

UNTYING THE BOND WITH OWN POSSESSIONS FOR RESALE: THE INFLUENCES OF RESALE KNOWLEDGE AND ENDOWMENT EFFECT

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ABSTRACT

While previous research has largely investigated how the endowment effect causes the discrepancy between buying and selling prices for average consumers, it is less known if the endowment effect equally occurs to sophisticated consumer sellers who adeptly buy for online resale. For this inquiry, study 1 examines value assessment and expected resale profit between novice and expert consumer sellers prior to a resale-aimed purchase. Study 2 further scrutinizes if novice and expert consumer sellers vary in expected resale profit with different levels of the endowment effect. Overall, the findings suggest that sophisticated consumer sellers acknowledge more online resale value and expect greater resale profits. The endowment effect is less prominent in the expert seller group because prior knowledge bestows an ability to make a better buy-to-resell plan with strategic considerations, whereas novice sellers' high desirability for resale profits can be attributed to a dual triggering process in which the endowment effect raises the tempted compensation for greater emotional losses. The implications of the results are further discussed.

INTRODUCTION

The endowment effect addresses a consumer psychology that individuals tend to grow attachment to own possessions after acquisition and become reluctant to relinquish due to a status-quo bias (Kahneman et al. 1990, 1991). Scholars proposed that the endowment effect may not occur to sellers who manage to detach from own possessions when a voluntary selling is pursued (Ariely et al. 2005; Kahneman et al. 1991). This implicates that the endowment effect will be less observed when goods are sought for resale. Conversely, an opposing perspective supporting the endowment effect theory suggests that consumers selling used items or unwanted gifts are liable to the endowment effect even if they resell (Ariely 2009; Van Boven et al. 2003; Simonson and Drolet 2004; Morewedge et al. 2009).

While the influence of endowment effect on selling remains undetermined, the adeptly planned resale has ramified the practices of consumer reselling (Chu and Liao 2007). This raises an issue of whether sophisticated consumer sellers who tend to constantly shift psychological states between buying-selling roles and goals (Van Boven et al. 2003) will expect for different resale outcome than will novice consumer sellers when endowment levels vary. Therefore, the present study aims to reexamine the endowment effect in a new context turning from brick-and-mortar unplanned resale to the online sphere where not only many consumers have grown to skillfully plan and arbitrage between buying and selling, but also a mass of novice sellers take part in C2C auctions. In this case, the influence of endowment effect can be further probed between expert and novice consumer sellers.

STUDY 1: MAIN EFFECT OF RESALE KNOWLEDGE

Study 1 was to determine if consumer sellers will expect online resale outcome differently due to the level of resale knowledge.

Hypotheses Development

For a better ability in mastering online resale, we propose that expert consumer sellers will perceive higher value of online resale than will novice sellers. As both resale experience and expertise bring consumer sellers the online resale knowledge that is principal to achieve selling goals and profits, sellers who are knowledgeable enough will be able to gain desired resale profits through reputation building and pricing and selling strategy optimizing (Zhuang et al. 2006). Therefore,

H1: Expert consumer sellers will have higher perceived online resale value than will novice consumer sellers.

H2: Expert consumer sellers will ask for higher desired profits than will novice consumer sellers.

Method

For results' robustness, a utilitarian product (down jacket) and a hedonic product (handheld game console) were selected from a pilot study for the experiment. Consumers who ever had any online resale experience were the target to be recruited.

Recruiting messages were posted on the major bulletin board systems that offer resale platform and the websites that provide forums or virtual communities for online resale experience sharing. Recruited participants were randomly assigned one of the two web versions of questionnaires by products. A total of 223 valid responses (down jacket: 108, handheld game console: 115) were obtained. The sample was composed of 111 males and 112 females, 75% with more than 10 times online resale experience, and nearly 70% between 21 and 30 years old.

Results

The results of the MANOVA showed a significant main effect of resale knowledge on perceived online resale value and desired profit. Expert consumer sellers perceived higher online resale value than novice sellers (down jacket: $M_{\text{Expert}}=5.02$, $M_{\text{novice}}=4.51$, $F=8.359$, $p<.01$; handheld game console: $M_{\text{Expert}}=4.81$, $M_{\text{novice}}=4.19$, $F=9.118$, $p<.01$) and aimed at more resale profit than novice sellers (down jacket: $M_{\text{expert}}=\text{NT\$}485.92$; $M_{\text{novice}}=\text{NT\$}358.84$, $F=8.186$, $p<.01$; handheld game console: $M_{\text{expert}}=\text{NT\$}601.56$, $M_{\text{novice}}=\text{NT\$}413.38$, $F=10.279$, $p<.01$). Hypotheses 1 and 2 were supported for both products. The t-test result showed that consumer sellers' desired profit was significantly higher for hedonic product (handheld game console, $M=\text{NT\$}506.65$; down jacket, $M=\text{NT\$}418.85$, $t=-2.279$, $p<.05$).

STUDY 2: INFLUENCES OF ENDOWMENT EFFECT AND PRODUCT TYPE

Hypotheses Development

Study 1 disclosed the different tendencies existing between the two products. Study 2 further examined the influences of endowment effect and product type. Carmon and Ariely (2000) pointed out that variations between selling and buying prices are attributed to the endowment effect and this effect is closely related to the meanings ascribed to the forfeiture items (see also Ariely 2009; Reb and Connolly 2007). We expect that resale knowledge is likely to interact with the endowment effect on desired profit. Experienced sellers with better information about goods' value are more likely to be aware of the bias inherent in the transactions (Tsur 2009). This self awareness allows a seller to stabilize preference and avoid making embarrassing mistakes (List 2004). However, a naïve seller behaves based on limited experience rather than strategic considerations of market situations (Tsur 2009), thus may exhibit greater attachment to the forfeiture items (List 2004; Tsur 2009). The endowment effect is expected to be less prominent to expert consumer sellers than to novice sellers. Thus,

H3: Across levels of endowment, novice consumer sellers will show greater differences in desired profits than will expert sellers.

When the endowment is high, expert sellers are more likely to spontaneously elaborate on potential benefits of the forfeitures (Carmon and Ariely 2000; Dhar and Wertenbroch 2000), and thusly show greater preference for hedonic features in forfeiture process as compared with the utilitarian goods (Dhar and Wertenbroch 2000). While exposed to utilitarian features, the difference of desired profit between high and low endowment would be greater for novice sellers than for experts because prior resale knowledge would alleviate the endowment effect for expert sellers. Thus,

H4: Across levels of endowment, novice consumer sellers will show greater differences in desired profits than will expert sellers for utilitarian products, whereas expert consumer sellers will show greater differences than will novice sellers for hedonic products.

Method

Study 2 used a 2 (resale knowledge: high/low) by 2 (endowment effect: high/low) x 2 (product type: utilitarian/hedonic) mixed factorial design. Emotional attachment was used to manipulate the endowment effect by two scenarios (Ball and Tasaki 1992). Following the same recruiting process as study 1, participants first read the purchase scenario to be engaged in the coming online resale situation and then were provided with one of the endowment effect scenarios. In total, 350 valid responses were obtained. The sample was composed of 155 males and 195 females, three-quarters with more than 30 times online resale experience, 68.6% aged 21 to 30 years old, and 45.7% college students.

Results

The 3-way ANOVA showed a significant interaction between resale knowledge and the endowment effect ($F=5.104$, $p<.05$), and a significant interaction among resale knowledge, the endowment effect and the product type ($F=8.970$, $p<.01$). The

results indicated that across endowment levels novice sellers indeed showed greater differences in desired profits than did expert sellers. H3 was supported. Novice consumer sellers across endowment levels exhibited greater differences in desired profits than did expert sellers for the utilitarian product ($F=16.98$, $p < .001$). However, for the hedonic product, expert consumer sellers did not show greater differences than did novice sellers ($F=0.23$, $p=0.63$). H4 was partially supported.

GENERAL DISCUSSION

The present study examined consumer knowledge in the online resale context and suggests that better resale knowledge leads to higher expectation of online resale value and profit (study 1). Expert consumer sellers showed to better exploit resale knowledge to confidently seek for higher resale value and more resale profit than did novice sellers. Knowledge shortage confined naïve sellers to behave only based on personal experience (List 2004; Tsur 2009); therefore, their expected resale profits were more affected by the endowment effect (study 2).

Consumer sellers' expected resale profits varied by product type. Expert sellers with high endowments were more likely to spontaneously elaborate the potential benefits of hedonic products (Carmon and Ariely 2000; Dhar and Wertenbroch 2000), which increased their weight on such kind of products during forfeiture. As a result, expert sellers became more reluctant to give up the hedonic products than the utilitarian goods. The implications of the study are further discussed.

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