Impulse Buying Behavior and Credit Card Usage – A Conceptual Review

Shukrant Jagotra*

*Research Scholar, School of Management Studies, Punjabi University, Patiala

Abstract

The study discusses the inception of credit cards and their transition from the western economies to India. While credit card industry in developed countries is nearing maturity, developing countries including India hold immense opportunities. As on July 2016, the credit card industry is valued at INR429 billion in outstanding credit card loans (with 25.94 million outstanding credit cards) and is further poised to grow by more than 20% annually. The study defines and classifies impulse buying behavior into pure, reminder, suggestion and planned impulse behavior. It further analysis the association of impulse buying behavior with credit cards usage by reviewing studies conducted in different demographics and across different time frames to build a conceptual framework and identify possible research gaps.

Keywords: Impulse Behavior, Credit Cards, Usage

1. Introduction

Credit cards are innovative instruments in the area of financial services offered by commercial banks. The concept of credit cards was first developed by Diners’ club founder Frank McNamara, an American businessman who found himself without cash at a weekend resort founded Diner’s card in 1950. American Express issued their first credit card in 1958 while the Bank of America issued the (now Visa) credit card later in 1958. Right from their inception, the commercial banks and non-banking companies in USA adopted the concept of credit cards to develop their business. Barclays Bank was the first bank to introduce credit card in 1966 in Britain. The credit card business got momentum in the 1960s with number of banks entering in the business. The current trend suggests that the coming years will witness a burgeoning growth of credit cards which will lead towards a cashless society. One of the important reasons for the popularity of credit cards is the sea change witnessed in consumer behavior. Credit cards enable an individual to purchase products or services without paying immediately. The buyer only needs to present the credit cards at the cash counter and sign the bill. Credit card can, therefore, be considered as a good substitute for cash or cheque.

Emerging from the west, credit cards have also become more and more popular in India. The growth in credit card usage in parallel with in other types of consumer credit such as bank overdrafts, personal hire purchase and others. The credit card business has been growing at a rapid pace in India and has already reached INR429 billion in outstanding credit cards loans as on July 2016 (an increase of 27% year-on-year). Total outstanding credit cards have already reached 25.94 million, an increase of 18% year-on-year). The credit card industry in expected to expand by over 20% per annum. While SBI Cards is the largest credit card providers in public sector (with over 4 million cards issued), HDFC Bank credit cards is the largest in private sector (with over 8 million cards issued). Some other large banks include ICICI Bank and Axis Bank, Citibank and Standard Chartered bank.

The proliferation of credit cards and their ease of access have given consumers increased opportunities for making credit purchases. However, while many consumers are able to use credit cards wisely, others seem to overspend. Over the past two decades, the use of credit cards has become an area of economic and social concern. Economic concerns have risen in part, as a response to the massive use of credit cards and the accumulation of debt in American society. The most striking feature of this trend in US household indebtedness is the rise of personal bankruptcy (Ladka 2011; Manning, 2000). More than 1.35 million people filed for Chapter 7 or Chapter 13 bankruptcy in the United States during 2011, which equates to approximately one in every 175 adult Americans.
Credit card debt has been reported as the main reason causing Americans to file for personal bankruptcy (Murray & Light, 2010; White, 2007). With regard to social concerns, the use of credit cards in society has affected not only traditional consumers, but also vulnerable groups, such as college students, senior citizens, and disabled citizens. Youngsters who have grown up in the age of credit are becoming independent consumers earlier in life, and constantly exposed to new products and services available through credit cards. Apart from young people, senior citizens are also caught in the fancy of credit cards due to its buying power. Reasons for this rising trend in senior citizen credit card debt & bankruptcy include increasing health care costs, lower interest rates on investment, the loss of jobs before planned retirement, and low retirement income (Dellutri, 2010). These social and economic concerns have raised the level of awareness that credit cards have both positive and negative consequences for individual consumers and for society as a whole.

2. Objective of the Study
To review existing literature to understand the relationship between impulse buying behavior and credit card usage and identify research gaps, if any.

3. Impulse Buying and Credit Cards – Conceptual Framework
Several researchers have attempted to define impulse buying in marketing literature. Rook et. al. (1987) defines impulse buying as "when a consumer experiences a sudden, often powerful and persistent urge to buy something immediately. Also this impulse buying is prone to occur with diminished regard for its consequences." Beatty and Ferrell (1998) slightly extend Rook's (1987) definition of impulse buying by defining it as "a sudden and immediate purchase with no pre-shopping intentions either to buy the specific product category or to fulfill a specific buying task." By building on the conceptualizations of previous research, impulse buying could be defined as an unplanned purchase characterized by:

- Relatively rapid decision making (Rook 1987; Rook and Hoch 1985)
- Complexity and more emotion than rational (Bayley and Nan Carrow 1998; Rook 1987; Rook and Hoch 1985), and
- Non-inclusion of purchases that are simple reminder items that fulfill a planned task, such as a gift for someone (Beatty and Ferrell 1998)

Impulse buying can take several forms such as reminder, pure, suggestion etc. Pure impulse buying involves the novelty purchase which breaks a normal buying pattern. While reminder impulse buying comes about when the consumer remembers when consumer is out or low in stock at home by seeing the product or by advertisement recall, suggestion impulse buying on the other hand occurs when a shopper sees a novel product with no previous knowledge about it, and envisions the need for it. Planned impulse buying is another form of impulse buying and happens when a consumer enters a store with the idea to buy items on special or on promotion; the shoppers enter the store with a general intention to buy, but the particular product decision takes place inside the store.

The role of impulsivity has been explored in the context of credit card behavior (Rutherford & DeVaney, 2009). Highly impulsive buyers are likely to be unreflective in their thinking, emotionally attracted to the object and often desire immediate gratification (Hoch & Loewenstein, 1991; Thompson et al., 1990). These consumers often pay little attention to potential negative consequences that may result from their actions (Hoch & Loewenstein, 1991). Baumeister et. al. (2002) found that those who exhibit self-control manage their money more prudently, save more, and on average, spend less than others.Tokunaga (1993) offered a glimpse into the predicted association between risk attitudes and credit card use. He found that those who had trouble managing their credit cards exhibited lower risk-taking propensities. His research suggested that a person’s aversion to risk may influence how credit cards are managed, but there was no evidence from his study to indicate whether or not risk attitudes shape the decision to obtain a credit card.

This tendency to look only at how consumers behave when they possess a credit card is not unique to Tokunaga. Much of the literature linking risk attitudes and credit card behavior deals with...
differentiating between users who retain a month-to-month revolving balance from those who do not carry a balance (Crook, 2001). Rutherford and DeVaney (2009) reported revolving credit users differ from convenience users by exhibiting low or no tolerance for financial risk. Their results mirrored findings reported by Hazembuller, Lombardi, and Hogarth (2007) who also argued those with low risk tolerance view credit cards as the default option when needing quick, hassle free access to cash. Forsythe and Shi (2003) found perceived financial risk was the most consistent predictor of Internet consumer behavior. They noted a negative relationship between the perceived risk of using the Internet and online shopping behavior. Forsythe and Shi concluded increased uncertainty about the outcome of a purchase leads to a reluctance to purchase products and services online requiring the use of credit.

4. Review of Literature

Feinberg (1986) analyzed the credit cards pattern in ongoing college students. The author explored that the college students using credit cards were more likely to purchase, decide to purchase quicker, and spend more than students who were exposed to the same products without the presence of a credit card logo. He concluded that the students have been conditioned to associate credit cards and spending.

According to B. Patty, Sharon and Fered Eribeth (1989), money availability and impulse buying tendency, directly impact the impulse purchase decision of a consumer. The authors formed impulse buying model and found that self-control is a promising concept for consumer research while self-control failure is an important case of impulsive purchasing.

The results of the study conducted by D’Astous and Trembly (1989) revealed that impulsive buyers were usually associated buying with social status. Their findings were congruent with the findings of Roberts (1998) and Roberts & Martinez (1997) who obtained a positive result that asserted the relationship between the social status associated with buying and impulsive buying in the US and Mexico.

According to Hanley and Wilhelm (1992), impulsive buyers have lower self-esteem than the control group. The responses were collected from 43 self-identify impulsive buyers and 100 normal consumers using the impulsive buying measurement scale. The study found that impulsive buyers were more likely than normal consumers to be "preoccupied with the importance of money as a solution to problems and to use money as a means of comparison". Marital states were found as significant different in demographics where impulsive buyers more likely to be single or divorced than the normal consumers.

Livingstone and Lunt (1992) found that individuals in debt were younger, used credit to influence other individuals or to make themselves feel better, and exercised less control over their financial situation. Impulsive buyers face a lack of control that may result in negative consequences such as write-offs of credit card debts.

According to McElroy et al. (1994), the access to credit cards by the psychiatric patient with problematic buying behavior generated or increased their impulsive buying. Several other researchers also claimed that impulsive consumers were likely to own more credit cards than other consumers and carry larger credit card balances (O’Quinn & Faber 1989).

Davies and Lea (1995) found that young adults had more favorable attitude towards debt. Their study indicated how saving and financial planning seem to be of least concerns among most young adults. They understood that one reason for this could be that even if young adults are in debt they assume that their financial problem is temporary and will be easily repaid due to their age (Davies and Lea, 1995).

Warwick and Mansfield (2000) raised concerns over the social responsibility of organizations such as credit card issuers who pursue young adults to apply for credit cards. As credit cards are becoming more accessible, the number of young adults holding credit cards will increase dramatically which will lead to increase in credit cards debts. In Australia, the market for credit cards is becoming more saturated however several banks and even department stores are now offering their own credit cards to entice consumers to spend more.
Kasser and Kanner (2004) describe that the orientation of materialistic values is central to current consumer culture. Thus not only materialistic values entail a strong focus on obtaining material goods, but it is also related to the beliefs that consumer goods can provide a psychological benefit. They also found that younger individuals who endorsed a materialistic value demonstrate a stronger impulsive buying tendency than the older individuals. The study concluded that a materialistic value system directs individuals toward psychologically motivated buying behavior.

According to Neuner et al. (2005), values are the core of a culture and the process of consumer acculturation leads towards the endorsement of materialistic values. When an individual’s need for safety and security are not fulfilled, they tend to place a strong focus on desires and materialistic values which then turn into buying as an attempt to leap up or claim status (Mueller et al., 2007; Neuner et al., 2005). Individuals who are obsessed with power and prestige resulting from having money have accelerated consumption to a degree that may result in negative outcomes such as impulsive buying.

According to Strack, Fritz, Werth, Lioba, and Deutsch, Roland (2006), all human behaviors are a joint function of reflective and impulsive mechanism. These mechanisms have different principles of operation but contribute to the act of buying. The operation and interaction of the 2 systems at different stages of information processing is described and applied to the dynamics of consumer behavior with a special emphasis on impulsive buying.

Mueller et al. (2007) found that that impulsive buying is more common among women buyers. The endorsement of materialistic values has emerged as a significant predictor of impulsive buying tendency. Individuals with high materialistic values believe that the acquirement of material goods is a crucial goal for life as a prime indicator of success and the key to happiness and self-definition.

Asper Robert, James and Porong, Stephess (2007), the credit card misuse has negative long-term consequences for marketers. The authors used Mowen’s 3M hierarchical middle of personality and positive combination of four elemental personality traits. The study found that credit card issues and impulsiveness emerged as significant central trait that mediates those effects.

According to Palanm Keyt et. al. (2011), credit card issues by college students is directly related to impulsive buying behavior. Using credit cards rates it easier to spend beyond one’s means and to make impulsive purchase that perhaps would not be made if purchasing capacity is reduced.

5. Conclusion

The study highlighted the adoption of credit cards from the western economies to India. The credit card industry in India is still in nascent stage with outstanding credit cards loans valued at INR429 billion as on July 2016. The study attempts to review existing literature to identify the relationship between impulse buying behavior and credit card usage. For the same purpose, the study defined and classified impulse buying behavior and also identified positive relationship between impulse buying and credit cards usage. In terms of research gaps, the study highlighted that most of the studies in the past have focused on studying the relationship between the students and misuse of credit card while less work has been done on studying the relationship between misuses of credit cards among various other demographics. It further highlighted that very few studies have been conducted in the less matured credit card countries including India.
6. References


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