Decision Processes Colloquia

Monday, October 2, 2017

Where: 250 JMHH

When: 12:00 – 1:15 pm

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Emergency Reserves: The Benefits of Providing Slack with a Cost

ABSTRACT:

Marketers of programs that are designed to help consumers reach long-term goals (e.g., lose weight) face twin challenges of making the program attractive enough to encourage consumer signup while still motivating them to reach their desirable long-term goals. I examine how incorporating emergency reserves, pre-defined slack with a small cost, within goals influences consumers' preferences and performance. I find that consumers not only prefer goals with emergency reserves (e.g., a goal of going to the gym 7 days of the week with 2 "emergency skip" days) to goals without emergency reserves but also perform better with them. Consumers perform better with goals with emergency reserves than with easier goals (e.g., a goal of going to the gym 5 days of the week) and other flexible goals because they try to resist using their emergency reserve in order to avoid incurring the cost (psychological, opportunity, or future) for using it, leading them to try harder to reach a more difficult reference point/goal (e.g., Heath, Larrick, & Wu, 1999). Consumers also perform better with goals with emergency reserves than with harder goals (e.g., a goal of going to the gym 7 days of the week) because they are less likely to experience the negative consequences of goal violation due to the availability of the emergency reserve and are thus more likely to persist after a failure (e.g., Cochran and Tesser, 1996; Soman & Cheema, 2004). By offering emergency reserves, marketers can not only attract consumers to sign-up initially but also help them reach these desirable long-term goals they have been struggling to achieve.

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