By the third day of their Las Vegas honeymoon, the newlyweds had lost their entire $1,000 gambling allowance. That night in bed, the groom noticed a glowing object on the dresser. Upon closer inspection, he realized it was a $5 chip they had saved as a souvenir. Strangely, the number 17 was flashing on the chip’s face. Taking this as an omen, he donned his green bathrobe and rushed down to the roulette tables, where he placed the $5 chip on the square marked 17. Sure enough, the ball hit 17 and the 35-to-1 bet paid $175.

He let his winnings ride, and once again the little ball landed on 17, paying $6,125. And so it went until the lucky groom was about to wager $7.5 million. Unfortunately, the floor manager intervened, claiming that the casino didn’t have the money to pay should 17 hit again. Undaunted, the groom, green bathrobe and all, taxied to a better-financed casino downtown. Once again he bet it all on 17—and once again it hit, paying more than $262 million. Ecstatic, he let his millions ride—only to lose it all when the ball fell on 18.

Broke and dejected, the groom walked the several miles back to his hotel room. “Where were you?” asked his bride as he entered their room. “Playing roulette.” “How did you do?” “Not bad. I only lost five dollars.”

Yes, casinos are structured to come out ahead. But more important, Belsky and Gilovich’s 1999 “Legend of the Man in the Green Bathrobe” illustrates that the value of money depends on how it is perceived. The odds-calculating house won in the end . . . but the groom, having gone to the tables with only $5 of his own money, couldn’t lose more than the $5. The millions of dollars that slipped through the groom’s fingers were more like “fake” or “funny” money. It wasn’t real—or so it seemed to him (and presumably, the man never shared the details of his adventure with his young bride).
This type of mental accounting highlights the way we perceive the value of a dollar: It depends on how we get it, who gives it to us, and where we store it.

It boils down to two scenarios.

• First, imagine you just bought a $150 ticket to the Super Bowl or a Broadway play. But you arrive and realize you’ve lost your ticket. Do you spend another $150 to see the big event?

• Alternatively, imagine you were planning to buy the $150 ticket at the box office, but you arrive and realize you lost $150 somewhere in the parking lot. Still, you have more than enough in your wallet . . . do you buy the ticket?

Most people answer “no” in the first scenario and “yes” in the second. Both scenarios involve the same loss in cash value: $150. But in scenario one, we have associated the $150 with the ticket. The $150 in cash is gone; it has been transformed into a ticket—shelling out another $150 means we paid $300 for the ticket.

But in the second scenario, the ticket price wasn’t directly connected to the loss of $150 in cash. If we buy a ticket in scenario two, our minds reassure us that we paid the appropriate $150 for the ticket . . . even though we unfortunately lost $150 cash.

This same mental accounting applies when a customer receives a utility statement. It sits there, alone. One number, the amount due, is the sole reference point. No trips to Nordstrom’s, no “dropped it in the Safeway parking lot” trade-offs. The bill—even if it’s a bargain and calculated with a competitively low monthly base fee—just sits on their desk with nothing to dilute the figure’s bottom line.

Good news, though: The ubiquitous credit card is a proven way to neutralize payment pain. Since 1959, when American Express launched the first plastic credit card, businesses and other organizations have literally cashed in on the consumer’s tendency to value a dollar differently depending on its source and history.

Suppose you have $200 in your pocket, and you decide to buy a $100 faucet with cash.

The cash purchase validates your mental accounting. The pain of shelling out $100 is very real and very immediate. You’ve only got $100 left in your pocket. Using a credit card, though, somehow discombobulates this course of very rational mental accounting.

Behavioral economists have proven that money we spend via a credit card is devalued . . . more like “funny money” than the “real” money nesting in our wallets. Yes, the credit card dollar actually costs us more than the dollar in our wallet; but our perception leads us to mentally account for the transaction differently. Paradoxically, we will tolerate a higher price at the credit card checkout point, and then blithely succumb to the interest and other credit card fees tacked on in the coming month (or months, if the overall account isn’t paid-in-full monthly).

A real-life experiment conducted by Prelec and Simester (2001) proves the point: The two marketing professors devised a real-life auction, allowing avid Boston Celtic fans to bid on coveted game tickets. Before the bidding began, half of the participants were told winning bidders would have to pay cash. The other bidders were told they could use a credit card. The result? You got it . . . those bidding with “funny money” credit cards offered twice as much as the proverbial cash cows. Credit cards, concluded Prelec and Simester, made spendthrifts out of otherwise frugal Bostonians.

This concept is crucial to the utility. Rising costs of water, infrastructure, and delivery dictate that utility bills are likely to continue rising. Thus, future bills will likely draw more attention . . . but even more so if it stands alone. Utilities need to leverage the advantage of stirring water costs into the mix of their customer’s monthly credit card invoice, effectively forging a disconnect between utility rates and the consumer’s wallet.

Utilities are relative newcomers to credit card billing, and laid out side-by-side with other monthly line items—clothing, restaurants, even electric and gas bills—
water bills don’t really stand out. Put into proper perspective—they’re diluted.

Now, utilities are legally permitted to add a processing fee for credit cards. But this isn’t necessarily a good thing, for a variety of reasons—not the least of which is that such fees make it cheaper to pay cash. There is a danger, too, that the mental accounting of paying a fee to use a credit or online payment could end up devaluing the service itself.

Still, credit cards have become “the norm,” a form of payment nearly universally revered: It’s safe, requires little effort, and it meets one of our most-cherished life goals: Buy Now—Pay Later.

Indeed, the processing fees are why not everyone is a fan of paying their utility bill with a credit card. In her blog (www.creditcards.com) Connie Prater interviewed a New England homeowner who said he would gladly use the credit card payment offered by his natural gas provider, but balked at a $4.55 monthly transaction fee assessed by the utility’s third-party processor. His bank’s bill payment service, the homeowner explained, offered no reward points . . . but neither did it charge a fee. Even though the homeowner pays his credit bill in full each month, the $4.55 charge represents, to him, a 25% increase in a month when his bill dips as low as $20. The homeowner conceded that his credit card company pays him 2% through its rewards program. But overall, he just couldn’t make the math add up.

Let’s take a look at the opposite side, where one small water utility, with a lower-income demographic, offers credit card processing at no extra charge. After a year, the utility claims, they not only saw credit card use nearly double, but also calculated that the processing fees they were absorbing were offset by fewer late payments and fewer customer complaints about generic credit card costs being rolled into their utility rates. Plus, many consumers prefer charging as many outlays as possible in order to take advantage of cash-back incentives and other loyalty perks offered by credit card issuers.

“Offering a credit card payment option, with no additional fees, is a good move,” said one utility spokesperson. “We are experiencing less customer frustration and complaints as compared to when we charged a credit card processing fee. It is important, however, to provide plenty of advertising to the customers, letting them know that the payment option is available and that there is no extra cost.”

More and more, credit card companies are working with utilities across the country to temper costs. A growing number of web-based programs and third-party vendors have emerged to help facilitate credit card billing for even the smallest of utilities.

Remember too, that credit card companies assume most of the risk, and even provide secure, convenient online portals. And who knows what the future will bring: Might utilities one day begin offering affinity cards, or even offering the credit services themselves?

If asked, MasterCard might sum things up best . . .

The price of treating and delivering a gallon of water?
About a penny.

Being able to decouple the impact of the rising costs of tap water?
Priceless.
ABOUT THE AUTHOR

Melanie K. Goetz is a public outreach specialist for all sizes of US water utilities at Hughes & Stuart Marketing, 6050 Greenwood Plaza Blvd., Ste. 130, Greenwood Village, CO 80111; Melanie@HughesStuart.com. She has served on water boards and has more than 20 years of experience in helping utilities convey the value of tap water to their customers through their rate structures, websites, presentations, and media relations. She has a BS degree in business from the University of Colorado, Boulder, and an MBA from Old Dominion University in Norfolk, Va.

REFERENCES


