

For Immediate Release: May 11, 2009

Contact: Mary-Ann Twist / 608-255-5582 / JCR@bus.wisc.edu

**

Opportunity Costs: Remind Consumers about Savings

When we choose to spend \$10 more than usual for a bottle of wine, we'll have \$10 less to spend on an appetizer, a dessert, or ten songs on iTunes. That's known as the "opportunity cost" of that choice. A new study in the [*Journal of Consumer Research*](#) looks at the benefit of drawing consumers' attention to opportunity costs.

Unless opportunity costs are explicitly named, most consumers don't consider them when making purchases, according to authors Shane Frederick, Nathan Novemsky (both Yale University), Jing Wang (Singapore Management University), Ravi Dhar (Yale University), and Stephen Nowlis (Arizona State University). They found that consumers made different choices when opportunity costs were made clear.

For example, in one study, the authors found that the percentage of people interested in paying \$15 for a DVD fell by 20 percent if the "not buy" option was explicitly described as "keeping the money for other purchases." In another experiment, they demonstrated that the choice share of a 16 Gb iPod Touch roughly doubled when the cost difference compared to the 32 Gb model was phrased as "leaving you \$100 in cash." They found the effectiveness of such manipulations depended on participants' chronic attitude toward spending. "Tightwads are less affected than spendthrifts, as they may be more inclined to spontaneously construe purchase decisions in terms of opportunity costs," they explain.

According to the authors, IKEA employed this cueing strategy brilliantly in an ad campaign showing an unhappy woman next to an expensive custom cabinet containing one pair of shoes opposite a modestly priced IKEA cabinet overflowing with shoes.

"Given that consumers who bring to mind opportunity costs become more price sensitive, manufacturers of less-expensive brands interested in increasing price sensitivity may promote their products more effectively by reminding consumers to consider the opportunity costs," the authors write.

Shane Frederick, Nathan Novemsky, Jing Wang, Ravi Dhar, and Stephen Nowlis. "Opportunity Cost Neglect." *Journal of Consumer Research*: December 2009 (published online April 22, 2009).

THE UNIVERSITY OF CHICAGO PRESS

1427 EAST 60TH STREET, CHICAGO, ILLINOIS 60637

www.journals.uchicago.edu



Journals Division