MENTAL ACCOUNTING IN CONSUMER-BRAND RELATIONSHIPS

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ABSTRACT

Mental accounting is the set of operations that people perform to organize, evaluate and keep track of their activities, especially those related to finances and expenses (Thaler, 1985, 1999). In this chapter, we propose that consumers use a mental accounting framework when interacting with brands. We suggest that the type of relationship with a brand can lead to a variety of differences in how consumers mentally account for the brand interactions. Further, we propose a number of specific hypotheses emerging out of the application of the mental accounting framework to consumer-brand relationships. This conceptual chapter contributes by outlining the multitude of ways in which the application of mental accounting framework to consumer-brand relationships can give deeper insights into the antecedents, processes, and consequences underlying consumer behaviour.

Mental accounting is the set of operations that people perform to organize, evaluate and keep track of their activities, especially those related to finances and expenses (Thaler, 1985, 1999). Prior research has shown the value of applying a mental accounting framework not just when people spend money on everyday products but also in the context of money spent on investments (Shafir & Thaler, 2006), financial products (Ranyard et al., 2006), product disposal (Okada, 2001), immediate versus delayed consumption (Gourville & Soman, 1998), windfall spending (Arkes et al., 1994), cross-cultural differences (Arkes et al., 2010), and tracking time (Soman, 2001; Soster, Monga, & Bearden, 2010). In this chapter, we propose yet another important context in which a mental accounting framework is valuable: consumer-brand relationships, that is, to track, monitor and assess interactions between consumers and brands. We propose that mental accounting framework applied in a consumer-brand relationship context allows us to get deeper insights into consumer behavior, and offers specific strategic and tactical tools to marketers to improve the returns from their relationships with consumers.

Prior research has noted that brand relationships differ in what they stand for, what they mean to the consumer (Fournier, 1998), and the extent to which they attend to monetary versus non-monetary exchanges (Aggarwal, 2004). Prior research in mental accounting suggests that people adopt a mental accounting framework to track their expenses and benefits as well as to help manage their overall budget (Thaler, 1985). We suggest that people have a separate mental account for each of their brand relationship, and that the interactions between the consumer and the brand can be

better understood by applying specific principles of the mental accounting framework. That is, the type of relationship that consumers have with a particular brand would lead to distinct ways in which they mentally account for their interactions, which in turn would result in predictable differences in their behavior. In this chapter, we propose a variety of contexts in which mental accounting principles can be applied to consumer-brand interactions. In particular, we suggest that if a mental accounting framework is adopted in a brand relationship context, then one could expect differences in, for example, the focal "currency" of exchange that is tracked, the length of time of the accounting period (for which the costs and benefits are tracked), the ease or difficulty with which the account may be closed, framing of the relationships, that is, narrow (sub-brands) versus broad (umbrella or corporate brands), as well as unique insights into different types of relationships including exchange versus communal relationships. We explore some of these ideas, and suggest ways in which employing this framework could help us better understand issues such as brand loyalty and brand extension, as well as provide useful research avenues for future investigation helpful for both academics as well as managers.

This chapter includes the following sections. First we start with a brief literature review of mental accounting effects with particular relevance to brand relationships. Second, we note key findings from prior research in consumer-brand relationships highlighting the aspects that make them particularly appropriate for the application of mental accounting framework. Next, we propose a framework of mental accounting for customer-brand relationships in a number of different contexts,

and lay out specific testable propositions emanating directly out of an application of this framework. Finally, we discuss the theoretical and managerial implications of this framework and its important contribution to the field of consumer-brand relationships.

MENTAL ACCOUNTING: A BRIEF LITERATURE REVIEW

Thaler (1985, 1999) proposed that individuals follow a cognitive form of bookkeeping to track, record, organize, and interpret their consumption and expenses, and dubbed this cognitive structure as a mental accounting system. The main idea of mental accounting is that people act as if they maintain implicit accounts of their resources, especially financial resources (e.g., time, money, effort, etc.) and mentally book the costs and benefits as a result (Thaler, 1985). The accounting metaphor for payment and consumption provides a means of conceptualizing how consumers allocate their resources. The two main reasons that motivate people to use mental accounts is to constrain spending by budgeting specific limits to certain categories or accounts (Heath & Soll, 1996), and to keep track of transactions: to debit the expense and credit the benefits accruing from a specific consumption (Prelec & Loewenstein, 1998). One result of such transaction-specific mental accounts is that individuals are less likely to abandon products that they may have purchased but not consumed due to an imbalance between the debit and credit in that account (Thaler, 1985).

Prior research on mental accounting underscores that people constantly violate the economic principles of fungibility of money (Thaler, 1985). That is, people assign

labels to sources and uses of funds, and are more likely to match the source of funds to its uses. Heath and Soll (1996) develop the notion of mental budget and suggest that these mental budgets act as a device to control against overspending. Thus, in addition to tracking expenses and benefits people also assign expenses to specific accounts and compare it against the budget allotted to that account. Put differently, people are less likely to put money from a pension account to a similar use as money from a checking account or money won in a lottery (Thaler & Shefrin, 1981). Researchers have also noted that people are flexible and self-serving in the allocation of specific expenses to certain accounts. For instance, if the expense is less prototypical of the account (Cheema & Soman, 2006), expenses and benefits are decoupled such as when buying on credit card (Prelec & Loewenstein, 1998). Similarly, costs and benefits are decoupled if the cost is seen as an investment rather than an expense (Kivetz, 1999).

For the purpose of this chapter, we will focus on four kinds of mental accounting effects that we believe are relatively more relevant to customer-brand relationships, and are briefly reviewed below.

Loss Aversion

Loss aversion is a basic principle of prospect theory (Kahneman & Tversky, 1979) and mental accounting (Thaler, 1985, 1999). The main thesis of this principle is that carriers of value are changes in wealth rather than the final state of welfare.

Prospect theory suggests that the value function is (i) defined on deviations from the reference point; (ii) generally concave for gains and convex for losses and both gains and losses functions display diminishing sensitivity; (iii) steeper for losses than for gains, indicating loss aversion. The S-shaped value function is steepest at the reference point. The reference point itself can be affected by individual expectations or framing of the outcome. People may use one or even multiple reference points when evaluating an outcome.

One important outcome of the shape of the value function is a model that predicts how people combine two or more financial outcomes in a single account. Thus, according to Thaler (1985) the principles of hedonic framing suggest that, in order to maximize utility from joint outcomes, people should:

1) Segregate gains (because the gain function is concave);
2) Integrate losses (because the loss functions is convex);
3) Integrate small losses with larger gains (to offset loss aversion); and
4) Segregate small gains (silver linings) from larger losses.

Account Labels, Budgets, and Balancing Accounts

Another component of mental accounting is "labelling": resources and expenses are grouped into budgets. Each mental account has a label (such as entertainment account, education account, etc.), which is used to track and record costs and benefits related to that activity. Consumers utilize resources differently

depending on the way they are labeled. Heath and Soll (1996) suggest that individuals create two types of labels that affect their consumption decisions: they label money for a certain class of products and they label products as relevant for a certain sum of money, that is, mental budget and expense tracking. Further, consumers label not only money but also time and other resources (Heath & Soll, 1996; Thaler, 1985).

Labelling not only facilitates trade-offs between alternative uses of funds, it also acts as an efficient device to control spending by people. Heath and Soll (1996) suggest that expenses are tracked against these budgets, and describe the mental accounting process of tracking expenditure in two stages—booking and posting. An expense must first be noticed and then assigned to a proper account. Failure to notice or book a benefit or a cost will not affect the balance of the mental accounts. Booking depends on attention and memory whereas posting depends on similarity judgments and categorization (Heath and Soll, 1996).

Since resources are generally non-fungible across accounts, individuals often justify their expenses through hedonic posting—posting items in a way that satisfies short-term interests and skirts the mental budgets. Since a more ambiguous expense could potentially be assigned to a different mental account, people are more likely to spend money on items that are less prototypical compared to those that are more prototypical if the budget for that mental account has been exhausted. Interestingly, many small expenses, such as money spent on coffee at work, may typically not be booked. Instead, this expense may be assigned to “petty cash” account which is not subjected to the principles of mental accounting that other accounts have to adhere to.

Currency

One way of framing outcome in mental accounting is to post the costs and benefits in specific currencies. It has been long noted in economics that people focus on the nominal face value of a given amount of money rather than its real value when making economic decisions. Fisher (1928) coined the term "money illusion" to describe this phenomenon. On the other hand, there are many other types of currencies used to post benefits and costs in mental accounts, such as time and effort. Okada and Hoch (2004) demonstrated systematic differences in the way that people spend time versus money. People are willing to spend more time for higher risk, higher return options ex ante. However, this pattern is reversed when they spend money and show the more standard behavior of increasing risk aversion.

The increasing popularity of loyalty programs and related marketing promotions has resulted in the abundance of new currencies (e.g., air miles, bonus points, store dollars) that consumers save, accumulate, budget, and spend much as they do with traditional paper money. Such type of new currencies has important implications in consumers' value perception. For instance, Dreze and Nunes (2004) found that consumers can be happier with prices presented in different currencies than prices presented in a standard, single currency.

Decoupling and Depreciation

It is a widely held view that consumers consider historic, non-recoverable transaction costs (time, money, and effort) when deciding on a future course of action, a phenomenon called the "sunk cost effect." Thaler (1985, 1999) argued that a consumer creates a mental account upon entering a transaction as a mechanism of tracking sunk costs. A consumer will close that account upon completing the transaction. By establishing a transaction-specific mental account, the consumer creates a psychological link between the costs and the benefits of a given transaction.

However, recent research suggests that the identification and consideration of such costs may not be straightforward. For example, it is significantly more difficult to identify and consider the cost of a purchased product when that cost is incurred by credit card or check than by cash (Prelec & Loewenstein, 1998; Soman, 2001). In transactions with greater ambiguity (e.g., what costs are paying for what benefits), psychological disassociation, or decoupling, of costs and benefits occurs. Such a disassociation between costs and benefits is labelled "transaction decoupling" (Soman & Gourville, 2001). There is also evidence that the decreased attention to sunk costs can be either cognitively (i.e., difficulty in allocating a single cost across multiple benefits) or motivationally driven (i.e., an underlying desire to avoid consumption).

Similarly, a temporal separation of costs from benefits will also make the mental account linkage weaker. When the cost occurs long before the benefit is consumed, a consumer might gradually adapt to a historic cost with the passage of time, thereby decreasing the sunk-cost impact. This process of gradual adaptation to

costs is termed “payment depreciation” by Gourville and Soman (1998).

CONSUMER-BRAND RELATIONSHIPS

The “brand-as-a-person” metaphor has proven to be an immensely valuable framework to both academics as well as practitioners interested in understanding consumer-brand interactions. Thus, important brand-related constructs such as brand loyalty (Mela, Gupta, & Lehmann, 1997), brand personality (Aaker, 1997; Plummer, 1985), brand image (Keller, 1993), as well as brand commitment (Chaudhuri & Holbrook, 2002) can all be traced back to social interactions in an interpersonal context. Fournier’s (1998) seminal work on consumer-brand relationships more overtly exploited this idea of a brand-as-a-person and suggested that people form relationships with brands much like they form relationships with other people in a social domain. She further suggested that these relationships in a consumer-brand context often traverse a large spectrum, and described them using a rich conceptual vocabulary such as friendships, flings, arranged marriages, committed partnerships, secret affairs, courtships and even enslavements (Fournier, 1998). Subsequently, there has been a great amount of interest in this area of investigation with researchers looking at relationship norms (Aggarwal, 2004), transgressions (Aaker, Fournier, & Brasel, 2004), loss aversion (Aggarwal & Zhang, 2006), self-construal (Swaminathan, Page, & Gurhan-Canli, 2007), anthropomorphism (Aggarwal & McGill, 2007), as well as semantic judgments via fMRI studies (Yoon et al., 2006).

Clearly, the importance of branding for marketers cannot be disputed. It has been noted that brands are invaluable for organizations to ensure an ongoing stream of sales and revenue (Smith & Park, 1992) and a greater ability to charge a price premium (Starr & Rubinson, 1978) through increased loyalty from consumers, as well as through increased ability of manufacturers to successfully launch new products under the same brand name as extensions (Aaker & Keller, 1990). Branding also serves as a way to reduce consumers' search costs (Keller, 1993), and is a signal of quality (Zeithaml, 1988). Brands reduce consumers' risks by assuring standardization of products and by better matching expectations and deliveries. Consumers themselves use brands not just to reduce their time and effort to make decisions but also as a means to signal who they are or would like to be seen as (Belk, 1989). In fact, in this fast changing world of technology and information, it is said that the one of the biggest factors distinguishing successful organizations from others would be their ability to create and manage strong brands (McKinsey Company, 2002). Consequently, deeper insights into consumer-brand relationships would not be just theoretically interesting, but also provide immense value to managers who are constantly looking for ways to better manage the interface between their brands and consumers.

We propose that each consumer-brand relationship can be construed as a distinct mental account. Further, the principles of mental accounting are applicable in a consumer-brand relationship context. In addition, the specific application of these principles will depend on the particular relationship type. Some unique and insightful hypotheses that emanate out of this framework are testable, and proposed here to

encourage future empirical studies in this area. Before we look at these hypotheses, it might be worthwhile to examine the appropriateness of applying a mental accounting framework to consumer-brand relationships.

Why is Consumer-Brand Relationship like a Mental Account?

Prior research has noted that mental accounts are ways to assign expenses to specific categories (Thaler, 1985). Furthermore, the processes underlying mental accounting map very closely on to processes described in theories of categorization and schema (Henderson & Peterson, 1992). Brands are but one specific instance of categorization: brands are labels that manufacturers use to help consumers perceive the attributes, prices, and other marketing activities related to a particular product or service through a common lens; brands are "labels" that help categorize different aspects of the marketing activities under one name. Consequently, one can expect consumers' interactions with brands to follow the principles of mental accounting.

Consumer-brand relationships, like social relationships, involve multiple interactions over a period of time (Hinde, 1995). The exact type and frequency of these interactions would vary by the type of consumer-brand relationship. Some relationships are very active with interactions taking place on a daily basis (or even more often), such as between a consumer and his favorite brand of coffee, Starbucks. Other relationships might be significantly more infrequent but potentially more emotionally intense such as between a woman and her DeBeers jewellery. In each

relationship, people keep track of the benefits they receive and the costs they incur in order to assess the well-being of the relationship and the extent to which these relationships actually deliver what people expect them to deliver (e.g., Fong, 2006). The Investment model of relationships proposes that individuals are more likely to commit to relationships in which they invest heavily with resources such as time and money (Rusbult & Buunk, 1993), and that individuals remember and track costs and benefits in such relationships. Of course, the exact "currency" of exchange that people track in different relationships would be different, depending on the underlying nature of the relationship (Clark & Mills, 1993). The principles of mental accounting can help us understand what aspect of the interaction people pay attention to, how closely they keep track of their interactions (inputs vs. outcomes; costs vs. benefits), and how often they typically balance the account in different brand relationships.

Finally, like mental accounts, brands too can cut across categories, and can be conceived at a broad or a narrow level. Thus, one could have a mental account for a particular baseball game, or for sports, or for entertainment, and then track and assign specific expenses to these accounts depending on how they are labelled. Similarly, brands can be single product focused, such as Tetley tea, or straddle across a wide variety of products and categories, such as Virgin (Drinks, Airline, Music, Mobile, Wines), or could even provide an umbrella under which any number of products can be sold, such as Wal-Mart. Further, brands could be thought of as Camry or Civic, or they could be construed as Toyota (with Camry and Civic under the same umbrella). This flexibility of what underlies a particular brand label maps quite closely to the

flexibility that people have when assigning labels to their mental accounts.

For reasons just noted, we believe that consumer-brand relationships are indeed a very good context to apply the mental accounting framework to. In the next section, using the principles of mental accounting, we lay out a variety of specific testable predictions about consumer-brand interactions. Since this is a conceptual paper, we have not actually tested any of these proposed hypotheses. However, we do hope that other researchers would find some of these predictions worthwhile to empirically test in future investigations.

PROPOSED HYPOTHESES: APPLYING MENTAL ACCOUNTING PRINCIPLES TO EXAMINE CONSUMER-BRAND RELATIONSHIPS

Some of the hypotheses based on the different principles and characteristics of mental accounting applied to consumer-brand relationships are noted below.

Currency of Exchange

Relationships differ on many dimensions. One primary aspect on which different consumer-brand relationships may differ is the "currency" of exchange. Prior research on interpersonal relationships distinguishes between two types of relationships based on the underlying reason why people give benefits to others: exchange relationships and communal relationships (Clark & Mills, 1993). In

exchange relationships, people interact with others to get something from them: individuals are concerned with what they receive and what they give. The relationship is based on the principle of quid pro quo, and people prefer to get comparable benefits in return for benefits given. In contrast, in communal relationships, people are motivated to take care of their partner's needs out of a genuine concern for their well being. Individuals prefer to get benefits that signify a concern for their unique needs (Clark & Mills, 1993). Repayment of favor is desired relatively more in exchange relationships than in communal relationships (Fong, 2006).

Recent research has noted that consumer-brand interactions may be examined by using the communal versus exchange categorization (Aggarwal, 2004; Aggarwal & Law, 2005; Aggarwal & Zhang, 2006). Aggarwal (2004) finds that relative to customers in an exchange relationship, those in a communal relationship evaluate the brand and its actions more positively when given a noncomparable benefit in return than when given a comparable benefit in return. As such, we expect that people will attend to, monitor and report different aspects of the interaction in these two relationship types, and that the currency used to post benefits and costs would also vary. Accounts that are of an exchange nature may have a more transactional currency (such as money, or "value") to assess and track the (economic) value of continuing that relationship. Therefore, people in such a relationship are more likely to track interactions in monetary terms such as the price paid, cost of servicing, and fees, etc., and also more likely to convert all non-monetary transactions into monetary terms. On the other hand, relationships that are of a communal nature are more likely to use a

currency that is relatively more personally relevant (such as effort, time, care, emotion, or even "self" identity) to assess and track the health of the relationship. Further, in such relationships, people are more likely to track their own emotions and feelings during and after different brand interactions, resulting in emotions taking on a much greater role in communal than in exchange relationships.

Activities in the Accounts

Opening of Account

Typically, mental accounts are opened as soon as people buy something. Prior research suggests relationships between consumers and brands can sometimes take the form of "flings" (see Fournier, 1998, for one such relationship between the consumer Vicki and her trial size shampoo brands). Such relationships are charged with high emotion, and are based more on infatuation rather than commitment. It can be hypothesized that the mental account for such a brand relationship might be opened even before the brand is purchased. In fact, just the initial infatuation may be sufficient to open the account; subsequent fantasizing about such brands may create a stream of benefits being accrued. Consequently, we propose that the purchase of the brand would not be a pre-requisite for the relationship to start reaping benefits. On the other hand, mental accounts for most other relationship types may be opened only once the actual brand purchase has taken place.

Balancing Accounts

As is the case for financial accounts, consumers practice hedonic posting to balance their brand accounts to justify its costs. Although consumers would generally like to see all relationship accounts to be balanced, they may have a relatively greater tolerance for negative imbalance for accounts that are not evaluated on an everyday basis. Consumers may also have a greater tolerance for negative imbalance when the account balance is harder to calculate or when the account currency is harder to monitor (effort put in rather than money spent). Therefore, we suggest that exchange relationship accounts would be more likely to be balanced while communal relationship accounts would be more likely to be left unbalanced.

We also suggest that different types of relationship accounts can change customer's methods of booking the costs and benefits in that account. For instance, in an exchange brand relationship (based on quid pro quo), consumers are more likely to aggregate the 'net' value of brand interactions rather than tracking the gains separately from the losses (Aggarwal & Zhang, 2006). However, in a communal brand relationship (based on concern for other's needs), customers are more likely to track the gains separately from the losses. Thus, we propose that when booking brand interactions, customers are more likely to integrate costs and benefits in an exchange relationship but more likely to segregate them in a communal relationship.

Closing of Accounts

One related issue is the duration of time for which mental accounts for some

brand relationships are kept open. Certain accounts, such as childhood friendships, committed partnerships and best friendships (Fournier, 1998) are likely to remain open even if there are long periods of inactivity in those accounts. Such relationships are less likely to be closed due to "entropy," since the emotions in such relationships are always likely to linger on beyond the actual transactions. On the other hand, brand relationships such as marriages of convenience, casual friendships, and even kinships are likely to be closed if there is little activity in these accounts for an extended period of time. Thus, people are more likely to cancel a store credit card if the store is no longer conveniently located than they are to cancel a frequent flyer membership to an airline like Virgin Atlantic, if they have fond memories of the one time they used the airline. One reason why relationships that have strong residual emotions may never be closed is because the consumers may secretly be hoping to get together with the brand again sometime in the future.

Similarly, mental accounting principles suggest that people like to keep track of the debits and credits in the account to assess if the accounts are in balance or not. The frequency with which people assess the account's balance would also depend on the type of relationships. Some relationships are "short-term" where the balancing of the costs and benefits needs to be done fairly swiftly, since the relationship is likely to come to an end soon. Other relationships are "long-term" and are expected to last for years, obviating the need to balance the account early on. In fact, such accounts may go on almost indefinitely without there being a need to "check" the balance, as might be the case for relationships such as committed partnerships, and even secret affairs.

The relationship between educational institutions and their alumni is an interesting case in point, especially for those alumni who end up donating significant amounts to their alma mater. One could ask the question as to why do some people donate so generously while others don't ever look back. Mental accounting principles can shed some light on this immensely important issue. People who do extremely well in life and attribute that success to their graduating school may "credit" a large value to their educational institution. The tuition that they paid in the past may come nowhere close to the contribution they assign to the school in their mental account. People find it very hard to live in an eternal debt of others. Further, the relationship seems so important (and probably nostalgic) yet inactive that people may yearn to rejuvenate it. By being a significant donor, they would they pay back the debt to the school; and by getting the school to acknowledge their contribution, the dormant and almost non-existent relationship with the school would get re-energized.

Account Labels

One important feature of mental accounts is that each account has a label (such as entertainment account, education account, etc.) which is used to track and record costs and benefits related to that activity. We suggest that brand relationships too would have a "value" label associated with that relationship. Brand positioning is a key construct in marketing, which refers to how consumers perceive the brand in their mind space. Managers are constantly striving to create a distinct positioning for

their brand, such that their brand is uniquely associated with something that is of crucial importance to the consumer. We suggest that one of the biggest factors driving the label that is given to brand relationship account is the brand's positioning.

These labels to the brand relationships are important since they not only help track the costs and benefits, they may also guide people in their decisions when interacting with the brand. For example, when interacting with a brand that is seen as a "gift" brand (such as Hallmark cards) people may be less likely to evaluate the greeting cards based on its prices but more on the emotiveness of the message on it. Similarly, when eating out at a "Value for Money" buffet style restaurant like Mandarin Chinese Cuisine people may find themselves holding back on tipping the waiter generously since the label attached to the account suggests attending to monetary factors. Conversely, the same person may find is significantly less painful to give a much larger tip in a "Stylish and Classy" restaurant like Sassafraz located in an upscale neighbourhood of Toronto, and known to be frequented by Hollywood stars.

Transaction Utility versus Acquisition Utility

One consequence of the type of label given to the account may be the difference in the relative importance of transaction utility from interactions with the brand versus its acquisition utility. Thaler (1985) gives the example of the beer on the beach and shows that people care about the value of the deal or the transaction utility that they derive from a particular exchange. We suggest that the degree to which people would care about deriving transaction utility would vary by the account label

attached to that relationship. If the account label is one of "value-for-money," people may be disproportionately sensitive to it and insist on getting a good deal out of transaction with the brand. On the other hand, if the account label carries a lot of symbolic meaning (e.g., "long-term friends" account), then the relative weight of acquisition utility might be significantly larger relative to transaction utility.

Malleability of Accounting Principles

The term malleable mental accounting describes situations where customers have flexibility in assigning ambiguous expenses to different mental budgets or create mental accounts to accommodate ambiguous expenses (Cheema & Soman, 2006; Read, Loewenstein, & Rabin, 1999). Given the opportunity and ambiguity in the situation, people may assign a particular expense to one or another account depending upon the final outcome they are motivated to achieve. Consumer-brand relationships, similarly, are likely to exhibit malleability of mental accounting principles.

Extra Credits, Fewer Debits

Certain brand relationships, such as committed partnerships and courtships, are very dear to the consumer who may be motivated to see the relationship partner in a positive light. Consequently, we believe that consumers may intentionally overlook to debit the brand with "add-on" costs such as delivery charges, installation fees, and even sales taxes so that the account's debit side of the equation does not appear to be

too negative. Conversely, in keeping with prior work (Rusbult & Buunk, 1993), the positive features of the brand may be over-weighted, giving it "undue" credit for the benefits provided, thereby ensuring that the brand's account shows a surplus.

Pennies-a-Day

Another example of malleability of accounting principles is to label costs incurred on certain brands as 'pennies-a-day' such that these expenses are never formally logged in (Gourville, 1998). This may be the case for relationships that are akin to secret affairs, as was noted by Fournier (1998), when Karen sneaks Tootsie Pops at work. By not accounting for these expenses, the consumer may be successful in keeping up the pretence that there is "nothing going on" between her and the brand!

Relabeling

It is also conceivable that brand relationship labels might create conditions for flexible mental accounting principles. Take, for example, consumer's relationship with a brand like the local Zoo. If the relationship with the brand is one of committed partnership such that the consumer has purchased an annual membership, it is possible that the brand which was initially seen as an entertainment brand may be relabelled as "education" to reflect a more serious and deeper basis of the relationship being based on education rather than the more frivolous fun aspect of the brand. Such a relabeling may be less likely for non-committed consumers, such as occasional visitors, who may not be motivated to give any deeper meaning to their relationship.

Non-Topical Accounting

Malleability may also be uncovered in contexts of negative brand interactions. For certain brands, consumers may be more likely and willing to overlook the brand's transgressions since they have a strong emotional bond and would not like that bond to be weakened. These consumers may be motivated to ignore the brand's topical indiscretions, and instead may bring to mind all the past positive experiences with the brand to counter its negative effect. On the other hand, for some other brand relationships, consumers may not be motivated to look beyond the immediate instance of the brand's transgression, thereby more closely following the mental accounting practice of treating these accounts as topical accounts. This unique prediction would shed some interesting insight on the concept of brand equity and its temporal strength.

Narrow vs. Broad Brand Accounts

Mental accounts for consumer-brand relationship can be narrow or broad, that is, the accounts could be brand-specific, category-specific or even company-specific. The accounts could even be need-specific. The perceived breadth of a relationship can significantly affect a consumer's decisions. Thus, if consumers frame their account narrowly (e.g., with a sub-brand Corolla), it may become harder for the company (Toyota) to get its customers to transfer the costs and benefits from that account to another account (such as the Camry or RAV4). On the other hand, if consumers frame the account broadly (e.g., at a larger family level), the costs and benefits from all the

sub-brands might easily all go into the 'Toyota' account. This would have significant implications for brands extensions and for life-time value assessment of customers.

Temporal Framing of Brand Accounts

The breadth of mental accounts for consumer-brand relationships can also be malleable temporally, i.e., the brand accounts can be one-offs, short-term, long-term, or even multi-generational. Gourville (1998) proposes that temporal framing of an exchange can systematically affect the nature of the expenses that a consumer retrieves for the purpose of comparison. When consumers deal with a brand over the years, it is likely that they include interactions with both old and new generations of the product in one brand account. This way a temporally longer account is more likely to be balanced than two separate accounts of shorter duration. For instance, if a consumer feels that he or she overpaid when purchasing iPhone 3G but got a good deal when purchasing the iPhone 4, it is easier for the customer to balance his or her iPhone brand account by including both generations of products rather than having one account in the black and one in the red.

Temporal framing of brand accounts can also include booking both the new and old products in one account when making the upgrading decisions. Okada (2001) suggests that consumers consider the "mental book value" of the old product when getting the chance of upgrading to a new, high-quality product. Okada (2010) proposes that upgrade decisions differ from new purchase decisions because they are hindered by the psychological costs associated with the costs of old product.

Sunk Costs, Decoupling, and Depreciation

Similar to financial resources (time, money, and effort), investment in relationships can become "sunk costs" when the investments become historic and non-recoverable (Coleman, 2009; Little & Little, 2009). The sunk cost effect can happen in both interpersonal relationships (e.g., Coleman, 2009) and human-product relationships (Little & Little, 2009). The Investment Model (Rusbult, 1983) uses three factors as determinants of relationship commitment: satisfaction, quality of alternatives, and prior investment. The model distinguishes between extrinsic investment (e.g., shared friends or possessions in a relationship) and intrinsic investment (e.g., resources such as time, money or effort put into a relationship) with intrinsic investments being seen as sunk costs (Coleman, 2009; Rusbult, 1983). Investment Model research indicates that sunk costs are one important factor that affect future commitment to the relationship (Coleman, 2009).

When the customer-brand interactions have certain ambiguity as to what benefits are due to what costs, decoupling or disassociation between costs and benefits can happen in the brand accounts (Soman & Gourville, 2001). We suggest that decoupling and depreciation effects are more likely to occur in some types of brand relationships, and less in others. For instance, Aggarwal (2004) shows that consumers in an exchange brand relationship prefer to receive a benefit comparable to the one they give to the brand (e.g., monetary payment for answering questionnaires)

while consumers in a communal brand relationship are more likely to evaluate the brand positively when receiving a noncomparable benefit (e.g., a free fitness class for answering a questionnaire). While consumers in an exchange relationship compare what they get back as reciprocal repayment from the brand with their own costs (Fong, 2006), those in a communal relationship are more likely to ignore prior (sunk) costs when assessing the benefits they get from the brand. Therefore, we propose that decoupling and depreciation effects are more likely to occur in communal relationship accounts than exchange relationship accounts.

Risky Behaviors

Certain brand relationships are likely to promote risk aversive behavior from consumers while other relationships are more likely to promote risk seeking. For example, relationships such as committed partnerships and even arranged marriages (Fournier, 1998) may be characterized by lower levels of risk seeking. Consumers may perceive such relationships with brands to be exclusive, and any desire to seek out other options (i.e., trying other brands) may be seen as "cheating" in the existing relationship. For example, a consumer who is a committed Blackberry consumer may try to downplay the advantages of the latest model of the iPhone, lest he be tempted by it, or worse, be seen as betraying his brand. On the other hand, relationships such as friendships and flings have a certain level of excitement integral to them, and interactions with multiple partners may not be seen as cheating. In fact, in some sense,

multiple partners are desirable in such relationships. Such a characterization of a relationship is more likely to promote risky behavior, such as variety seeking and trying out new flavors. As a corollary of this hypothesis, we suggest that committed partnerships and arranged marriages are more likely to be driven by a prevention goal while friendships and flings are more likely to be driven a promotion goal.

Losses versus Gains

Endowment Effect

Prior research has noted that people are generally loss averse (Kahneman & Tversky, 1979). Further, the rich stream of research on endowment effect suggests that loss aversion results in people asking for a significantly larger amount to give up an item they own than they are willing to pay for if they did not own it (Kahneman, Knetch, & Thaler, 1990). More recent work on consumer-brand relationships has shown that people show greater endowment effect in a communal than in an exchange relationship (Aggarwal & Zhang, 2006). We suggest that consumers' differential sensitivity to losses and gains will go beyond communal and exchange relationships. For example, we propose that relationships like kinships, casual friendships, and arranged marriages are likely to show lower levels of endowment effect compared to relationships like childhood friendships, committed partnerships, or courtships, driven primarily by the difference in the level of temporal and/or emotional.

Losses First or Losses Later

Another important finding from Prospect Theory (Kahneman & Tversky, 1979) is that losses loom larger than gains. In other words, the perceived pain of losing something is greater than the perceived joy of gaining an equivalent thing. An interesting twist to this result in the context of brand relationship relates to the sequencing of losses and gains. If losses loom larger than gains, then it is possible that for some relationships the pain of the loss would be greater if the loss-related interaction is experienced first while for other relationships the pain would be greater if the gain-related interaction is experienced first in a sequence of brand interactions that involves loss and gain. That is, we suggest that perceived pain from a loss-gain sequence may be moderated by the type of relationship. Relationships that are past focused (such as childhood friendships, arranged marriages) may give greater weight to losses first; on the other hand relationships that are future focused (such as courtships and flings) may give greater weight to losses later.

Dummy Accounts

Finally, we think that there are some relationships in which consumers may not be quite happy with their brand partner and may be looking for a way out of the relationship. For example, in relationships that are seen as enslavements, consumers may feel that they do not have any other alternatives available. Such consumers may set up dummy accounts in order to track the competitor's brand – the brand that they

would ideally like to have a relationship with. Such consumers may be actively seeking out information from competitive brands to switch their allegiance at the first opportunity they get. For instance, a consumer who bought an eBook reader such as Amazon Kindle may keep an eye on news about all the different features and prices of an iPad to assess the right time to get out of their current relationship.

THEORETICAL AND MANAGERIAL IMPLICATIONS

In this chapter, we propose that the application of the principles of mental accounting to customer-brand relationships is not just appropriate and interesting but that it can also be used to generate a wide variety of hypotheses that would lead to some very insightful findings about consumer behavior. We have laid out a number of specific testable hypotheses that we believe would enrich our understanding of consumer brand relationships as well as apply the mental accounting framework to a fairly novel context. By using these mental accounting principles we can go beyond the broad brushstrokes with which most prior marketing researchers have studied consumer-brand relationships. There are a number of insightful relationship-specific predictions made in this chapter that would help us better understand the multitude of facets on which consumer-brand relationship types differ from one another. Mental accounting framework helps us peel some of those differences. Further, these principles are also very informative about the drivers and processes underlying consumer-brand interactions. We believe that this framework offers a vast array of

possible avenues for consumer behavior researchers to explore in the future.

The application of this framework to better understand consumer-brand relationships has significant implications for marketing practitioners as well. By giving insights on the mechanism that motivates people to behave and feel the way they do when interacting with brands, this framework can help brand managers to fine tune their marketing strategies for maximum impact and to build stronger ongoing relationships with their consumers. Specific tactics on cost cutting, brand positioning, brand extensions, brand equity, as well as on how best to handle instances of perceived brand transgressions all emanate directly out of seeing consumer-brand relationships through the mental accounting lens.

Although marketing researchers have generally stopped questioning the validity of applying the relationship metaphor to consumer-brand interactions, we think that extant research on brand relationships has only scratched the surface. The application of a mental accounting metaphor to consumer-brand relationships offers a great opportunity to explore the complex yet fascinating aspects of consumer-brand interactions. This framework can open a few more doors into the mesmerizing world in which consumers make friends and enemies, partners and buddies with brands, committing to them, courting them, having flings and secret affairs and living under the same roof in arranged marriages. While this paper has been written in the spirit of exploration, the true thrill of unearthing new knowledge about consumers awaits empirical validation of some of our proposed ideas.

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