

Grasping the Mind of a Shopaholic

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This paper attempts at studying the phenomenon of excessive indulgence in shopping. While the act of shopping might be considered a normal activity, being a shopaholic transgresses what can be understood as 'normal'. Our research begins by defining shopaholics and contrasts their behaviour with regular shoppers by studying differences in the utilities each type of consumer gains from the act of shopping. Opportunity costs of shopping between those two groups of shoppers are also discussed followed by a brief examination of how shopaholic behaviour might play in role in the practice of price discrimination by retailers. We end our paper with a discussion of the market failure caused by shopaholics, and some possible interventions by government.

Defining Shopaholics

Shopaholics are compulsive shoppers who derive a significant amount of utility from engaging in the act of shopping. This behaviour is a form of addiction because shopaholics have a compulsion to shop, they are unable to stop and are prone to continue even if it brings about adverse consequences such as debts, hoarding and failed relationships. According to Koob & Moal (2008), the motivation that changes regular consumption to addiction is the temporary happiness gained as a result of certain hormones produced. Becker & Murphy (1988) also showed increased possibilities for addiction when rise in past consumptions has a positive correlation with current consumption. At the same time, they conclude that addictions also involve interaction between an addict and the goods. Regular shoppers will transform into shopaholics when they derive additional utility from the momentary lift in their mood and then become compelled to replicate that feeling in the longer term.

Motivation

Utility is the benefit or fulfilment that a person receives from consuming goods or services. The assumption in consumer theory is that rational consumers seek to seek to maximise their utility and are constrained by scarcity of their resources.

We shall assume that regular shoppers derive utility from the consumption of the goods and services they desire but do not add to their utility by engaging in the act of shopping. Further, we assume that a shopper's opportunity cost relies on two variables – posted price and search cost. Since regular shoppers do not spend much time shopping, they are more likely to fail in identifying opportunities in market where the posted price of goods are relatively advantageous. Thus, although their search cost is lower since they seek to minimize these to begin with, they will end up paying a higher price. Since the utility they gain over time from shopping is strictly negative we can write their utility functions as:

$$U = (x_i, \phi)$$

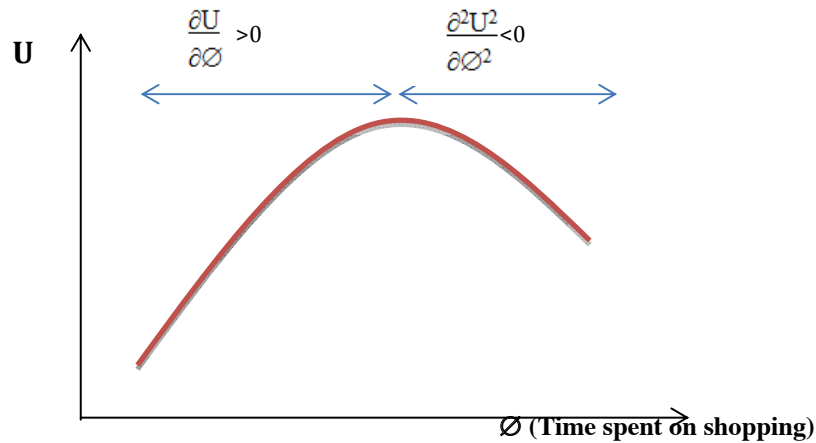
where the goods purchased as indexed by i , $x_i = (x_1, x_2, x_3 \dots, x_n)$ and search costs are $= \phi$ with $\frac{\delta U}{\delta \phi} < 0$

Orphanides and Zervos (1998) argues that as addicts indulge more in their addictions, the rate of time preference will increase because they recognise the utility induced by previous consumptions. Over time the increase in cravings for goods enhances their desire to retain present utility and weakens their consideration of perceived future consequences. Therefore, as opposed to regular shoppers, shopaholics would not mind spending a significant time shopping as the search activity by itself features as any other good in the utility function. Hence, in the short run, utility gained over additional time spent on any shopping is positive; thereby, facing an upward sloping utility curve.

Nevertheless, in the long run, the frequently needed euphoria leads to a negative utility because of the uncontrolled increase in the time spent on shopping. This is likely because search still entails an opportunity cost for shopaholics and consequences such as debts and reduction in work productivity will eventually have a toll on them. This leads to an eventual reduction in their

marginal utility from every extra unit of time spent on shopping. There will be a threshold of satisfaction where the shopaholics will start to refrain themselves.

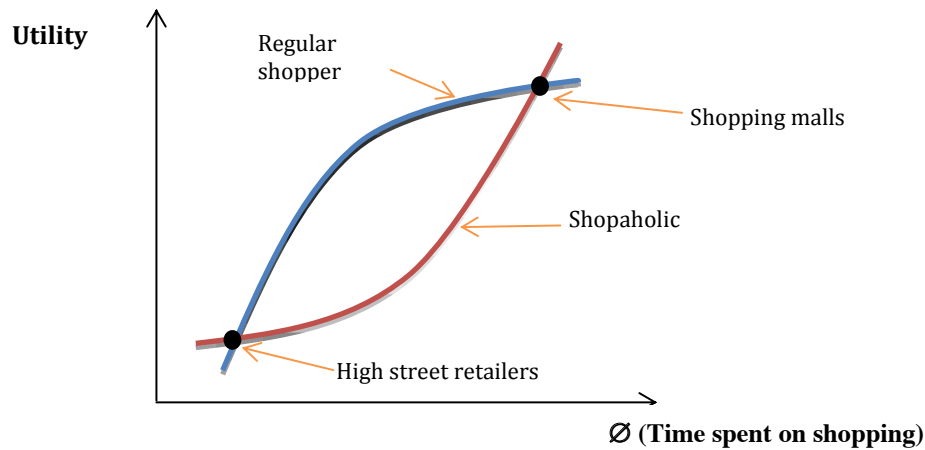
The utility curve for shopaholic can therefore be depicted with the following diagram:



The behaviour of shopaholics can perhaps be better explained using the concept of hyperbolic discounting. Gruber and Koszegi (2001) reason that although addicts look forward to continuing their addictions; some of them are incapable to actualise their desired future. While shopaholics are rational and may acknowledge that excessive shopping may lead them to adverse consequences, they discount their future hyperbolically and justify their current act of shopping by assuring themselves, perhaps by convincing themselves of the short term benefits; they are susceptible to making time-inconsistent choices. Gruber and Koszegi (2001) emphasize that rational agents that discount hyperbolically show strong tendencies to make choices that are inconsistent over time. It is therefore likely that an addiction such as this would continue until behavioural interventions are made.

Supply

The supply of goods to satisfy a shopaholic's addiction arguably comes from retail outlets that present shopping opportunities. These retail outlets are monopolistically competitive because they offer similar yet differentiated products and compete using a strategy of price discrimination by determining the price elasticities of their consumers.



Regular consumers incur lower search cost because they are inclined to minimize the time they spend at a mall in order to shop for desired goods. Search costs will, however, not be zero because in order to buy anything consumers still need to look for them. This suggests that their utility is concave in search costs. Shopaholics, as opposed to regular shoppers, are willing to withstand all the troubles of filling the member application form, linger in the outlet to enjoy chats with salespersons or collect stamps via re-purchase coupons; just because they derive utility out of the act of shopping, regardless of whether they would buy or not. Thus, search cost for them are higher, creating a convex line. The initial sharp increase was because they are unfamiliar with the goods which results to more search activities. As shopping time increases, they derive lesser utility from it and hence search cost would eventually increase only at a decreasing rate.

The interaction between these two groups of shoppers creates a separating equilibrium. At the points where both lines intervene, they provide opportunities for retailers to practice third degree of price discrimination (Lavoie & Liu 2007). When search cost and time spent on shopping is low, high street retailers have the upper hand. Reason is because; they are capable of differentiating consumer classes and understand that shoppers that choose to shop at their place are either rich or would not like to spend too much time on shopping. Hence, they can raise their price of goods and provide premium services to quickly service the customers thereby maximising shoppers' utility. On the other point, when search cost and time spent on shopping is high, retailers in malls would ace. These retailers know that shoppers are walking around for comparison; therefore, schemes such as seasonal sales, re-purchase discounts, member loyalty card or post-purchase services will attract and retain shoppers. Competitions in malls are also higher than high street retailers indicating the need for retailers in mall to be creative in their outlet's outlook that leads to thousands of dollars being spent on colourful posters and perfectly dressed mannequins. This is not only to stimulate curiosity on shoppers but also to arouse a sense of longing.

Market Failure

The behaviour of shopaholics poses both positive and negative externalities. A significant positive externality might be that their behaviour could increase the quality of retailers' marketing activities in terms of retail presentation and customer service. In addition, it is possible that their preference for search activity ensures goods sold at retail outlets are not overpriced or misinformed.

There are some significant negative externalities resulting from shopaholics' activities as well. Retail owners may be investing heavily on unnecessary marketing expenditures rather than on the intrinsic quality of products, which could not only reduce overall market efficiency, but may also be driving away the pool of regular shoppers. In addition, family members of shopaholics' might be negatively affected by their behaviour too. Broken family bonds as well as relationship failures are common consequences that shopaholics with tighter budget constraints usually face.

Apart from these issues, shopaholics are arguably more likely to be imposing a negative externality on the health of financial markets. They exacerbate the demand for easy credit and may be distorting the terms on which credit cards and store cards might be issued. Bankers may realize

that shopaholics might abstain from shopping if the availability of credit cards is tightly regulated and may, therefore, resort to two-way pricing strategies. Since the profitability of a credit card issuer relies on two variables - the cost of card purchase (P_c) and interest on repayments (i_p) - if an issuer chooses to lower (P_c), they can always manipulate (i_p) to maintain revenue. The increase in the interest rate may be seen a negative externality on regular shoppers.

Government intervention to ameliorate the social-welfare effects of shopaholics is minimal. At most, governments could intervene through motivational campaigns to educate its civilians on budgeted spending. They might also regulate the financial industry more heavily in forcing them to increase their standards on the availability of credit. Nevertheless, governments face dual incentives in doing so. While a government may conduct programs to eradicate bankruptcy occurrence among shoppers, they also seek economic growth which is assisted by shopaholics.

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