Chapter VIII

Pay Now or Later?
The Impact of Temporal Separation of Payments and Consumption on Consumer Payment Preferences

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Abstract

In this chapter, we draw on the behavioral economics literature to identify the conditions under which consumers would prefer one of three pricing schemes (pre-payment, pay-as-you-go, and post-payment). We suggest that consumer preferences for particular pricing schemes are likely to be determined by systematic relationships that exist among a variety of psychological variables. We offer nine empirical propositions that identify when consumers will prefer different pricing schemes.
Introduction

The online payments sector in e-commerce has been analogized to the Chevrolet in the automobile industry: not terribly exciting, but big and capable of having a huge impact on the market (Burnham, 1999). Some researchers have argued that the success of e-commerce business models depends critically on firms’ ability to design and implement secure online payment systems in the marketplace (Aldridge, White & Forcht, 1997; O’Mahony, Peirce & Tewari, 2001). Key payment system considerations include (i) the timing of payment and consumption (that is, manipulating pricing schemes), and (ii) the characteristics of payment systems (for example, system usability, level of feedback consumers receive) (Dutta, Jarvenpaa, & Tomak, 2003). In this chapter we focus on the first feature — the timing of payments and consumption — and attempt to describe the impact that online pricing scheme variations may have on consumers’ preferences for payment systems.

In the traditional transaction model, the transfer of ownership of goods from seller to buyer occurs when the buyer provides payment to the seller. At the moment a seller receives payment, the buyer is free to consume his or her purchase. When consumers purchase their goods with cash, the moment of transfer from seller to buyer is relatively easy to pinpoint. In such transactions payment and the freedom to consume one’s purchase are simultaneous.

In the modern world, where cash purchases grow less common by the day, consumers often experience a separation between their consumption of their newly acquired goods and their payment for those goods. Most notably, with the advent of magnetic-stripped credit cards around 1970, consumers became accustomed to consuming some routine goods weeks and months before making payment. As online purchase options became available, the consumption-payment separation followed the familiar pattern in which consumption precedes payment. For example, when consumers download a song from a music provider or access a computer document through Wi-Fi connectivity, they may rely on a direct billing mobile payment solution. In such cases, aggregate payments are generally made to the mobile service provider at the end of a monthly billing cycle (for example, T-mobile data services at Starbucks). We refer to pricing schemes in which payment follows consumption as “post-payment.”

Sometimes electronic pricing schemes are designed such that payment precedes consumption. For example, consumers who purchase prepaid Internet
The Role of Strategic Alliances in the Ongoing Use of Electronic Commerce Technology in Regional Small Business


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