows that many people have tightwad or spendthrift personalities that would also affect spending, apart from whether they choose to pay with cash or credit. In addition, one factor not tested by the researchers was what happens when a consumer has a negative opinion or experience with credit cards, such as racking up stressful debt. "For those who have existed in a debtor's prison, so to speak, this effect may not hold for them," Rose said. Other recent consumer-behavior studies show:

**Consumers salivate for cash.** We metaphorically say that a person drools over buying a new pair of shoes or an electronic gadget. Turns out, that can literally be true.

In certain situations, people involuntarily salivate when they desire material things, such as money and high-end sports cars, David Gal, a marketing professor at Northwestern University, found in a study, "A Mouthwatering Prospect: Salivation to Material Reward." Gal writes that "salivation, though likely purposed for digestion early in evolutionary development, has incidentally become associated with a generalized reward response."

Perhaps our desire for money and luxury is more primal and instinctual than we care to admit.

**We make dumb No. 2 choices.** Today, we're bombarded with more product choices than ever, making it difficult when shopping for a house, a television, breakfast cereal or a simple pen. So, it's important to have a process.

When a consumer narrows choices among many products only to find the top selection isn't available, it's logical to choose the second-best. Oddly, that's often not what happens.

If a product is out of stock or discontinued, for example, consumers, up to 60 percent of the time, are likely to reject the runner-up option and select a lower-rated item, found researchers Wendy Attaya Boland of American University, and Merrie Brucks and Jesper Nielsen of the University of Arizona. Turns out that when a top choice is unavailable, consumers switch their focus about which product features are important to them. And they end up making a bad choice.

The authors call it the "attribute carry-over effect." Maybe the take-away is to trust your initial evaluations and be true to No. 2.

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Ink color doesn't matter, but she has to decide and goes with blue ink.

But at the checkout line, the consumer learns the blue-ink, extra-fine, felt-point pen is out of stock. Instead of selecting the obvious second choice — the black-ink, felt-point pen — the consumer instead selects a ballpoint, blue-ink pen. She gave up on the more important attributes — extra-fine, felt-point — and emphasized less-important blue color because color was the most recent attribute on which she made a decision.

— *Gregory Karp*

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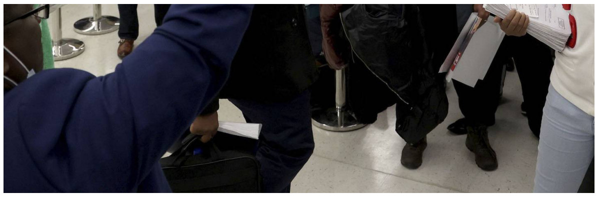

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