

Service contract type and consumer choice behavior: the contributory roles of perceived value, brand reputation and consumer incentives

Contract type
and consumer
choice
behavior

373

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Abstract

Purpose – To minimize customer churn, many service providers offer consumers the option of automatic contract renewal at the end of a contract period. Such agreements are known as rollover service contracts (RSCs). This research quantifies the effect of RSCs and other related factors, such as incentives, on consumers' service choice decisions.

Design/methodology/approach – The study adopts choice-based conjoint analysis to assess the effect of RSCs on consumers' choices and to determine whether effect size varies when selecting a cell phone network or gym/leisure club provider, which represent lower-priced utilitarian and higher-priced hedonic services.

Findings – It was found that RSCs produce negative perceptions and intended behaviors for the majority of consumers across different product types. Nevertheless, as explained by social exchange theory, many individuals may be persuaded to enter into a RSC on the basis of reciprocity if they are offered an incentive such as a price discount or free product add-on.

Originality/value – In the marketing domain, this is the first comprehensive study to quantify the role of contract type among a range of other factors in consumers' decision-making when selecting a service. The authors' results offer context-specific implications for service marketers. First, RSCs are perceived more negatively in high-priced hedonistic categories, especially among those with lower incomes. Second, price discounts are more effective than product add-ons for motivating hedonic purchases, while product add-ons work better with utilitarian services.

Keywords Rollover service contracts, Service choice behavior, Social exchange theory, Perceived value, Brand reputation, Consumer incentives, Choice-based conjoint analysis

Paper type Research paper

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Introduction

The relationship between consumers and service providers is often determined by the nature of the contractual arrangements between the two parties. This is particularly relevant when a service is consumed continuously over time and the same provider delivers it, common in many services such as insurance, anti-virus software, cell phone networks, broadband and gym membership. One of the greatest threats to service provider performance is consumer churn, i.e. individuals not renewing their existing agreement at the end of a contract period. Consumer churn represents a loss of steady revenue; moreover, replacing previous consumers with new ones is less profitable due to the costs of advertising, vetting applicants, setting up new accounts and onboarding new consumers (Wangenheim *et al.*, 2017). To minimize churn, it has become widespread practice for service providers to offer consumers the option of automatically renewing their contract rather than creating a new fixed-term contract when the agreement expires. Such agreements are known as rollover service contracts (RSCs). The contracts typically run for a period of 12 months. Once a RSC is agreed, automatic renewal of the contract occurs at the end of the contracted term unless one party gave notice to terminate it before the cancellation deadline.

Surprisingly, little is known about how RSCs affect consumer decision-making when entering into service agreements. Previous research has predominantly been conducted in the domains of law and consumer economics. Some insight on consumer behavior toward RSCs is provided in a study undertaken by Johnen (2019), which focused on consumer inertia and how firms may deal with heterogeneous consumers. Crawford *et al.* (2011) analyzed consumer sign-up and the effects of RSCs on consumers who agreed a RSC with British Telecommunications (BT), the largest provider of fixed-voice telephone services in the United Kingdom (UK). After the RSCs were introduced by BT in 2008, many customers signed-up for automatic contract renewal, motivated mainly by price discounts that were offered for evening and weekend calls, which offset the higher switching costs, such as the early termination charge. The key finding was that RSCs were enormously profitable, as consumers with a RSC were 54.8% less likely to switch after the minimum contract period had been reached than consumers on fixed-term contracts, likely due in part to the higher switching costs.

A survey-based quantitative study utilizing Likert scales and regression analysis conducted by Wilkins *et al.* (2023) found that convenience – e.g. eliminating the search and evaluation costs associated with comparing alternative providers – was the strongest influence on consumers' acceptance of RSCs, rather than price, as suggested by Crawford *et al.* (2011). However, the Wilkins *et al.* (2023) study left several opportunities for future research. First, their research aimed to offer only preliminary insights into the factors affecting consumers' initial decision to enter into RSCs, but participants were not required to make trade-offs among alternative product attributes. This methodology left unknown the extent to which consumers' purchase decisions for different types of service are influenced by the contract type. Second, given the proven profitability of RSCs, practitioners need to know which incentives best motivate consumers to accept automatic renewal they would have otherwise rejected. Further, they did not consider incentives or different product categories, so the generalizability of the results are in doubt.

This study's central research question is:

How much do a selection of factors – which include contract type and incentives – influence consumers' choice behavior when purchasing a particular service?

The purpose of the research is to discover the extent to which the inclusion, or omission, of a RSC option in a service agreement (contract type), together with other product attributes, influences consumers' service choice behavior. Choice-based conjoint analysis is used to determine the most effective incentives to motivate consumers into accepting a RSC option,

and it does so in two different contexts across a broad population. An examination of the literature suggested that price, service quality, promotions and brand reputation may be key influences on service provider selection. Thus, the decision variables analyzed in this research are contract type, price, quality, incentives and brand reputation.

Our contribution is fourfold. First, this research demonstrates that consumers consider RSCs as having predominantly either a cost or benefit, which has implications for future modeling of consumer service choice by researchers and practitioners. Our findings suggest that it would be appropriate for future models of consumer choice in services marketing contexts to include the nature of contractual agreements. Second, our research sheds new light on the role of incentives in consumer service decision-making. We provide a model of great practical importance that indicates which incentives (financial or product) persuade whom (high income or low income) for a given service (utilitarian or hedonistic). An important and valuable finding is that even consumers holding negative attitudes toward RSCs may be persuaded with suitable incentives to accept contract rollover. Third, in addition to the legal obligations that RSCs place on consumers, this research indicates that, based on the concept of reciprocity (rewards for loyalty), their acceptance may also create a psychological contract between the consumer and provider. Finally, our findings demonstrate the role that service contracts may have in the application of social exchange theory to service relationships. Thus, this research makes a number of theoretical contributions, as well as having important managerial implications for service marketing practitioners.

The remainder of this paper is organized as follows. First, after explaining the study's theoretical context, we discuss each of the key concepts that are important in this research, namely perceived value, brand reputation, incentives, contract type and product type. Within these sections we present the study's hypotheses. Following this, we explain our research design and method, providing our conceptual model and details about the sampling, data collection and data analysis. Then, the results of our conjoint analysis are presented. The paper concludes with a discussion, which highlights the main theoretical contributions and managerial implications. Finally, we acknowledge the limitations of our research and propose avenues for further investigation.

Theoretical foundations

Rollover service contracts and social exchange theory

Customers and service providers rely on each other for successful exchanges (Sierra *et al.*, 2009). When services are delivered over time, it is necessary for a relationship to exist between the consumer and provider, and such relationships inherently involve an exchange (Lee *et al.*, 2014a). Social exchange theory is useful in explaining relationships between individuals and providers, as it proposes that in every exchange, each party incurs a cost and reward (Singh and Sirdeshmukh, 2000; Teichmann, 2021). Although most consumers undertake some kind of cost-benefit analysis before making a purchase decision, particularly when buying services that are consumed over an extended period of time, intangible factors such as prestige and happiness may also be influential (Lee *et al.*, 2014b). Social exchange theory suggests that successful consumer-provider relationships are based on mutual reciprocity where both parties are satisfied and view the exchange as fair and reasonable (Teichmann, 2021). Consumers will usually return favors to providers that offer benefits which are valued (Choi and Lotz, 2018; Morales, 2005). Individuals are likely to invest in a relationship – e.g. by entering into RSCs – when they perceive the price as fair, and when they believe that the service delivery will satisfy their needs and expectations (Wilkins *et al.*, 2023). Consumers who perceive that they are receiving special or preferential treatment may feel valued and appreciated, and the emotion of gratitude experienced by the consumer may then encourage the individual to enter into a RSC (Lee *et al.*, 2014a). However, perceived

psychological contract violation after entering into a RSC may result in consumers having spurious loyalty (Zhang and Zhang, 2021) or no loyalty.

Individual consumers have different needs and wants, and depending on their preferences and perceptions, they have different attitudes toward RSCs. Time-poor consumers, or those who value convenience, may perceive such contracts as a benefit, because the search and switching costs associated with moving to another provider are eliminated (Murooka and Schwartz, 2019; Wilkins *et al.*, 2023). RSCs may also be attractive to individuals who are prone to inertia or procrastination (Henderson *et al.*, 2021). Alternatively, consumers may perceive these contracts as a sacrifice, as they signal behavioral loyalty to the service provider before the consumer has experienced the service delivery. Some individuals may perceive this as a risk because the service delivery may not satisfy their needs and expectations. Although an unsatisfied consumer may terminate their agreement at the end of the service period, RSCs often have higher switching costs.

In addition to considering their own personal needs and wants, and the expected service quality, consumers consider the brand's reliability and benevolence, as well as the provider's overall attitude towards reciprocity. On the basis of reciprocity, providers may reward consumers who enter into RSCs with price discounts, product add-ons, or other loyalty-based benefits (Wilkins *et al.*, 2023). The provision of these rewards may have a positive impact on the development and strengthening of consumer-provider relationships (Calvo-Porrall *et al.*, 2017). A risk for consumers is that some providers are not benevolent, and they may use consumer inertia at the time of contract renewal to charge an uncompetitive price, or provide a less attractive product in the following contract period (Gray *et al.*, 2017). This may occur through providers increasing prices or reducing product features and benefits. In different markets, providers may act differently, and also consumers' needs, wants and expectations may vary for different services, which provides the rationale for this study in examining consumers' purchase decisions for contrasting service types.

Research design and hypotheses

It is universally accepted among marketers that all meaningful marketing activity must be directed at delivering customer value (Zeithaml *et al.*, 2020). Perceived value has traditionally been conceptualized as the consumer's optimal trade-off between price and quality. Thus, it is common for research on consumers' product choices to somehow incorporate price and quality as factors influencing an individual's decision-making. More recently, perceived value has been conceptualized as a multidimensional construct that also includes emotional and social aspects. Thus, perceived value may result from the quality that satisfies utilitarian "needs" or the brand prestige that satisfies hedonic "wants". Increasingly well-informed service consumers recognize that contractual agreements may deliver both benefits and costs. If an individual holds a negative attitude toward rollover contracts – either because of information obtained or previous experiences, e.g. paying an increasingly uncompetitive price over time or facing unreasonable barriers to end an agreement – a service provider may need to offer additional incentives to persuade the consumer to sign a RSC. Thus, we hypothesize that price, service quality, brand reputation, incentives and contract type may influence consumers' choices of both utilitarian and hedonic services, but with different (unknown) levels of influence.

Perceived value

Chiang and Jang (2007) claim that most purchase decisions made by consumers involve an assessment of value, and, particularly for services, providers must deliver superior value to establish and maintain long-term customer relationships (Ravall and Grönroos, 1996).

Consumers' perceptions of value are based on their evaluation of a product given the price they paid for it (Sinha and Verma, 2020) and more broadly on whether the total benefits received (e.g. functional, social and relational) are considered to outweigh the total sacrifices forgone (e.g. price, time, effort and risks) (Boksberger and Melsen, 2011). Using everyday language, perceived value may be regarded as "getting what you paid for", which may be conceptualized as low price, fair quality for the price paid, positive trade-off between benefits and sacrifices, or achievement of the consumer's desires and expectations (Sirohi *et al.*, 1998). Consumers often assess perceived value by comparing a provider's offering (benefits and sacrifices) with the alternative products and contractual terms available from competitors (Yang and Peterson, 2004). Product quality and quantity, or volume received, are the benefits that frequently have the greatest influence on consumers' evaluations of value (Wilkins and Ireland, 2022).

The intangibility of services often leads consumers to use price as an indicator of quality, with previous research indicating that consumers tend to prefer avoiding losses to acquiring gains, and therefore, they may choose lower prices over higher quality, or larger quantity or volume of product (Yoon *et al.*, 2014). However, Ostrom and Iacobucci (1995) found that price is more important for experience services, and quality is more important for credence services (services that are difficult to evaluate even after delivery has occurred). Providers may therefore employ monetary or non-monetary incentives to influence consumers' perceptions of value. Hence, we specify the following hypotheses:

- H1. Price is negatively related to consumers' service choice.
- H2. Quality is positively related to consumers' service choice.

Brand reputation

It is universally accepted among academics and practitioners that brand reputation can greatly influence a provider's revenues and profits (Veloutsou and Moutinho, 2009). In a services context, brand reputation refers to consumers' perceptions of the service quality that are associated with a brand name (Sengupta *et al.*, 2015). Brand reputation represents the embodiment of the cumulative effect of all past and present marketing activities (Akdeniz *et al.*, 2013). In the consumer's mind, brand reputation may result from a combination of perceived reliability and benevolence, admiration, respect and confidence in the current and plausible future actions of the provider (Dowling, 2001). To develop brand reputation, providers need a strong brand orientation that prioritizes branding in their marketing strategy (Piha *et al.*, 2021).

The two key components of brand reputation are brand reliability and brand benevolence (Karaosmanoğlu *et al.*, 2011). Brand reliability refers to the ability of a brand name to act as a heuristic to reduce consumers' perceptions of risk when evaluating a brand. The intangibility of services presents considerable risks and uncertainties for consumers, so perceived brand reliability may give an individual the confidence to purchase a particular product. Brand benevolence is a cognitive type of reputation that is based on the functional capability of a brand and which reflects a brand's interest in consumers (Foroudi, 2019). Wilkins *et al.* (2023) found that brand reputation has an indirect effect on consumers' attitudes and behavior toward RSCs when moderated by trust. Therefore, we hypothesize:

- H3. Brand reputation is positively related to consumers' service choice.

Consumer incentives

Retaining customers is more profitable than attracting new consumers for service providers (Rosenberg and Czepiel, 1984), so there is an advantage in developing and adopting

approaches – such as offering RSCs – that encourage consumer loyalty. Consumers may agree to enter these agreements if they value the derived convenience, and if they are confident that they would terminate the contract before the required deadline if they are not satisfied with it, or if a more attractive provider emerges (Wilkins *et al.*, 2023). Many consumers are reluctant to enter into RSCs as they may not want to limit their future ability to change provider, while others may not trust the provider or the service quality that will be delivered. Also, consumers are often confused or cautious in turbulent markets that are characterized by rapid technological change and evolving competition (Turnbull *et al.*, 2000).

On the basis of reciprocity, providers often use incentives to encourage new consumers to accept RSCs. These may include price discounts, product add-ons and loyalty benefits, such as product upgrades. Many studies have confirmed the effectiveness of incentives in stimulating sales (Santini *et al.*, 2016), and consumers generally respond strongly to price discounts, as these are perceived as a reduction of loss (Taylor and Neslin, 2005). However, consumers often make the mistake of double discounting, whereby they mentally deduct the value of the price discount from the cost of the first purchase, and then they do this again when they make their second purchase (Cheng and Cryder, 2018).

Previous research suggests that monetary incentives may be most effective for utilitarian products, which are purchased for their functional and practical uses, whereas non-monetary incentives are best suited for hedonic products, which are purchased for pleasure and enjoyment (Sinha and Verma, 2020). In general, when consumers receive incentives or rewards, and feel special or valued, they are more likely to reciprocate and do something in return for the provider (Molinillo *et al.*, 2021). However, monetary incentives will only be effective when the consumer perceives that they are paying below their reference price, i.e. the price that they consider to be reasonable based on competitors' prices and prior experience (Srivastava *et al.*, 2022).

Consumers will always value gifts, perks and benefits that are truly free, but incentives given in return for an individual entering a RSC may be regarded as a pseudo-free offer, as the renewal may incur unexpected future costs, such as a price increase or the loss of product features previously received (Dallas and Morwitz, 2018). Thus, pseudo-free incentives offered by providers in exchange for RSC acceptance may be highly ambiguous and difficult for the individual to assess. However, when exposed to such offers, consumers often disproportionally focus on the offer's "free" aspect, rather than the ambiguous and unknown future costs (Saini and Monga, 2008).

Based on this review on incentives, we specify the following hypothesis:

H4. Incentives are positively related to consumers' service choice.

Contract type

Previous research has found that service consumers may hold different attitudes toward RSCs (Wilkins *et al.*, 2023). Some consumers may perceive that RSCs offer the advantage of convenience, by eliminating the search and evaluation costs associated with comparing alternative providers. Furthermore, RSCs may ensure the continuity of service delivery. In contrast, other consumers may perceive RSCs as a cost or risk, because the service delivery may not satisfy their needs and expectations or because over time the service compares less favorably with competitors. This may occur if the existing provider increases the price or reduces the service benefits, or if competitors introduce superior products or in the future charge lower prices than the existing provider. Regardless of the consumers' individual attitudes, it is likely that contract type has an influence on consumers' decision-making. Hence, we specify the following hypothesis:

H5. Contract type is positively related to consumers' service choice.

A key objective of this research is to discover the extent to which firms may be successful in using incentives to persuade consumers who hold negative or unfavorable attitudes toward RSCs to actually accept such an agreement. Given the effectiveness of incentives in other consumer marketing contexts, we suggest that incentives may also motivate consumers to accept automatic contract renewal, which they would have otherwise rejected.

H6. Incentives is positively related to acceptance of automatic contract renewal.

Product type

One of the research objectives of this study was to generalize the findings of [Wilkins et al. \(2023\)](#) to diverse product categories, as consumer decision-making may vary considerably according to the product type ([Amirtha and Sivakumar, 2022](#); [Sinha and Verma, 2020](#)). For example, while utilitarian products are intended to provide functional benefits, such as achieving specific tasks that are related to work or necessary activities in the individual's life ("have to" activities), the focus of hedonic services is on delivering fun, pleasure or entertainment ("want to" activities). While utilitarianism is related to functional, nonsensory attributes, hedonism is associated with sensory attributes ([Baltas et al., 2017](#)). With utilitarian products, happiness and satisfaction are usually derived from the service quality and the extent to which the functional benefits have met the individual's expectations, whereas with hedonic products, consumers may gain pleasure, happiness or satisfaction from the service process ([Hellén and Sääksjärvi, 2011](#)). Thus, individuals generally evaluate utilitarian products rationally based on their perceived value and functional use, while hedonic products are evaluated by psychological or emotional attachment resulting from brand prestige or expected enjoyment.

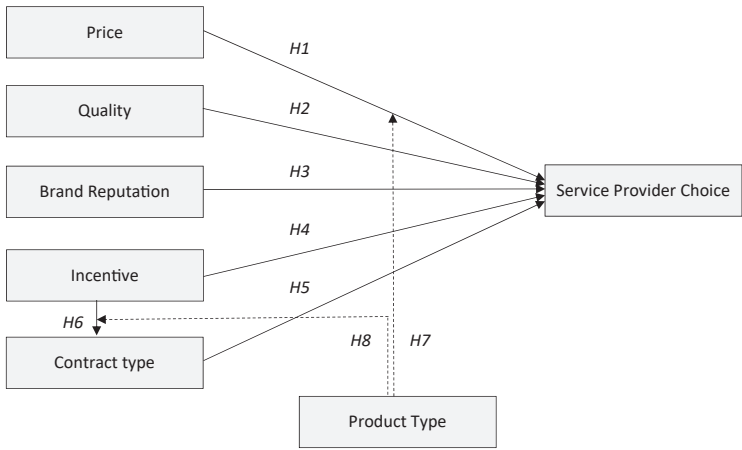
As utilitarianism and hedonism are not usually two ends of a one-dimensional continuum, different product categories may be high or low in both utilitarian and hedonic attributes ([Voss et al., 2003](#)). However, [Okada \(2005\)](#) claims that it is possible to classify a service as being generally more utilitarian or more hedonic. To achieve our study's objective of assessing how consumer decision-making may vary for different product categories, we selected one lower-priced utilitarian product (cell phone network) and one higher-priced hedonic product (gym or leisure club, hereafter referred to simply as "gym"). We classify cell network services as utilitarian, as they may be used mainly for communication (to make calls or send text messages) even though web browsing and social media apps also offer hedonic benefits ([Yen, 2012](#)). Similarly, we classify gyms as hedonic, as they are commonly used mainly for fun, pleasure and recreation (i.e. for enjoyment), although visiting such establishments may also offer utilitarian health benefits ([Chung et al., 2023](#)).

To examine differences in consumers' product selections, cell phone networks and gyms have also been used as contrasting product categories in other services marketing studies, e.g. [Shestakova \(2008\)](#). An important feature that these services share is that at any given time the individual usually has just one sole service provider for that specific service, to the exclusion of all other providers. Therefore, contract considerations may be particularly important for such products because the consumer must end the contractual relationship with one provider before switching to another provider. Therefore:

H7. Product type (utilitarian vs hedonic) moderates the relationships between the service attributes and consumers' service choice.

H8. Product type (utilitarian vs hedonic) moderates the effectiveness of incentives on consumers' acceptance of automatic contract renewal.

Our proposed conceptual model and the associated hypotheses are shown in [Figure 1](#).



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Figure 1.
Conceptual model and
hypotheses

Method

To examine how a range of product attributes influence consumers’ service provider choices across service categories, this research considers both a lower-priced utilitarian and a higher-priced hedonic service. The population of interest was users of relevant services: either a cell phone network (low-priced utilitarian) or a gym/leisure club (high-priced hedonic). The research uses choice-based conjoint analysis to quantify the trade-offs consumers make when considering a RSC for a service, which factors can best motivate acceptance of a RSC and whether these factors vary with product category (low-priced utilitarian versus high-priced hedonic). Choice-based conjoint reveals the relative weights individuals attach to each level of diverse attributes by analyzing their evaluations of a carefully developed array of complete multi-attribute product profiles. It is the preferred method of academics and practitioners for measuring consumer preferences due to the realism of the choice task (Eggers *et al.*, 2018).

Sampling and data collection

New data were collected for this study through an online survey administered by Conjoint.ly, a specialist in software as a service (SaaS) survey tools, including conjoint analysis. The sample consisted of adults resident in the United Arab Emirates (UAE) who use a cell phone or who are members of a gym. All of the respondents were employed and able to complete an English language survey. Full-time students and consumers aged under 18 were excluded because they are often unable (because of financial constraints), or unwilling, to commit to longer term service agreements (see Lazarevic, 2012). A random sampling approach was not possible since customer lists could not be obtained from cell network or gym operators. As a well-defined sample frame was not achievable, respondents were recruited using social media (e.g. LinkedIn and Facebook) and the chain referral snowballing technique. To maximize sample size, participants were asked to share the survey link with other consumers who satisfied our selection criteria.

The sample sizes obtained were 220 for cell networks and 200 for gyms, sufficient to develop significant results for important effects. Along with the conjoint survey questions, respondents were asked to provide demographic details (Table 1). The sample profile is broadly representative of the UAE adult population, excluding the very low income (mainly

Table 1.
Sample profile

		Cell phone service		Gym	
Gender	Male	119	54.1%	99	49.5%
	Female	101	45.9%	101	50.5%
Age	<30	95	43.2%	40	20.0%
	30–39	100	45.4%	108	54.0%
	≥40	25	11.4%	52	26.0%
Region	MENA	154	70.0%	130	65.0%
	South Asia	23	10.5%	26	13.0%
	East Asia	13	5.9%	14	7.0%
	Europe	17	7.7%	18	9.0%
	Other	13	5.9%	12	6.0%
Income (AED)	<10,000	82	37.3%	43	21.5%
	10,000–20,000	68	30.9%	64	32.0%
	>20,000	70	31.8%	93	46.5%

Note(s): MENA = Middle East and North Africa; Income is salary per month; AED = United Arab Emirates dirham and US\$ 1 = AED 3.67, fixed exchange rate

Source(s): Table created by the authors

male) manual laborers (income < AED 3,000). Very low income consumers are excluded from the sample as they use pay-as-you-go cell services and do not join gyms.

Data analysis

Two services, cell networks (lower-priced utilitarian) and gyms (higher-priced hedonic), were used as the basis for the study. Both services met the requirements of widespread use, the common use of RSCs and considerable differences in price, which facilitated the efficient gathering of a sample of knowledgeable consumers. The attractiveness of a service in each category was modeled as a function of five attributes: price, quality, brand reputation, consumer incentives and contract type (fixed for 12 months or RSC). Including a no-incentive option, incentives were a five-part variable, subdivided into two two-part variables; a price discount or increased quantity/free product add-on. All variables but incentives were two-part: average and high, or low and high. Although it is always preferable to have a balanced design, this was not possible in this study because a key objective of the research was to study how discounts and quantity incentives worked in different categories and we only wanted to show each subject one incentive per profile which required putting all incentives in one attribute.

Due to the differences in product characteristics between cell networks and gyms, separate but appropriate measures of price, quality and incentives were developed for each service (Table 2). For example, quality was assessed by network coverage for the cell networks and by premises size for gyms, as larger gyms likely offer a larger range of facilities and equipment. For each choice decision, individuals were offered three alternative products, with the five attributes for each service shown in a table format (see Table 3 for an example). Where no incentive was offered, the term “No incentive” was used. For each choice decision, the survey participant selected their (one) preferred product offering from the three alternatives.

Results

Choice-based conjoint analysis produces two primary results: (1) the part-worths (or utilities) which measure the impact of each level of each attribute on the individual’s choice, very much like regression coefficients; and (2) attribute importances, which are the difference between

Table 2.
Conjoint study
attributes

	Cell phone service			Gym	
Price	Average	150		Average	250
	High	300		High	500
Brand	Reputation	Average brand		Reputation	Average brand
		Leading brand			Leading brand
Quality	Network coverage	Average		Size of premises	300 m ²
		High			600 m ²
Incentives	No incentive			No incentive	
	Price discount	10%		Price discount	10%
		20%			20%
	Free data	2 GB per month		Free classes	One per week
		4 GB per month			Two per week
Contract type	Fixed duration	12 months		Fixed duration	12 months
	Rollover	Automatic renewal		Rollover	Automatic renewal
Note(s): Price is AED (United Arab Emirates dirham) per month					
Source(s): Table created by the authors					

Table 3.
Example choice
decision in the conjoint
survey

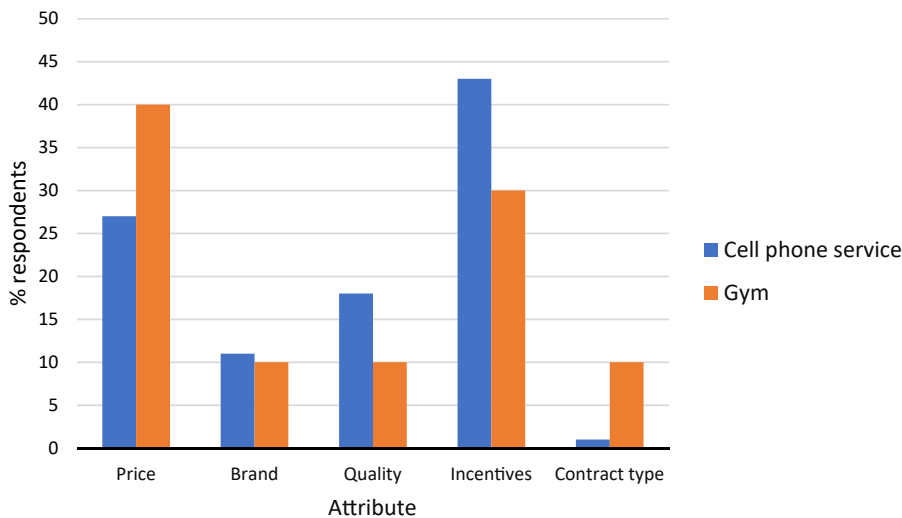
Which of the following gyms/leisure clubs would you choose?			
	A	B	C
Brand reputation	Average	High	High
Club size	600 square meters	300 square meters	600 square meters
Incentive	One free class per week	10% discount on first year's membership	No incentive
Contract (12 months term)	Contract ends after 12 months	Automatically renews after 12 months	Automatically renews after 12 months
Price	AED 250	AED 500	AED 500
	CHOOSE	CHOOSE	CHOOSE
Source(s): Table created by the authors			

the lowest and highest part-worths for a given attribute. After a review of the obtained importances, utilities and hypothesis test results, the possible impacts of demographic traits were investigated.

The comparative importance of the different attributes for the two services is illustrated in Figure 2. This shows that the two major influences on consumers' choices were price and incentives, which together explain almost three-quarters of the choices for each service. Price was more important for the higher-priced service (40%), compared to 27% for the lower-priced service, while incentives were more important (43%) than price (27%) for the lower-priced product. It should be noted, however that the importance of incentives may be exaggerated by up to 6% due to the unbalanced design (Wittink *et al.*, 1990).

Contract type (fixed term versus RSC), the focus of this research, provided the most striking difference in importances between the categories. It explained 10% of choice for the higher-priced hedonic product (gyms) but was not significantly different from zero for the lower-priced utilitarian service (cell networks). On the other hand, for the lower-priced utilitarian service, quality was relatively more important, rising from 10% to 18%, while the importance of brand reputation did not change significantly.

The results offer support for each of our eight hypotheses. The first hypotheses (H1–H4) are essentially manipulation checks, to assure that respondents reacted reasonably to the model's variables, i.e. that they preferred lower prices, higher quality and brand reputation



Source(s): Figure created by the authors

Figure 2.
Percentages of
respondents for whom
the attribute was most
important

and appreciated incentives. The utilities for the different levels of the attributes used in the hypothesis tests are displayed in Table 4. Consumers generally reacted consistently with hypotheses 1–4, in both service contexts: negatively to high prices and favorably to high quality, brand reputation and incentives. In short, the manipulations worked.

However, the lower level of incentives provides an exception. As expected, “no incentive” provoked strongly negative reactions (-25.1 for cell networks and -18.9 for gyms). Strangely, the lower level of incentives (10% price discount, 2 GB free data, or one free class per week) was also perceived as negative, despite offering a bonus compared to the “no incentive” base case. It appears that our respondents compared the lower level unfavorably with the higher level, which turned a valuable gift into a negative. This illustrates the importance of “framing” relative to a subject-determined “reference point” (Kahneman and

Cell phone service			Gym	
Price	Low	14.0 ± 1.6	Low	$20.2 \pm 1.1^{**}$
	High	-14.0 ± 1.6	High	$-20.2 \pm 1.1^{**}$
Brand	Average	-5.5 ± 0.7	Average	$-5.1 \pm 0.7^{**}$
	Leading	5.5 ± 0.7	Leading	$5.1 \pm 0.7^{**}$
Quality	Average coverage	-9.0 ± 1.3	Small premises	$-4.8 \pm 0.9^{**}$
	High coverage	9.0 ± 1.3	Large premises	$4.8 \pm 0.9^{**}$
Incentives	None	-25.1 ± 1.4	None	$-18.9 \pm 0.7^{**}$
	10% discount	-0.7 ± 1.0	10% discount	$0.5 \pm 0.7^{**}$
	20% discount	9.5 ± 2.0	20% discount	$12.3 \pm 0.7^{**}$
	2 GB free data	-0.7 ± 0.8	One free class	$-4.9 \pm 0.6^{**}$
	4 GB free data	17.2 ± 1.6	Two free classes	$11.0 \pm 1.1^{**}$
Contract type	12 months	0.3 ± 1.1	12 months	$4.3 \pm 0.7^{**}$
	Automatic renewal	-0.3 ± 1.1	Automatic renewal	$-4.3 \pm 0.7^{**}$

Note(s): ** The mean utility for this level is significantly different ($p < 0.01$) between the two services

Source(s): Table created by the authors

Table 4.
Utilities for each level
of each attribute

Tversky, 1979), as it seems that the lower, still valuable, incentives are framed as losses relative to higher benefits. Therefore, our results are consistent with H1–3, but they only partially support H4.

H5 stated that contract type is related to consumers’ service choice, or, said differently, that the offer of a rollover contract produces a different consumer reaction to the fixed 12 months contract. Across both categories, 65.5% of customers preferred 12 months contracts, which is significantly more than those who preferred RSCs. However, this figure varied strongly by service category. While rollover contracts were rejected by 80.5% of respondents when selecting a gym, this fell to 50.5% when choosing a cell phone network (Table 5).

Although the majority of respondents preferred to avoid rollover, many change their minds when offered incentives, as posited by hypothesis 6. With regard to gyms, the least valuable incentive (as judged by the individual) was sufficient to raise the percentage accepting rollover from 19.5% to 66.0%. The most valuable incentive increased rollover acceptance to 86.5%, more than four times the level without incentives. So, while rejection of RSCs was strong in the gym category, it was easily offset. In the cell network category, the maximum incentive raised acceptance beyond 90%, from 50.5% with no incentive.

H7 proposes that the product type (utilitarian versus hedonic) moderates the relationships between the service attributes and consumers’ service choice. In short, utilities should vary across service categories. Consistent with this hypothesis, we observed that all of the part-worths were significantly different between the two categories. Indeed, as may be seen in Table 4, some have different signs.

H8 is central to this research: it proposes that subscribers of cell phone packages (a low-priced utilitarian service) will prefer extra quantity as an incentive, while customers of gyms (a high-priced, hedonic service) will prefer a price incentive. The utilities are consistent with this hypothesis: the upper level quantity bonus was significantly greater than the price discount for the lower-priced utilitarian service, while the upper level of price incentives had a significantly greater impact than a quantity bonus for the higher-priced hedonic service. Thus, H8 finds considerable support, weakened only by the unattractiveness of the lower level of incentives.

Having concluded the hypothesis tests, we proceeded to analyze how the results varied with demography. The demographic splits are presented in Tables 6 and 7. Such a high proportion of our respondents were from the Middle East and North Africa region (MENA), that we combined all remaining regions under a catchall “Others”, to have a sizeable group with which to contrast MENA. The first thing that became apparent is that demographic variables were not associated with the utility of the contract type. As the high standard deviation implies, the value of a 12 months contract varied considerably, but was not associated with the studied demographics.

Most of the strong differences between demographic groups were only observed at the extremes. As examples, the eldest group (>40 years) was the most put off by high gym prices

Table 5.
Utilities and consumer
acceptance of
automatic contract
renewal

	% With negative utility for rollover	% With positive utility for rollover	% Accepting rollover with minimum incentive	% Accepting rollover with maximum incentive
Cell phone service	50.5%	49.5%	82.7%	90.9%
Gym	80.5%	19.5%	66.0%	86.5%

Source(s): Table created by the authors

	High price	Leading brand	High quality	12 months contract	10% price discount	20% price discount	2 GB free data	4 GB free data
Average	-1.67	0.65	1.09	-0.04	1.48	2.12	1.49	2.63
Std. Dev	1.96	0.59	1.08	0.94	0.66	0.90	1.11	1.34
Male	-1.70	0.65	1.01	-0.02	1.46	2.02	1.50	2.72
Female	-1.64	0.66	1.19	-0.07	1.52	2.24	1.60	2.78
<30	-1.73	0.59	1.03	-0.03	1.56	2.19	1.60	2.75
30-39	-1.61	0.72	1.16	-0.08	1.46	2.13	1.50	2.61
≥40	-1.67	0.60	1.06	0.07	1.30	1.85	1.40	2.35
MENA	-1.56	0.65	1.08	0.02	1.54	2.18	1.60	2.72
Other regions	-1.33	0.66	1.11	-0.20	1.37	1.99	1.50	2.46
<10,000	-2.09**	0.48**	0.87**	0.01	1.50	2.09	1.70	2.81
10,000-20,000	-1.56	0.74	1.20	-0.08	1.54	2.19	1.50	2.60
>20,000	-1.28	0.77	1.25	-0.07	1.42	2.08	1.40	2.47
Minimum	-5.69	0.59	0.93	-3.05	0.00	0.00	0.00	0.00
Maximum	2.56	0.77	3.77	2.90	3.09	4.27	1.53	6.04

Note(s): ** $p < 0.01$

Source(s): Table created by the authors

Contract type and consumer choice behavior

385

Table 6.
Mean utilities by demographic splits for cell phone service

	High price	Leading brand	High quality	12 months contract	10% price discount	20% price discount	One free lesson	Two free lessons
Average	-3.49	0.88	0.82	0.75	1.67	2.68	1.20	2.58
Std. Dev	2.56	0.96	1.11	0.94	0.81	1.25	0.65	1.28
Male	-3.64	0.85	0.89	0.77	1.74	2.71	1.21	2.57
Female	-3.34	0.90	0.75	0.72	1.60	2.66	1.20	2.59
<30	-3.14	0.50	0.84	0.73	1.51	2.52	1.02	2.23
30-39	-3.28	0.99	0.84	0.78	1.64	2.58	1.18	2.51
≥40	-4.19**	0.92	0.77	0.68	1.85	3.02*	1.38	2.98*
MENA	-3.16	0.94	0.72	0.79	1.62	2.55	1.11**	2.37*
Other regions	-4.09	0.76	1.01	0.66	1.77	2.93	1.39	2.96
<10,000	-4.56**	0.42**	0.82	0.79	1.80	3.15**	1.42**	3.08**
10,000-20,000	-3.10	0.85	0.71	0.60	1.53	2.54	1.09	2.42
>20,000	-3.26	1.11	0.89	0.83	1.70	2.56	1.19	2.45
Minimum	-4.09	0.76	0.71	0.60	1.51	2.52	1.02	2.22
Maximum	-3.10	0.99	1.01	0.83	1.85	2.93	1.39	2.96

Note(s): * $p < 0.05$, ** $p < 0.01$

Source(s): Table created by the authors

Table 7.
Mean utilities by demographic splits for gym

(-4.19), while other age groups were very similar (-3.28, -3.14). Further, the eldest were significantly more attracted to virtually any incentive than younger consumers. Similarly, while there were hardly any differences among the wealthier income groups in terms of price sensitivity (-3.10, -3.26), the poorest group (<10,000 AED), was significantly more price sensitive (-4.56). The poorest group was also significantly different to the wealthier groups

in terms of the value they attached to quantity/product add-on incentives and the upper level of price discounts and the weak value they attached to brand reputation.

For the higher-priced hedonic category, virtually every part-worth (except quality and contract type) was associated with at least one demographic variable. However, when analyzing the cell networks, only low income is very significantly associated with utilities. Again, the association is stronger at the extremes. While the upper income levels are not significantly different from each other, they are both significantly different to the lowest income level in multiple ways. The lowest income level is very significantly more put off by high prices (2.09 vs 1.42) and very significantly less attracted to either a superior brand or high quality (0.48 and 0.87 vs 0.75 and 1.23) respectively.

Discussion

Although RSCs have become common, only limited investigation has been undertaken to enable researchers and practitioners to understand consumer attitudes and behaviors toward this type of contract, or how these vary with the product category. Moreover, previous studies did not analyze the use of incentives to overcome consumer reluctance to accept RSCs. This study offers valuable insights into both consumers' service provider choices and their decision-making behavior, with a focus on the influence of contract type. We developed a conceptual model based on past literature, and then we empirically tested the effects of four common determinants of consumers' service choice, namely price, quality, brand reputation and consumer incentives. To these, we added contract type, taking account of the difference between lower-priced utilitarian and higher-priced hedonic services and consumer demographic characteristics.

The conjoint analysis reveals that the two major influences on consumers' decisions are price and incentives, which together explain almost three-quarters of the choices for each service. For both the lower-priced utilitarian and higher-priced hedonic services, perceived value is a highly important factor influencing the individual's choice of provider. Brand reputation has the strongest influence on provider choice for approximately 10% of our consumers, but price, incentives and service quality are generally considered more important. For the higher-priced hedonic category, contract type is almost as important as the difference between a superior and an average brand (0.83 vs 0.99).

For practitioners, the most important finding is probably that most individuals who dislike RSCs, can easily be persuaded to accept such an agreement by offering incentives such as a price discount or free product add-on. The fact that consumers are more likely to accept a RSC if offered an incentive supports the theoretical importance of reciprocity, as suggested by social exchange theory. Only between 10 and 14% of our respondents, depending on the category, still rejected RSCs when offered incentives. In summary, the key findings of this research are that between half and four-fifths of consumers may hold a negative view of entering into a RSC, with the negative impact being stronger for high-priced hedonic services. However, more importantly, more than 86% of individuals purchasing the high-priced hedonic service may be induced to accept rollover if offered an attractive incentive.

Theoretical contributions

This research contributes to the academic literature by extending previous knowledge of consumer attitudes and decision-making in service markets. First, in the context of selecting a provider whose service is delivered over a longer time period, factors influencing consumer choice should include consideration of the nature of contractual terms and arrangements, including the option of rollover. Our results suggest that for some consumers of higher-priced

hedonic products, contract type may be the most important factor in determining choice of provider. Further, we demonstrate that entering a RSC may be considered by consumers as either a cost (e.g. through constraining the ability to switch provider) or benefit (e.g. offering convenience), which adds to the understanding of consumer choice in service markets.

Second, our research sheds new light on the role of incentives in consumer decision-making in service markets. Previous research has not linked these marketing tactics with consumer loyalty using contract type as the mediating variable. Theoretically, a rollover contract may be regarded as a switching barrier that is legally enforceable. Although consumers have the ability to terminate RSCs by giving notice before the cancellation deadline, providers often create additional barriers by inflating transaction costs (Sovern, 2006) and requiring termination to be given using only specific forms of communication (Wilkins *et al.*, 2023).

Third, our findings indicate the role that service contracts may have in the application of social exchange theory in service relationships. Social exchange theory explains that when making a purchase decision, consumers generally assess the potential rewards against the costs (Lee *et al.*, 2014a). If a consumer perceives rollover as a benefit, this individual may be willing to pay a higher price or make other sacrifices; in contrast, an individual who perceives a RSC as a cost, may expect to be compensated with additional benefits, such as a price discount, increased product quantity, product add-on, or loyalty privileges.

Managerial implications

This research has managerial implications. First, our results indicate that while some consumers regard contract rollover as a benefit and others as a cost, the percentage of each varies according to the type of service and the individual's demographic characteristics. For example, if a provider sells a low-priced utilitarian service to higher income, time-poor consumers, then acceptance of rollover will be very high due to increased convenience.

Second, our research has identified that the benefits provided by a higher level of incentives outweigh the disadvantages of rollover for many consumers, and at such a level of incentives, RSCs may be both attractive to the consumer and profitable for the firm if revenues are increased and transaction, advertising and customer onboarding costs reduced.

Finally, demographic variables predicted the most efficient incentive to overcome aversion to RSCs. In the higher-priced hedonic category, for example, virtually every part-worth (except quality and contract type) was associated with at least one demographic variable.

Limitations and future research

This research investigates the potential influence of contract type on consumers' decision-making behavior when selecting a service provider. Given the dearth of research on contract rollover in the marketing domain, this study has made an original and useful contribution to the literature. Of course, the research presented here is not without its limitations. The cross-sectional design of the conjoint analysis may be regarded as a limitation because consumers' choice preferences may vary over time, as they gain knowledge and experience and as changes occur in the market such as new competitors and technological innovation. Additional survey questions regarding previous experience with RSCs, or perceived legal implications, may have added further insights into the attitudinal perceptions of consumers. The fact that our attributes did not each have an equal number of levels may have exaggerated the importance of incentives. However, while we did present the importance of incentives, our conclusions are based on the part-worths. There is also a possibility that the price-discount option may be confounded with the price attribute as previous research has found (Johnson and Olberts, 1996).

Our research was undertaken in a single country, and our participants reported their preferences towards only two services, which should be considered when generalizations are made, and inferences drawn from the findings. Furthermore, we classified the cell network services as serving mainly a utilitarian function and the gym a mainly hedonic function, but the survey could have included an additional question to ascertain the individual's actual perceived function. Such a question may have exposed cultural, gender and age variations on how the service functions are perceived.

Conjoint analysis is an effective method for determining consumers' trade-off choices among a range of product attributes, but it cannot explain the reasons for an individual's choices. Future qualitative research may investigate the rationales for consumers' trade-off choices as well as why consumers stay with, or switch, their service provider, and the extent to which they are influenced by legal and psychological obligations.

The results indicate that consumers can be persuaded to accept contract rollover if they are offered suitable incentives. However, it is not known what proportion of consumers who enter into a RSC remain loyal to the provider, rather than terminating their contract at the end of the contracted service period. Understanding the impacts of rollover on consumer churn, and the implications for future revenues and costs, would clearly offer providers with valuable insights. Future studies could explore whether RSCs really do have a positive effect on consumer loyalty, and modeling may be undertaken that utilizes appropriate revenue and cost data.

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