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Consumers' Reluctance to Use Windfall Gains to Offset Opportunity Losses

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In two studies, we show that consumers are reluctant to use windfall money ($50 won in a lottery) to offset a prior opportunity loss (missing a $50 off sale on a chocolate basket). The reluctance remains unchanged even when the windfall amount exceeds the lost opportunity ($75 lottery win to offset a $50 off sale) such that consumers have to spend less out of pocket money to buy the focal product. The reluctance, however, reduces somewhat if consumers feel that they are not to blame for missing the first opportunity. We discuss the implications of these results on the research on inaction inertia.

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EXTENDED ABSTRACT

Imagine that you want to buy a Godiva chocolate basket that retails for $100. A local confectionary store offers a limited time 50% off sale on all Godiva brands, but, for various reasons, you miss the sale. Once you have missed the sale, it is quite likely that you will not like to buy the chocolates at the regular $100 price, at least not just yet. Now suppose, quite unexpectedly, you win $50 in a lottery. Would you still be reluctant to buy the chocolates at the regular price now that you can use the windfall money and pay $50 out of pocket? Alternatively, suppose you have a second, somewhat less attractive, opportunity to buy the chocolates at $25 off the list price. Would this opportunity (spending $75 out of pocket) be more attractive than buying the chocolates with the $50 windfall gain and less money ($50) out of pocket?

Our paper investigates how consumers use windfall gains to offset past missed opportunities. Although consumers tag windfall gains as free money to spend any way they wish to, we find that consumers are quite reluctant to use the windfall gain to offset missed opportunities even when doing so might make monetary sense. For example, a $50 off sale on a $100 chocolate basket implies that consumers have to spend $50 out of pocket. If consumers miss the sale, but subsequently get a $50 windfall gain, the out of pocket money they have to spend now is the same as before (i.e., how much they would have spent had they not missed the sale). However, we find that there is no change in the consumer's reluctance to buy the focal product between the time they first missed the sale and the time they got the windfall gain. More interestingly, we find that the reluctance to use windfall money to offset a missed opportunity remains unchanged even when the windfall amount exceeds the lost opportunity. For example, just as consumers are reluctant to use a $50 windfall gain to buy chocolates after missing a $50 off sale, they remain so after receiving a $75 windfall gain.

What drives this reluctance? We find that using the windfall gain to offset the lost opportunity, even if it is free money, makes consumers feel that they are spending too much on a transaction. This feeling no doubt comes from the fact that even if consumers are spending the same, or less, amount of out of pocket money as before, they are still paying the regular price. Find that the reluctance (and the associated perception that consumers are spending too much money) reduces if instead of missing an opportunity to save $50, consumers misplace $50 they have saved for the product. We speculate that the transaction's coupling to the lost cash is not as strong as its coupling to the lost opportunity, the logic being that consumers could have applied the lost cash to other but they could not have applied the lost opportunity to other transactions.

Are there ways to reduce the reluctance, given that such reluctance might prevent consumers from engaging in a transaction they would enjoy (e.g., consuming chocolates)? Affectively speaking, one reason that consumers may not like to use windfall money to offset an opportunity loss could be that the transaction, by reactivating the unpleasant feelings associated with missing the opportunity, spoils the joy of getting an unexpected windfall gain. Accordingly, if consumers are able to reduce the unpleasantness of the missed opportunity, they might be less reluctant to use the windfall gain to offset the opportunity loss. In our studies, we show that if consumers feel that they are not to blame for missing the prior opportunity (for example, a friend gave them the wrong date for the one-day sale), they are somewhat more likely to use the windfall gain to offset the opportunity loss. The feelings about missing the first opportunity is not so negative if consumers feel that they are, somehow, not responsible for missing that opportunity.

Are the results comparable to the results obtained in the studies of inaction inertia (Tykocinski, Pittman, and Tuttle, 1995),? To understand the inaction inertia effect, imagine that you have missed at $50 off sale on a $100 box of chocolates, and subsequently get the chance to buy the same box of chocolates at $25 off the list price of $100. The traditional inaction inertia research suggests that, consumers missing the $50 off sale would be reluctant to take advantage of the second $25 off sale, compared to consumers who did not have a prior opportunity to save $50. The comparison we make, however, is different from the traditional inaction inertia studies. We ask if the second $25 off sale is more attractive than using a windfall gain of $25 (or $50, or $75) to buy the chocolates at the regular $100 price (thus spending $75, $50, or $25 out of pocket money). We show that the undesirability of paying the full price (although spending less out of pocket) makes using the windfall gains less attractive relative to the $25 off sale. In that sense, our findings suggest a limiting condition for the inaction inertia effect.

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