

Cash or credit?

Payment methods affect consumers' perceptions of products, KU researcher says

LAWRENCE –According to a University of Kansas researcher, shoppers who use cash will view their purchases very differently than those who use credit cards.

New research by Promothesh Chatterjee, an assistant professor of marketing with the KU School of Business, suggests that shoppers who use credit cards focus more on the purchased item's benefits – things like the great picture on a new TV or the super-comfortable fabric on a new shirt. Conversely, shoppers who pay cash focus more on a product's costs – things like price, delivery time, warranty costs and installation fees.

“When it comes to product evaluation, beauty lies in the eyes of the cardholder,” said Chatterjee, whose paper “Do Payment Mechanisms Change the Way Consumers Perceive Products?” will appear in the *Journal of Consumer Research* early next year. “People who pay with credit cards focus on the benefits and cool features of a new product, while consumers who use cash tend to focus on the price and other costs.”

Although previous research has repeatedly shown that consumers are willing to pay more when they use credit cards instead of cash, research has been silent on whether consumer perception of products is also affected by the form of payment. Chatterjee's research fills this void.

In three experiments, Chatterjee and co-author Randall L. Rose of the University of South Carolina find that consumers primed with credit card as a payment mechanism make more recall errors with respect to cost-related aspects of the product than to benefit aspects; identify more words related to benefits; and respond faster to benefit-related words than consumers who use cash.

In a fourth experiment, Chatterjee demonstrates that credit-primed consumers are more likely to choose an option that offers superior benefits than those primed with cash, but cash-primed consumers are more likely to choose an option that dominates on costs – even when that option offers inferior benefits.

“Consumers developmental associations about credit cards and cash from early ages,” Chatterjee said. “Credit card advertising, for example, links the use of credit cards with highly desirable products and lifestyles and immediate gratification. Credit cards also allow consumers to ‘decouple’ the joy of the product from the pain of payment. Cash, on the other hand, is closely linked to the pain of payment.”

Chatterjee's research could have major public policy applications. For example, most government agencies that distribute social welfare payments use some form of pre-paid debit card. Chatterjee's research hints that these cards might be encouraging poor spending habits among recipients.

The research could also have major consumer education implications by demonstrating that marketers – by constantly reinforcing the use of credit cards – may be affecting not just the amount of money consumers spend but also the types of goods and services that consumers buy.

“Paying with credit cards may increase the likelihood of indulgent choices that are less healthy compared to cash,” Chatterjee said. “It's also possible that consumers primed with credit cards may choose more attractive or high-image products among substitutes and may more frequently include brands strongly linked to benefits.”

If this notion is correct, it will likely become more prevalent in the future as marketers increasingly use technologically advanced payment mechanisms that allow consumers to make payments without much deliberation. For example, many online merchants allow the option of automatically debiting one's account without having to fill in the details of the purchase.

“This arrangement, ostensibly for consumers' convenience, seems to offer an even more powerful disconnection of spending from payment,” Chatterjee said. “Once an account has been created, purchases could be made with no reference to payment mechanism at all. While convenient, these mechanisms do not encourage consumers to deliberate over their spending.”

So are credit card-carrying consumers doomed to make indulgent, reckless decisions? Not exactly, Chatterjee said, though it might be helpful to “reintroduce some pain” at the point of purchase.

“If we can somehow put that pain back in, we could perhaps retain the convenience of plastic, but at the same time help consumers make more informed decisions,” he said. “Perhaps a simple reminder at the point of sale – like an image of cash, or a reminder of a bank account balance – could tip the scales back in consumers' favor. For now, the take-home message for consumers is to be careful when paying with credit cards.”

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