

## **The Influence of Hedonic versus Utilitarian Consumption Goals on the Compromise Effect**

### **Abstract**

**This article reports the effects of hedonic versus utilitarian consumption goals on consumers' choices between middle and extreme options and the compromise effect. The authors formulate competing hypotheses regarding the role of different types of consumption goals on consumers' preferences for middle vs. extreme options and the compromise effect based on three different research streams (i.e., the justification mechanism, different types of valuation mechanism, and self-regulatory focus mechanism). Two studies are conducted, and the findings suggest that the compromise effect is higher for the utilitarian (vs. hedonic) consumption situation.**

*Keywords: Hedonic consumption, Utilitarian consumption, Compromise effect, Justification, different types of valuation*

*Track: Consumer Behaviour*

## **1.0 Background**

Over the past decade, researchers have continued to search for a richer understanding of consumers' product choices, and the compromise effect has been one of the most important research topics (Dhar et al., 2000; Murali et al., 2007; Simonson, 1989; Simonson and Nowlis, 2002; Simonson and Tversky, 1992). The compromise effect can be defined as "the share of a product that is enhanced when it is the middle option in a choice set and diminished when it is an extreme option" (Simonson, 1989). In the early stage, researchers suggest that choosing a middle option creates less need for consumers to justify their choice, and thus, they are less likely to be criticized by others (Simonson, 1989; Simonson and Tversky, 1992). Afterward, a great deal of research has found moderators for the compromise effect, such as the self-regulatory focus (Murali et al., 2007), the need for uniqueness (Simonson and Nowlis, 2000), attribute balance (Chernev, 2005), time pressure (Lin et al., 2007), and psychological depletion (Pocheptsova et al., 2009). For instance, Simonson and Nowlis (2000) find that individuals who desire uniqueness are less likely to choose options based on the compromise effect. Lin et al. (2007) find that when individuals are facing pressure due to time, the compromise effect becomes weaker, as people generally tend to focus on only one attribute of a product.

This article will add to the current understanding of the compromise effect by examining the relationships between different types of consumption goals (hedonic vs. utilitarian) and the compromise effect, which has yet to be tested. More essentially, we will create a competing hypothesis regarding this research issue based on previous research. Therefore, our research question comes down to this: What is the impact of different types of consumption goals (hedonic versus utilitarian goals) on the compromise effect? In the following section, we address two contradictory hypotheses based on three different research streams: the justification mechanism, different types of valuation mechanism, and regulatory focus mechanism.

## **2.0 Conceptual foundation**

### ***2.1 Justification mechanism***

Researchers have assumed that people have the tendency to justify their decision-making or to explain their decisions to others (Simonson, 1989; Shafir, Simonson, and Tversky, 1993). This tendency is related to people's desires to enhance their self-esteem in order to reduce cognitive dissonance, or to perceive themselves as rational beings (Simonson, 1989). Therefore, the need to provide reasons has a great impact on decision-making (Bettman, Luce and Payne, 1998). From a related study of justification theory, Okada (2005) finds that people prefer the hedonic option to the utilitarian one when a product is presented alone. This preference occurs because people have limited information about other alternatives when they are evaluating a single product, which makes it easier to justify their choice of the hedonic product. However, consumers prefer utilitarian options to hedonic one when the two options are presented together because it is more difficult to justify spending money on hedonic products due to associated feelings of guilt. Furthermore, researchers suggest that choosing a middle option or a compromise option is one way to justify their choice (Luce, 1998; Simonson, 1989). Simonson (1989) suggests that the compromise effect is stronger among decision-makers who expect to justify their decisions to others because it provides good reasons for choosing specific options.

Therefore, building on these findings, we argue that a middle option will be preferred and the compromise effect will be higher in a hedonic (vs. utilitarian) consumption situation in order to justify their decisions. Therefore, we predict that:

**H1a:** Consumers' preferences for a middle option to an extreme option and the compromise effect will be higher in a hedonic versus utilitarian consumption situation.

## *2.2 Different types of valuation mechanism*

In this section, however, we will develop a contradictory hypothesis based on the different valuation mechanism. According to Hsee and Rottenstreich (2004), there are two mental processes used to assess the value of a target, *valuation by calculation* and *valuation by feelings*. They find that when people rely on their feelings, they become more sensitive to the presence or absence of a stimulus but insensitive to further variations of size or scope. However, when people rely on calculation, they show constant sensitivity to the scope of the stimulus. When we further explore the relationship between the two different types of consumption goals and the two different types of valuation, utilitarian consumption is done through calculation; therefore, it is scope sensitive. Conversely, hedonic consumption is done through feeling, so it is scope insensitive. Furthermore, the theory of extreme aversion, which is strongly related to the compromise effect, suggests that people have a tendency to avoid the extreme option due to value calculation and loss aversion (Simonson, 1989; Simonson and Tversky, 1992).

Thus, drawing from these findings, we propose that consumers in a utilitarian consumption situation will prefer a middle option and will show a higher compromise effect because they are averse to extreme options due to valuation by calculation and loss aversion.

## *2.3 Regulatory focus mechanism*

In this section, we will propose another underlying mechanism for the above prediction, which is the theory of self-regulatory focus (Avnet and Higgins, 2006; Higgins, 1997). The theory of self-regulatory focus explains that promotion-focused goals are more approach oriented. Conversely, prevention-focused goals are more avoidance oriented. In addition, a related research stream has suggested that promotion-focused consumers are more prone to consider the hedonic benefits of a highlighted product, whereas prevention-focused consumers are more prone to consider the utilitarian benefits of a highlighted product (Chernev, 2004; Roy and Ng, 2012). Furthermore, researchers have found that prevention-focused consumers are more sensitive to the compromise effect, as they are more sensitive to the negative attributes of products. This is because the choice of an extreme option carries more risk of possibly making a poor decision. Conversely, promotion-focused consumers are more sensitive to the attraction effect and dominant heuristic, as they are more prone to ensuring advancement, achieving hits and trying to capture opportunity. Thus, they prefer the extreme option (Mouralie et al., 2007; Zhang and Mittal, 2007).

Taken together, these findings indicate that in a utilitarian consumption situation, consumers will prefer a middle option due to the prevention-focus process. However, in a hedonic consumption situation, consumers are less likely to prefer a middle option due to the promotion-focus process.

Therefore, based on two different underlying mechanisms, we predict that:

**H1b:** Consumers' preferences of a middle option to an extreme option and the compromise effect will be higher in a utilitarian versus hedonic consumption situation.

## 2.4 Summary of the conceptual foundation

Based on three different research streams, we have formulated two competing hypotheses. According to the justification mechanism, we predict that the preference of choosing a middle option to an extreme one and the compromise effect will be higher in a hedonic (vs. utilitarian) consumption situation. However, according to the different types of valuation and self-regulatory focus mechanisms, we assume the opposite prediction. Through two experimental studies, we empirically test the competing hypotheses.

## 3.0 Study1

### 3.1 Method

*Subjects and Design.* One hundred ninety-five undergraduate students (61.5% female, average age = 21.6) at a large university in New Zealand participated in the study. Participants were randomly assigned to one of 2 (Choice set - different price ranges: \$100-\$140 vs. \$120-\$160) between-subjects experimental conditions.

*Procedure.* Participants first were asked to imagine that they planned to buy a pair of Nike running shoes. Next, participants were asked to choose one pair from 3 alternatives. Three Nike shoes were different in terms of price level and quality level, such as colour selection and shock absorption. Participants were exposed to two sets of running shoes consisting of either (i) \$100, \$120, & \$140 or (ii) \$120, \$140, & \$160. After the choice task, we measured individual differences in perceptions of running shoes regarding hedonic (e.g., fun/exciting) and utilitarian (e.g., effective/functional) dimensions by using ten items of scale (Voss, Spangenberg, and Grohmann, 2003). Finally, they were debriefed and thanked for their participation.

### 3.2 Results

*Hedonic vs. utilitarian consumption and grouping.* Based on the means of 5 hedonic dimension items (Cronbach's  $\alpha=.91$ ) and 5 utilitarian dimension items (Cronbach's  $\alpha=.83$ ), we generated 3 groups: *Utilitarian Group* (62.1%) - Participants who mainly perceived the Nike running shoes as utilitarian (i.e., the utilitarian score > the hedonic score), *Middle Group* (16.5%) - Participants who perceived the Nike running shoes equally as utilitarian and hedonic (i.e., the utilitarian score = the hedonic score), and *Hedonic Group* #3 (21.4%) - Participants who mainly perceived the Nike running shoes as hedonic (i.e., the utilitarian score < the hedonic score).

*Preferences of a middle vs. an extreme option.* No effect was significant for choice set-different price range variable. Therefore, we aggregated the data across the two choice sets. We found a significant effect of different consumption situation types on preference for the middle vs. extreme option (Pearson  $\chi^2(2) = 5.31, p = .07$ ). Specifically, the choice share of a middle option for *Hedonic Group* participants who perceived the target product as hedonic (25.6%), was lower than that for *Utilitarian Group* participants who perceived the target product as utilitarian (46.0%,  $\chi^2(1) = 4.978, p < .05$ ), and for *Middle Group* participants, who

showed no difference in the utilitarian or hedonic scales (46.7%,  $\chi^2(1) = 3.31, p < .07$ ). Therefore, the results support H1b rather than H1a.

The above results could have been caused by an alternative explanation that people might select the most expensive choice under the hedonic consumption situation. To exclude this alternative explanation, we reanalyzed the data by considering the choice of the most expensive option as the dependent variable. The results of this analysis showed no significant results (Pearson  $\chi^2(2) = 3.64, p > .10$ ). Therefore, we could exclude this alternative explanation.

*The compromise effect.* In this part, we focused on the relative share of the \$120 option and the \$140 option in order to calculate the compromise effect. We used logistic regression analysis and found a significant interaction effect between two choice sets of running shoes and three groups of hedonic vs. utilitarian consumption (Wald = 5.56,  $p = .062$ ). Specifically, we found a significant compromise effect for *Utilitarian Group* participants, who perceived the target product as utilitarian (the \$140 option share under the middle option vs. under the extreme option = 74.3% vs. 51.9%; the compromise effect = +22.4%,  $\chi^2(1) = 4.48, p < .05$ ). However, we did not find any significant compromise effect for *Hedonic Group* participants, who perceived the target product as hedonic (the \$140 option share under the middle option vs. under the extreme option = 66.7% vs. 76.5%; the compromise effect = -9.8%,  $\chi^2(1) = .29, p > .10$ ), and for *Middle Group* participants, who showed no difference in the utilitarian or hedonic scales (the \$140 option share under the middle option vs. under the extreme option = 75.0% vs. 54.5%; the compromise effect = +20.5%,  $\chi^2(1) = 1.06, p > .10$ ). Therefore, the results support H1b rather than H1a and suggest that the compromise effect is higher for the utilitarian versus hedonic consumption situation.

## 4.0 Study2

In this study, we tried to directly manipulate the consumption goal rather than measure consumption with a scale, as we did in Study 1. In addition, hypothesis 1a could not be supported because the price difference of the three options in Study 1 was small, and this might fail to increase feelings of guilt and motivation of justification for the decision. In order to overcome this weakness, we used a different product category with a relatively large price gap among options.

### 4.1 Method

*Subjects and Design.* One hundred eighty-two undergraduate students (62.1% female, average age = 21.8) at a large university in New Zealand participated in the study. Participants in this study were assigned to one of 2 (Consumption goal: hedonic vs. utilitarian goal) X 2 (Choice set - different price ranges: \$400-\$700 vs. \$550-\$850) experimental conditions.

*Procedure.* Participants first were asked to imagine visiting Tokyo, Japan for 3 nights. We manipulated the consumption goal by varying the purpose of the trip, adapted by Botti and McGill (2011). Specifically, participants in the utilitarian goal condition were asked to imagine that they were planning to visit Japan for 3 nights as business students merely to collect survey data for their bachelor's thesis. On the other hand, participants in the hedonic goal condition were asked to imagine that they were planning to visit Japan for 3 nights as tourists simply to have fun. Next, participants were asked to choose one trip option from 3 alternatives. Participants were exposed to two sets of trip plans consisting of either (i) \$400,

\$550, & \$700 or (ii) \$550, \$700, & \$850. After the choice task, participants were also asked to respond to the decision style on a seven-point scale (1 = decided mainly by feeling, 7 = decided mainly by calculation). Finally, they were debriefed and thanked for their participation.

## 4.2 Results

*Manipulation check.* We found a significant effect of consumption goal on decision style ( $F(1,178)=5.60, p<.05$ ). Specifically, people under the utilitarian consumption goal ( $m=4.78$ ) showed a higher value of deciding by calculation than those under the hedonic goal ( $m=4.15$ ). Therefore, the manipulation of the consumption goal was successful.

*Preferences of a middle vs. an extreme option.* No effect was significant for the choice set-different price range variable. Therefore we aggregated the data across the two choice sets. We found a significant effect of different consumption goal types on preference for the middle vs. extreme option (Pearson  $\chi^2(1) = 6.00, p < .05$ ). Specifically, the choice share of a middle option was higher under the utilitarian consumption goal (37.5%) than under the hedonic consumption goal (21.1%). In sum, the results support H1b rather than H1a, similar to Study 1.

*The compromise effect.* In this part, we focused on the relative share of the \$550 option and the \$700 option in order to calculate the compromise effect. We used logistic regression analysis and found a significant interaction effect between the two factors (Wald = 3.55,  $p = .06$ ). Specifically, we found a positive, but non-significant compromise effect under the utilitarian consumption goal (the \$700 option share under the middle option vs. under the extreme option = 59.3% vs. 51.3%; the compromise effect = +8.0%,  $\chi^2(1) = 0.41, p > .10$ ). However, we found a significant and negative compromise effect under the hedonic consumption goal (the \$700 option share under the middle option vs. under the extreme option = 55.0% vs. 79.3%; the compromise effect = - 24.5%,  $\chi^2(1) = 3.87, p < .05$ ). Therefore, the results also support H1b rather than H1a in that the compromise effect is higher under the utilitarian (vs. hedonic) consumption goal situation.

## 5.0 Marketing Implications and Future Directions

Based on the three different research streams, we formulated two competing hypotheses regarding the relationship between different types of consumption goals (hedonic versus utilitarian goals) and the compromise effect. We conducted two experimental studies and found that the preferences of a middle option to an extreme one and the compromise effect was higher in the utilitarian versus hedonic consumption situation.

Overall, our theoretical approach and findings have important implications for how hedonic and utilitarian goals influence consumers' product choices. For instance, our findings suggest that consumers are likely to choose a middle option when they are in the utilitarian consumption situation. Therefore, our research suggests that if marketers are selling utilitarian products, they should make a middle option more attractive than an extreme one. In addition, in this paper, the results support H1b based on two underlying mechanisms (i.e., the different types of valuation and self-regulatory focus mechanisms). Future research should examine which underlying mechanism is stronger.

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