



BI Norwegian Business School - campus Oslo

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Master Thesis

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Master of Science in Strategic Marketing Management

How does offered payment solutions affect the level of post-purchase cognitive dissonance and brand attitude

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Introduction

In the last few years, economists and media have focused on the growing consumer debt in Norway. Economists have especially expressed concern over consumer loan and credit card use in the young age segments (Vedeler, 2016; Fredriksen & Lindin, 2016), and some even claim the growing consumer loan debt is a real threat to the Norwegian economy as a whole (Vedeler, 2016; Vedeler, 2016). Alongside the growing consumer debt, online retail stores have grown in number, and in many online stores cash/debit payment is not set as a default payment method. Online stores offer multiple payment solutions, e.g. credit cards, down-payment solutions, invoices, consumer loans, etc. It is thus of interest to see if there is an existing relationship between offered payment solutions, and the cognitive decision making process. Further, it is interesting to explore whether offered payment solutions have an effect on the degree of post-purchase cognitive dissonance, and whether the dissonance in turn alters change in brand attitude.

Research question

RQ1: Is there a relationship between offered payment solutions in an online retail store and the cognitive decision making process, and which conditions might affect this relationship?

RQ2: To what degree does post-purchase cognitive dissonance affect future cognitive decision-making processes through change in the consumer's attitude?

Our contribution

The first research question is important in order to establish how consumers evaluate their budgets and how their purchase behavior might differ if several payment solutions are made available. The second research question is the main focus area of our thesis, as we are especially interested in seeing whether the degree of post-purchase cognitive dissonance affects the purchased brands, the online retailer, or the third-party payment solution companies. Our theory is that the negative cognitive state will transfer to the purchased brand, which is undesirable from a branding perspective.

In order to research this, we propose two studies. The first study will be conducted to establish whether there is a relationship between offered payment solutions in an online retail store, and the cognitive decision making process, and which conditions might affect this relationship. This study looks at the short-term cognitive aspects of the consumer's behavior. The second study will look at the long-term aspects of behavior, as it proposes that the consumer's attitude will change differently based on the chosen payment type. The two studies will be described in detail below, supported by literature.

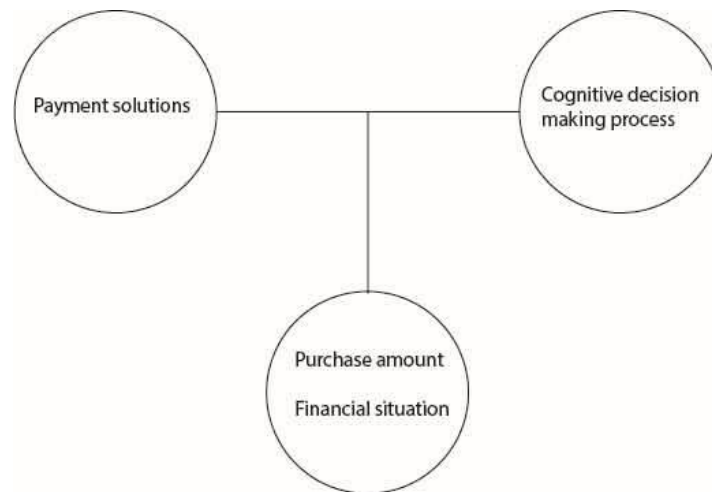
Study 1

Financing decisions have always been complex, and for people without a financial background it is often difficult to say if it is more beneficial to use a loan or a credit card to finance your purchase, or just simply paying directly or by invoice. To add further complexity to the situation, is the fact that benefits are not directly experienced. When we think of online purchases, most research emphasis is on the decision of what to buy. However, online retailing has added another decision; the decision of how to financing your purchase. The increasing number of finance solutions available makes it interesting to see how the cognitive process is dependent on different factors. Current payment solutions that often are offered include payment in form of a loan over a period of time, either via an external party of the store or by credit card; invoice with 14-30 days of deferral; and immediate payment through debit card or payment solutions such as PayPal. As these are the most common payment solutions, our focus will also be on these in our thesis. In study 1, we will look at the benefits of each payment solution in present time. This means that paying in the future, either by invoice, credit card or loan, has the extra benefit of delaying the payment into the future.

Kahneman's decision theory tells us that consumers either use their system 1 or their system 2. System 1 is a person intuition where we make decisions based on rules of thumb that come forth from our experience; and system 2 is a reflective type of decision-making where people use cognitive thinking to come to a decision (Kahneman, 2011). In the cases where choosing a payment solution is a decision made with system one, it may be affected by bias and fallacies and might be

vulnerable to irrational suboptimal decision making (Kahneman, 2011). Furthermore, for the decision makers this seems to be acceptable as the fact that individuals are willing to settle for imperfect accuracy is well supported (Bettman et al. 1990, Johnson and Payne 1985). Also, decision-makers frequently choose options that are satisfactory but would be suboptimal if decision costs were zero. This is especially common when there are numerous alternatives that are difficult to compare, i.e. when the complexity of the decision making process is high (Payne et al. 1993) This further confirmed that human decision makers are typically good at selecting variables that are relevant in the decision process, but weak at integrating and retaining large amounts of information (Hoch and Schkade, 1996). This difficulty of handling complex decision and information structures could lead to an increased risk of taking decisions with a more positive effects but less favorable cognitions when the availability of processing resources is low (Shiv & Fedorikhin, 1999). This could indicate that if we are in our system 1 thinking, we could actually make suboptimal decision for ourselves if we can't process information correctly because of a barrier on processing capacity.

Therefore, we need to understand how complex the decision of payment solution is and what factors the consumers deems relevant, to see what factors affect the decision of choosing payment. Our interest especially lies in consumers' current financial situation and the cost of the product. These expectations come from the fact that these factors affect the risk of the purchase for the consumer (Mitchell & Grotorex, 1993). A higher price would increase risk as the investment becomes larger, whereas the financial situation of a consumer affects the relative investment made by the consumer. We expect the increased risk to change the cognitive decision making process of the decision from system 1 to system 2. As study 1 looks at the present time and has a short-time perspective, we expect a lower degree of dissonance where payment and risk can be spread over time, i.e. by credit card or consumer loan.



Study 2

In study 2, we take into consideration a longer time period. Unlike study 1, we propose that post-purchase cognitive dissonance will increase by spreading out payment, due to post-purchase payment reminders and feelings of debt.

Cognitive decision-making process

The cognitive decision-making process is one of four main views of consumer decision-making processes, and is based on the notion that the consumer is not actively seeking out to attain all available information on each choice, but rather seeks an acceptable level of information on the choice alternatives in order to reach a satisfactory decision (Schiffman et al., 2012). The cognitive decision-making process also proposes that the consumer behavior is goal directed (Bagozzi & Dholakia, 1999). The cognitive process takes the consumer from the initial goal setting, through formation of goal intentions, action planning, action initiating and control, ending with goal attainment or goal failure. The cognitive reflection that grows from the goal attainment or failure, then affects future consumer behavior (Bagozzi & Dholakia, 1999). It is therefore important that we include the overall long-term view of cognitive decision-making process, as it has the ability to direct future behavior.

Attitudes

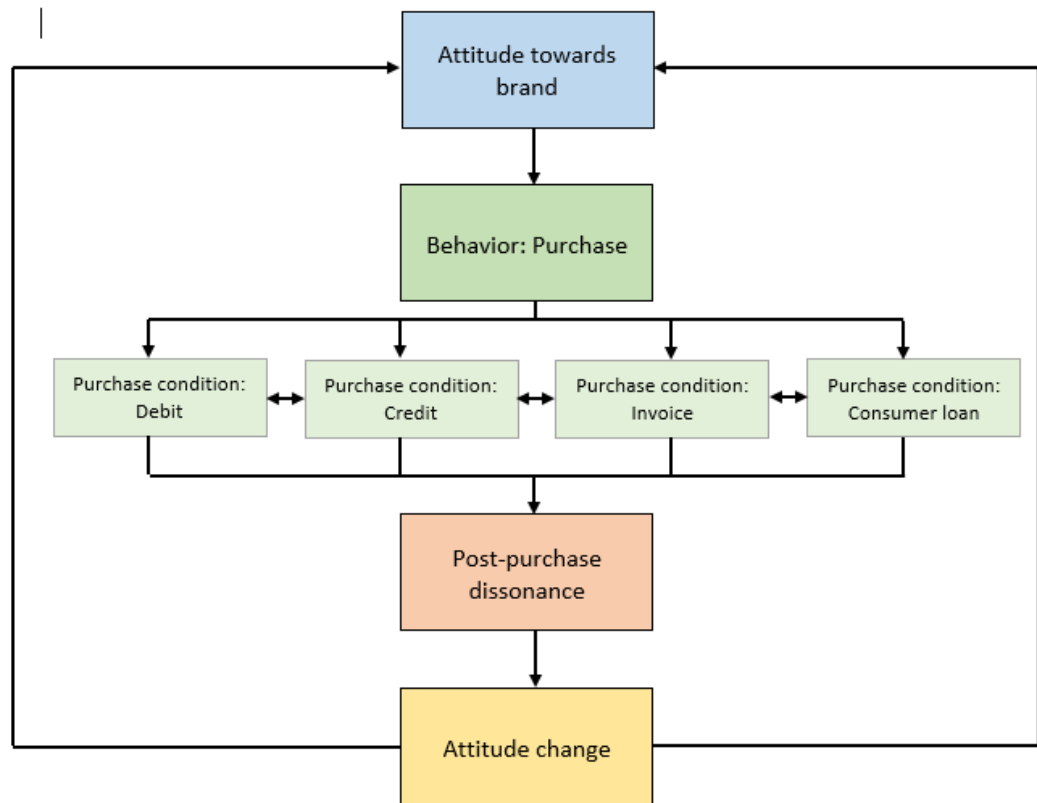
Brand attitudes are key to understanding consumer behavior. Schiffman et al. (2012, 233) defines attitudes as “a learned predisposition to behave in a

consistently favorable or unfavorable way with respect to a given object”, where the object in a consumer behavior context refers to marketing- or consumption concepts including (but not limited to) brands, products, advertisements, and product categories. Brand attitudes alone is rarely a goal for companies, however the behaviors (e.g. purchase, re-purchase, and word-of-mouth) that are triggered from attitudes are important (Samuelsen et al., 2010). Brand attitudes are formed as a result of all the information a person holds about the brand; it being personal experience with the brand, word-of-mouth, and/or exposure to direct marketing (Schiffman et al., 2012; Samuelsen et al., 2010; O’Keefe 2002).

Post-purchase cognitive dissonance

Attitudes may be formed by behavior, but this does not mean that attitudes and behavior are synonymous (Schiffman et al., 2012). Cognitive dissonance theory suggests that behavior can precede attitude formation. Post-purchase cognitive dissonance occurs when cognitive dissonance occurs after a purchase. The essence of post-purchase cognitive dissonance is the consumer’s experience of conflicting emotions about their purchase and previous attitudes, moving the consumer to change their attitudes to better conform with their purchase behavior (Schiffman et al., 2012). The construct includes both a cognitive and an emotional dimension (Sweeney et al., 2000). It has been proven in several studies that cognitive dissonance has an impact on attitude change and repurchase tendency (Cummings & Venkatesan, 1976). However, the focus of previous studies appears to have been on different product categories, variables, and settings (Cummings & Venkatesan, 1976). Soutar & Sweeney (2003) found that younger consumer segments were more likely to experience post-purchase cognitive dissonance, and recommended managers to spend resources to reduce this cognitive state in order to avoid that consumers develop a negative attitude towards the brands. Interestingly, the authors found that sales staff can actually increase cognitive dissonance by being too pushy at the point of sale, or showing artificial enthusiasm when following up a sale (Soutar & Sweeney, 2003). We thus propose that in an online retain setting, where there are no present sales staff, different payment solutions may also affect the degree of past-purchase cognitive dissonance, resulting in consumer attitude change. In addition, emotional elements such as regret and feelings of debt, may increase the dissonance and also change the attitude. Our theory is that high levels of dissonance as a result of spreading payments over time instead of direct payment,

may in fact have a negative effect on the attitude towards the purchased brand, even though it is third-party companies (e.g. creditors) or payment reminders that increase the level of dissonance.



Plan for data collection

We plan to gather data from undergrad and/or grad students at BI Norwegian Business School. We will apply for data collection during week 3. We will create an online experiment using Qualtrics, and plan to collect the data in week 16 and 17, to ensure that we have enough time in case additional data collection is necessary.

Proposed timeline for thesis progression

Week	Topic	Luc Tasks	Thea Tasks
2	Preliminary	X	X
3	Apply for data collection	X	X
4	Thesis research	X	X
5	Thesis research	X	X
6	Literature review	X	X
7	Literature review	X	X
8	Literature review	X	X
9	Hand in draft of literature review	X	X
10	Methodology preparations	X	X
11	Methodology preparations	X	X
12	Methodology preparations	X	X
13	Methodology preparations	X	X
14	Finalize experiment and agree with Auke	X	X
15	Easter break	Break	Break
16	Run the experiment	X	X
17	Run the experiment	X	X
18	Data Analysis	X	X
19	Data Analysis	X	X
20	Data Analysis	X	X
21	Data Analysis	X	X
22	Data Analysis	X	X
23	Data Analysis	X	X
24	Writing	X	X
25	Writing	X	X
26	Full Thesis Draft Review	X	X
27	Full Thesis Draft Review	X	X
28	Writing	X	X
29	Writing	X	X
30	Writing	X	X
31	External thesis review	Break	Break
32	External thesis review	Break	Break
33	Completion of thesis	X	X
34	Completion of thesis	X	X
35	Hand-in of thesis	X	X

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