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Role of Temporal Construal on the Purchase Intention of Customers: In the context of Mobile Wallets

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Abstract

The study examines the role of type of promotion and expectation of cashback on outcomes such as attitude and purchase intention. The study employs a 3(promotion type: cashback ;discount; reward point) x 2(temporal construal: near future vs distant future) between-subject experimental design . Studies on mobile wallets are still in the nascent stage and there is much area to be explored under cashbacks and timing of cash backs and its effect on the continued usage of mobile wallets. Hence this study is a first of its kind.

Keywords: Cashbacks, Mobile Wallets, Temporal Construal, Purchase Intention

1. Introduction

The marketing environment is undergoing rapid transformation with the application of ICT many new strategies have evolved in this 4th industrial era. Both marketers as well as merchants are resorting to innovative ways of enticing customers and one such strategy that is catching up and gaining wide attention is cash backs (Ballestar et al., 2016). Cash backs come in a variety of forms. It is often provided by the service provider or the merchant itself, such that when purchases are made, the consumers are offered a cash back wherein a percentage of the purchase price is credited back to the customer. This is often via mobile wallets. There is another option wherein there are exclusive websites which provides a platform for the registration of purchase links of numerous merchants and through which the consumers can avail such cashbacks from these merchants. On many instances such cash backs are credited back after a small delay (Vana, Lambrecht & Bertini, 2018). The advantage to such websites is that they earn a revenue in the form of commission from the participating merchant (Zhou, Cao & Tang, 2017). Thus both the consumer as well as the cashback website benefit, the consumer in the form of financial rewards(Ballestar et al., 2016) and the website as commissions. This strategy of cash backs is also witnessed in the case of social network activities where in the both the referred and the referent gets paid in the form of cash backs whenever an existing member brings in or induces a new person to join the network thus developing the reach of the social network (Swamynathan, Wilson, Boe, Almeroth, & Zhao, 2008). The reward is also offered on the basis of per visit, transaction or use of the third-party's website (Ballester, Grau-Carles & Sainz , 2017). The mobile wallet provider Tezz which is now Google Pay also follows this strategy wherein both referred and the referent gets the financial reward. There has been a glaring gap in the literature with respect to the analysis of cash back sites, which has in fact only recently begun (Ballester, Grau-Carles & Sainz , 2017). It has become an effective strategy to the extent that it increases customer engagement irrespective of the category and yet little research has been conducted in this area (Ballestar et al., 2016). Same is the case with affiliate marketing or the so-called cashback sites (Dwivedi et al.(2016); Ho et al.(2017); Qiu and Rao, 2017).

2. Literature Review

2.1 Promotions: Cash Back vs discounts: Cashback means money is paid back to the customer in cash

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after they make a purchase as an incentive. It is normally a percentage of the amount the customer spends on a product. It varies from retailer to retailer. It is relatively a new concept. Discounts on the other hand has been practiced by retailers since the last century. With cashbacks, the retailer doesn't have to discount his product, thus it prevents undervaluation of the product quality. At the same time, the retailer is also able to provide a financial incentive to the buyer. Thus cashbacks allows the retailer to satisfy the customers without devaluing or discounting his product.

Cashbacks can reinforce the positive feeling associated with a brand or a company. Discounts, on the other hand, kill a brand (DelVecchio, Krishnan, & Smith, 2007). They tend to be costly for the marketer with the added disadvantage of viewing the products skeptically, lowering of the reference prices and hurting the brand image and brand equity (Mela, Gupta, & Lehman, 1997;Yoo, Donthu, & Lee, 2000). Discount promotions often make the customers "conditioned to buy" only during the "sale" periods. During this time, they buy in bulk and store up to have enough supply till the next sale. Consumers tend to become more focussed on price and less on product /brand differentiators. They perform mental trade-offs based primarily on cost/benefit rather than on emotional attachment to the brand. Therefore they are more likely to switch brands to get lower prices. Thus the retailer is forced to run such discount schemes more frequently to lure customers from the competition and this results in dilution of the brand and a pressure on the profit margins.

Discounts are stated as x% off or save Rs.x. These then brings to the mind of the customer the reference price, and this will be made to be assimilated as loss-aversion and leads to lower construal levels. Cashback offers on the other hand positively influenced the customers to make further purchases at the same merchant (Vana, Lambrecht, and Bertini , 2017) and also helps in improving their preference for digital payments (Mishra, Gunasekar & Gupta, 2016). In case of cashbacks, often, the percentage of cash redeemed is pretty low but has high acceptability. Thus cashbacks enjoy a high perceived value but at the same time its cost is a lot lower for the retailer. It is also seen that cashbacks, increase further sales, drive volume through the channels and reward customers.

2.2 Promotions: Cashbacks vs Rewards: Most credit card companies make use of reward point system in order to build loyalty. On each purchase the reward points are accumulated and ultimately the customer can redeem these reward points for a gift. The reward points can be too complex to choose from a variety of given choices and can delay redemption. Cashbacks eliminate the need for customers to sort through reward redemption options to determine how best to use their accumulated points, which involves time, effort and indecision. In many cases, it is found that often the customers forego their reward points at the time of expiry, due to lack of time . Thus they lose their reward points and this can instil in them a sense of dissatisfaction. With cashbacks, the cash being directly credited into the mobile wallets, it is easily there for them to continue for their subsequent purchases. Campbell & Diamond (1990) states that cash is more valuable than equivalent other promotions because it has many uses. It has also been found that when the magnitude of the promotion is small, monetary promotions are more noticed by customers than non-monetary promotions. This is particularly relevant when the size of the offer is relatively small. As per Sherfin and Thaler (1988), people basically constitute three accounts: a future income account, an asset account and a current income account. All kinds of future receivables like pension plans, building rents etc are accounted in the future income account whereas small assets like FD, gold etc are accounted in the asset account. The current account contains the money that could be spend now. The MPC will be close to zero, between 0 & 1 and close to 1 in the future income account, asset account and the current income account respectively. As per Thaler (1990) the windfall gains are credited to the current income account and hence the MPC is very high. Cashbacks fall in the category of windfall gains and hence are credited to the current account and as a result the propensity to consume is high.

Hence based on the above arguments we arrive at the following hypothesis:

H1: When the customer receives a sales promotion, it will differentially influence his purchasing intention such that when he receives a cashback(vs discount), it will lead to a higher (lower) marginal propensity to consume and hence higher (lower) purchase intention.

2.3 Mental Accounting Theory, Decoupling & Payment Depreciation:

This study is based on the mental accounting theory. "Mental Accounting is the set of cognitive operations used by individuals and households to organize, evaluate and keep track of financial activities",(Thaler, 1999). Mental accounting refers to a tendency of customers to categorize money or values for their own choices. They use it while handling money for segregating their savings to meet different goals even though it is not mandatory to apply these funds to any of the goals. According to Philip Kotler-"Mental accounting refers to the way consumers code, categorize, and evaluate financial outcomes of choices." Literally, most of rational consumers go through the mental accounting processes while purchasing any products or services.

Mental Accounting has three main aspects -it describes how customers perceive outcomes, how they label different sources and applications of funds for allocating them into various mental accounts and also it pertains to how frequently these mental accounts are reviewed and balanced. The term mental accounting was coined by Richard Thaler, an economist at the University of Chicago. He defines it as "the inclination to categorise and treat money differently, depending on where it comes from, where it is kept and how it is spent". Thus mental accounting violates the law of fungibility of money. Mental accounting takes into account value functions, decision frames and the concept of loss aversion as stipulated by Kahneman and Tversky's (1979) prospect theory. The value function talks about losses and gains, always in conjugation with a reference point. The influence of loss aversion on mental accounting is also enormous. People tend to give more weightage for avoiding losses rather than receiving gains in different decision making situations. According to Thaler, the basis of mental accounting are the different segregation and integration principles that customers apply with respect to arriving at their personal losses or gains . When consumers are faced with multiple transactions or outcomes, they either view the outcomes jointly (integration principle, Value (x,y) = Value(x+y)) or view the outcomes separately (ie the outcomes are segregated, ie Value (x,y) = Value(x) + Value(y)). Mental accounts are opened as a means for achieving some kind of self-control as far as expenditures are concerned. Mental accounting is a cognitive form of bookkeeping that individuals practice to keep track of expenses and control consumption (Gourville & Soman, 1998; Prelec & Loewenstein, 1998;Thaler, 1985,1999). The "mental account" construct is a metaphor applied to spending decisions. When the customers construct mental accounts, they are allocated funds as well as budget limits in order to bring in financial discipline and to avoid overspending or spending on frivolous aspects, (Heath & Soll, 1996).

The customers also open transaction specific mental accounts, more so when the transaction involves payment of money upward and the corresponding benefit is downward. Such transactions accounts are clearly monitored and the subsequent corresponding benefits when enjoyed are credited to the same account (Prelec & Loewenstein, 1998). Once an account is opened for a transaction, it is only closed after the costs and the related benefits are accounted into it. This psychological linking of costs and their corresponding benefits is called as "coupling". A customer readily closes a mental account he has opened for a transaction if it is in a net gain stage. However a customer is reluctant to close an account that is in the red, ie for which he suffers a net loss. In such cases, the customer is ready to put in more investment until the red changes into black even if the chances of still losing money is high. That is why share traders easily sell off shares when they book a profit but hold on to losing shares, in the hope that they will eventually recover.

There are studies which show that as the time period increases between the payment and the actual consumption, the consumers tend to become less cost conscious due to the process of payment depreciation and even sees very less cost in foregoing the benefit or consumption. Gourville & Soman(1998) state that as time passes, in a transaction involving pre-payment, customers tend to get adapted to the sunk / historic cost and as a result the impact of the sunk- cost greatly reduces and this process is called as "payment depreciation". Thus the time period or the temporal construct greatly influences the person's likelihood of consuming the pending benefit.

Arkes and Blumer (1985) while studying the effect of the magnitude of the sunk cost on subsequent decision making of individuals, happened to observe that the pressure of sunk-cost effect decreased over time. Thus sunk cost is affected by the temporal separation between the transaction cost and benefit. As this distance becomes the maximum," the upstream payment gets fully depreciated and its hedonic impact becomes negligible" and as a result the cashback is perceived as "obtained for free". This is because the downstream benefit is increasingly take the characteristics of a free good or pure gain. This further results in the decision to consume this “free good”

2.4 Temporal Construal : **T**his study focuses on the effect of construal level on the purchase intention. The Construal Level Theory talks of four dimensions along which messages can be constructed either on an abstract level or on an concrete level. Basically this construction can happen in terms of psychological distance, social distance, spatial distance or hypothetical distance(Liberman & Trope,1998). This study considers the temporal distance ie in terms of time, whether it is immediate or distant. Liberman, Trope, McCrea, Sherman (2007) conducted studies and proved that when activities are construed at higher level (in terms of “why”), people tend to consider them to be occurring in the distant future. Conversely when activities are construed at low levels (in terms of “how”), people tend to think of them happening in the near future. It is a bidirectional relationship. Temporal distance construal has been studied in the context of categorisation. As the temporal distance increases, it compels the customer to make their categorisation more broader to include more number of objects/ events and to view them as having the same properties and attributes. And when the future events are represented in more nearer perspective (ie low construal level), more specific categories are used (Liberman, Sagristano, & Trope, 2002) to classify objects**.** The effect of temporal construal has even been studied in the context of elections. It is found that during election campaigning, successful parties are the ones which construe their campaigning messages in abstract terms when the elections are away into the future and then construe their campaigns in more concrete terms as the election draws quiet near (Kim, Rao, & Lee, 2008). Thus here we propose that when the temporal construal is high, there is more abstractness and lesser tendency to connect the cash back with the already incurred expenditure. On the other hand, when the temporal construct is low, the consumer tends to think in more concrete terms and easliy connects or relates the cashback received to the incurred expenditure and will regard it as a saving to be saved than to be spent.

Hence based on the above arguments, the next hypothesis:

H2: When the temporal distance is greater-distant future (vs lower-near future) between the actual payment and the day/time when the cashback is actually credited back into the mobile wallet, it leads to higher (vs lower) Marginal Propensity to Consume and hence more (vs less) purchasing intention through the mobile wallet and this difference will not be significant in the case of discounts.

3. Research Methodology:

3.1 This study is designed as a 3(promotion type: discount vs cashback vs reward points) x 2(temporal construal level: near future vs distant future) between subject experimental study. In this study the exogenous constructs are promotion type and temporal construal and the endogenous constructs are attitude and purchase intention.

3.2 The Stimuli Development: The stimuli will be an advertisement of three fictious brands, each offering a different promotion -one discount, another reward points and yet another a cashback. First, a pilot study will be conducted in order to understand which category of products/ service is most purchased using mobile wallets. Based on the preferred category three fictious brands with the same features , prices and quality would be designed, but only differing in the promotion type. The pilot study would also try to identify the time period perceived by students as near future and distant future and this would be used later for the manipulations.

3.3 Procedure and Sample Members for the study: The study would be conducted among University Students studying for Post Graduate Courses, as this would be a population well exposed to the frequent usage of mobile wallets. A group of students will then be randomly selected. From this group, members will again be randomly assigned to different promotion modes-the discount mode , reward point mode and the cashback mode. Those in the cashback mode would be further assigned to two groups ie one group exposed to a situation in which they are receiving an immediate cash back while in the other group, the cashback would be credited to their account only after a short time lapse . Their propensity to consume further after receiving the respective promotions would be measured . Further the purchase intention of the respondents would also be measured .

3.4 Independent and Dependent Variables: The independent variables under study are the temporal construal and the type of promotion. These variables are subject to manipulation. The dependent or the endogenous variables are marginal propensity to consume and purchase intention.

4. Conclusion

This study has a lot of managerial and practical implications. Presently marketers are employing discounts, reward points and cashbacks to entice mobile wallet users. Knowing the extent of preference for the promotion type and its effect on the purchase intention, it can help marketers to strategise their sales promotions. We find that across all mobile wallets cashbacks are used indiscriminately by marketers. However how far they are effective in inducing a further purchase is still unexplored. Knowing the effect of temporal construal on purchase intention will allow marketers to optimise their returns when they are timing a cashback.

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