

The Effect of Prepayment and the Budgeting on Consumer Buying Behavior

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Abstract

Recent research has provided important insights on consumers' preferences for prepayment mechanisms and on its impact on consumption of a given product or service. However, little is known about how prepayment influences future consumption behavior. We consider this question in a service contractual setting, involving different purchasing decisions over time. Building on mental budgeting theory to study the impact of prepayment on future within-category cross-buying decisions, we test our hypotheses using transactional and survey data from a nationwide landscaping service company. We find that prepayment has a negative impact on future cross-buying, and that this effect is more salient for the firm's new customers rather than existing customers. These results contribute to the prepayment and cross-buying literatures, by providing large-scale empirical evidence of 1) the negative effects of prepayment on future purchase behavior, and 2) how customer characteristics moderate this effect.

Keywords: *Prepayment; cross-buying; mental budgeting theory*

Track: Relationship Marketing