An exploratory study of negative option marketing: good, bad or ugly?

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Abstract
Purpose - The purpose of this exploratory research is to determine the consumer's perceptions of negative option marketing (NOM) offers regarding the value and equity of the offer and perceived opportunistic behavior inherent in the offer. In addition, the paper seeks to examine how a negative option offer versus a positive option offer influences consumer intentions to acquire a financial service.

Design/methodology/approach - Using the customer database of a full-service American bank, a survey was sent to demand deposit account holders. A survey then determined perceptions of the offer, perceptions of the bank making the offer, and intentions to purchase.

Findings - Between the negative and positive option scenario sub-samples, there were no differences in perceptions of value or equity, except in perceptions of opportunistic behavior - the negative option offers yielded significantly higher perceptions of opportunistic behavior. Perceptions of value, equity, and satisfaction with the offer were the same across all offers. Satisfaction with the offer significantly influenced satisfaction with the firm making the offer.

Research limitations/implications - A negative option operates in a contractual situation. The current research examined only one contractual situation. For findings to be generalized, the research needs to be replicated in other contractual contexts.

Practical implications - Even though the negative option offers were perceived as more opportunistic than the positive option offer, one of the negative option offers yielded a higher intention to purchase than the positive option. Care must be exercised in using NOM to minimize perceptions of opportunistic behavior.

Originality/value - There is limited literature on negative option marketing. No one has studied the customer perceptions of the strategy, in spite of its popularity.

Keywords Financial services, Banks, Marketing strategy, Consumer behaviour, Customer satisfaction, United States of America

Paper type Research paper

Introduction

Voice on the phone – C.J. Nickle Company would like to thank you for your catalog order today. As a token of our appreciation, we would like to send you, free of charge, Northern Living Magazine.

Consumer – Great! I really like Northern Living.

Voice on the phone – OK then. You will receive three months of Northern Living, absolutely free. At the end of the three months, we will bill the C.J. Nickle Company credit card you used.

The authors would like to thank JoAnne Johnson and Landmark Bank for supporting the data collection, and Attila Pragay, for research assistance.
Welcome to the world of negative option marketing (NOM)! In the past, silence meant no sale, however, under NOM, silence means sale and consumers must act to prevent the sale from taking place (Lamont, 1995). Organizations can legally make a consumer's failure to act an acceptance of the product (Sovern, 1999). Whereas previously a person had to affirmatively indicate that he/she wanted the product or service (positive/affirmative option), today many organizations are using NOM to sell magazines, natural gas, cellular phone service, health club memberships, lawn care contracts, and other goods and services (Sharma, 2001). Proponents of the strategy say that it results in increased retention rates, convenience to customers, and lower costs. On the other hand, detractors of the practice say that it creates customer confusion, is inconvenient, and is unfair (Sharma, 2001).

Though there is little publicly-available empirical evidence on the impact negative options have on consumers, what is available clearly shows that it makes a significant positive difference for the firm. For example, the Federal Communications Commission (FCC) studied how consumers responded to "unbundled" services offered by telephone companies. The FCC found that consumers who had to indicate affirmatively that they wished to purchase the optional maintenance plan subscribed about 44 percent of the time. Consumers who could subscribe by doing nothing - that is, through a negative option - subscribed 80.5 percent of the time - a difference of about 36 percent of the consumers (Phillips, 1993).

Similar results have shown up in the cable television industry. In Canada, cable television companies found that when new channels were offered in positive option ways, only 25 percent of customers subscribed, but when made available through negative options, 60 to 70 percent of the subscribers did not reject the offer (Austen, 1995; Walker, 1993). In other words, for many cable customers, the key factor in the purchasing decision was not the cost or content of the programming, but rather whether they have to act. In another context, merchandisers have acknowledged that consumers buy more readily when items are sold through negative options (Clayton, 1991). These few examples illustrate the wide use of NOM.

NOM has also been referred to as advance consent marketing, automatic renewals, continuous-service agreements, unsolicited marketing, inertia selling, "free trial" offers, or "book-of-the-month" type plans.

Broadly speaking, a "negative option" is any type of sales term or condition that imposes on consumers the obligation of rejecting goods or services that sellers offer for sale. A negative option allows a seller to interpret the failure of a consumer to reject goods or services as the acceptance of a sales offer, when, under traditional contract law, an affirmative response accepting the offer would be necessary (US Federal Trade Commission, 1998).

In the past, the term opt-out marketing has also been used as a synonym for NOM. But recently, the term "opt-out" has been associated mainly with privacy issues, such as consumers allowing (via acquiescence) their personal and/or financial information to be shared between firms (Hatch, 2005; Sovern, 1999).

The current research does not focus on consumer privacy or its loss, rather the loss of consumer choice or control, hence the topic is confined to NOM. A review of the current research on the topic of NOM suggests that there is very little information
available, and none from the consumer’s perspective, yet many firms appear to be utilizing this strategy. Why? Does the consumer have a positive or negative attitude toward these offers? Does the consumer’s satisfaction with the offer influence the attitude toward the organization making the offer?

In the following pages we will review the limited literature on NOM. We then apply some theoretical constructs to the process to gain an understanding of the consumer’s perspective on NOM. The research uses an experimental survey design in which customers of a bank were exposed to one of four treatments — three negative option treatments and one positive option treatment. The consumers’ attitudes toward the offer and the firm making the offer are explored. We conclude the paper with a discussion of the implications for managers regarding the use of negative option strategies. Although strictly exploratory research, to our knowledge this is the first research to examine possible theoretical underpinnings of negative option marketing as well as consumer attitudes toward the negative option offer.

Background

Negative option marketing

NOM has existed for a long time. The famous potter, Wedgewood, used this strategy in the eighteenth century to gain a foothold in the pottery market of Europe. He sent samples of his work, unsolicited, to his customers who were some of Germany’s leading aristocracy. Wedgewood’s rationale was that his clientele were too lazy to send the pottery back and would, instead, pay for it (Wasserman, 2001).

The next notable use of the strategy was in 1926, when the Book-of-the-Month Club was formed in the USA by marketers Maxwell Sackheim and Harry Scherman. The Book-of-the-Month Club developers sent new books to members with the agreement that the Club would pay for return postage if the book was not wanted (Major, 2005). This policy proved costly and an adjustment was made. Members were pre-notified of the book to be sent with the option to decline the book. If a card declining the offer by the purchaser was not returned in a timely fashion, the book was sent and billed (negative option) (Bowel, 1999).

There appear to be five major variations on the negative option strategy currently in use:

1. Something is regularly shipped or service provided, once a contract is in place.
2. The consumer has a limited time free trial membership prior to being charged, with the free trial beginning with the initiation of a contract.
3. The consumer and firm have a primary transaction relationship with the negative option offered through a secondary transaction relationship that is billed automatically.

4. The consumer and firm have a primary transaction relationship with the marketer adding goods or services to the consumer’s bill at the marketer’s discretion.

5. The contract continues after the end date unless the consumer explicitly cancels the contract — usually within a certain time before the end of the contract (Bowel, 1999).
The one consistent pattern throughout all five forms is the basis of some sort of business relationship or contract between the consumer and the firm. Using the relationship as an entree, negative option strategies are applied.

Research overview
One service provider that has the ability to use negative option strategies, and that operates from an existing contractual agreement is a bank. Once a customer agrees to the stipulations of a demand deposit account (checking), banks can make a number of negative option offers. Because of this situation, we chose to research NOM in a banking environment.

In researching NOM, we investigated four basic research questions and one practical question.

RQ1. What are some consumer perceptions that might impact the consumer's satisfaction with the negative option offer?

RQ2. Does the consumer's satisfaction with the negative option offer impact his/her satisfaction with the bank making the offer?

RQ3. Does the consumer’s satisfaction with the negative option offer impact consumer behaviors such as intentions to purchase?

RQ4. Is the impact of satisfaction with the negative option offer mediated by the consumer's desirability to maintain control of the purchase situation?

And from a practical point of view: how does purchase intent differ between positive and negative option offers?

Model development
Figure 1 illustrates a model for analyzing a negative option service offer from a bank to its customers. The dependent variable of interest in the model is satisfaction with the negative option offer (Satisfactionoffer). Although there are many constructs that might impact the consumer’s perceived satisfaction with the offer, the authors narrowed the field to three. These perceptions were selected based on a review of the negative option literature and exit interviews with a convenience sample of 50 bank customers. A negative option scenario was presented and customers were asked their perceptions of the offer (these bank customers were not part of the survey sample). The constructs include:

![Diagram of Model of negative option service offer]

Figure 1.
Model of negative option service offer
(1) **Positive influences:**
   - the perceived value of the offer,
   - the perceived justice/fairness inherent in the offer; and

(2) **Negative influences:**
   - the perception of opportunistic behavior on the part of the bank making the offer.

The negative option offer takes purchase initiation out of the consumer's control. It would therefore seem possible that the consumer's individual level of need to control the transaction might mediate the consumer's satisfaction with the offer. Operationally, the mediating influence might include:
   - negative mediating influence;
   - desirability of control.

A review of relevant literature on the concepts of the model follows.

**Influences on satisfaction with the offer**

**Positive – perceived value of the offer.** Perceived value of the offer is a key concept in the model illustrated in Figure 1. Woodruff et al. (1993) indicated that perceived value is closely related to satisfaction. Perceived value is a complex concept (being difficult for both marketer and consumer to grasp) and difficult to measure. Semon (2001) discussed how arbitrary most measures of value appear and how often marketers and consumers are not in agreement in their perceptions of value. Semon (2001) additionally noted that marketers deal only abstractly with money in terms of value, defining value as price, or sacrifice, while in contrast, consumers find money is the main term used when defining value.

The complexity of the concept is illustrated in explanations offered in three investigations. Woodruff et al. (1993), when examining perceived value from the consumer's perspective, considered it a basic attribute-to-benefit ratio. Similarly Saliba and Fisher (2000) reviewed the ratio analysis literature and offered a model based on a ratio of perceived benefits received to perceived sacrifices made in terms of value, use of product/service. Zeithaml (1988) departed from the ratio analysis view of value. From her consumer interviews she was able to categorize perceived value from the consumer's perspective into four definitions:

(1) Value is low price.
(2) Value is whatever I want in a product.
(3) Value is the quality I get for the price I pay.
(4) Value is what I get for what I give (Zeithaml, 1988, p. 13).

One theme repeated in the literature cited is that value is often defined by the consumer as money. We therefore define the concept of perceived value of the offer in our model as "Value is low price" (Zeithaml, 1988, p. 13).

**Positive – perceived equity of the offer.** The concept of equity involves a comparison of fairness, rightness, or deservingness relative to others.
Equity has a direct role in satisfaction as well, with both person-to-person comparisons and merchant-to-person comparisons (Oliver, 1997). Regarding merchant-to-person comparisons, the person is comparing two things. First is the comparison of the merchant’s selection and service compared to the consumer’s efforts and price paid for the selection and service. This is an individual type of comparison where the consumer is only interested in getting what he/she paid for. The second type of comparison is merchant oriented – what did the merchant receive (profit) for the price the consumer paid. The importance of these comparisons is that such judgments of equity directly influence satisfaction (Oliver, 1997). Goodwin and Ross (1992), in their expansion of the equity concept, found distributive justice to influence satisfaction more than other forms of justice measured (procedural and interactive justice respectively).

NOM has suffered from the perception of being unfair (e.g. Hatch, 2005; Soren, 1999) and much discussion of its legality and ethicality has surfaced in the USA and Canada. After all, the consumer is not given his/her opportunity to opt into an exchange relationship, rather, the relationship is foisted on the consumer until the consumer indicates “Enough.” We therefore included perceived equity in our model.

Negative – opportunistic behavior. Williamson (1983, p. 6) first defined opportunistic behavior as “self-interest seeking with guilt”. The behavior most often takes the form of manipulating information by withholding it or distorting it. The end result is that promises or obligations are not fulfilled. Williamson further noted that humans will behave as opportunistically as they can. The key to such behavior is the inherent deceit as opposed to ignorance or apathy (John, 1984). In other words, the self-interest seeking behavior is conscious and goal directed behavior. John (1984) mentioned that in some disciplines where opportunistic behavior has been studied (such as transaction cost analysis), it is assumed that humans naturally behave opportunistically. This is particularly so if humans can get away with such behaviors and such behaviors are profitable. The potential for opportunistic behaviors is most prevalent in long term relationships, such as those found between consumers and their financial institutions, personal service providers, and other product-service entities that consumers have come to rely on (John, 1984).

When the opening scenario of this article was read to bank customers during exit interviews, most indicated that this sounded like opportunistic behavior. Consequently, this concept was included in the model as having an impact on satisfaction with a negative option offer.

Satisfaction with the offer
Comparison-level theory is an approach used to explain satisfaction which is comprised of two standards (Thibaut and Kelley, 1959). The first standard is the level of comparison for satisfaction. If the outcome of the comparison is above the comparison level there is satisfaction. The second standard is the comparison level for alternatives. The comparison level for alternatives is the minimum level of acceptable outcomes considering available alternative opportunities. For example, if an individual lives in a rural community with few health care professionals in a 50 mile radius (few alternatives for health care), his/her level for comparisons of alternatives might be low. The outcome is that individuals might be satisfied with less in the rural environment and switch relationships less than if they were in a metro area with a number of major medical centers (alternatives). With banking in the USA, there are a number of alternatives. Even
small communities have more than one alternative (not to mention internet banking). There are also a number of available alternatives for insurance (the offer involves an insurance product). The result might be that the comparison satisfaction level for the bank’s offer may be relatively high. For this reason, the comparison-level theory appears to be an appropriate grounding for satisfaction with the offer.

**Mediating influences on satisfaction**

*Desirability of control.* The desirability of control is essentially the desire to “control the events in one’s environment” (Burger and Cooper, 1979, p. 382). Some people are high in their desire for control (DC), exhibiting assertive and decisive characteristics, and generally try to influence others if it is to their advantage. In an attempt to avoid events that are unpleasant or result in failure, a person high in DC will try to exercise control over or manipulate events. In contrast, individuals who possess a low DC are generally more non-assertive, passive, and indecisive. These people will probably not try to influence others and may even prefer that others make daily decisions for them (Burger and Cooper, 1979).

The process of NOM takes a certain amount of control or free choice away from the consumer. Indeed, since the transaction is initiated by the marketer, unless halted by the consumer, the consumer has lost the ability to affirmatively complete the transaction, thus losing control over the situation. While some consumers may not be troubled by losing control, others are often incensed by its loss. It therefore seems plausible that the individual variable of Desirability of Control may mediate the level of satisfaction with a negative option offer.

**Method**

*Operationalizing the model concepts.*

Existing scales that had reported acceptable reliabilities were used to operationalize the model concepts. All scale items were measured on a five-point Likert scale. Perceived value, perceived equity, opportunistic behavior, satisfaction with the offer, and satisfaction with the bank making the offer, were posed as attitudinal statements with a 1 = strongly disagree to 5 = strongly agree format. Desirability of control was introduced by asking “How often does the statement apply to you?” and followed by 1 = does not apply to me at all to 5 = the statement always applies to me.

The value scale was comprised of six items borrowed from two satisfaction-with-the-offer scales developed by Burton and Lichtenstein (1988) and Petroshius and Monroe (1987). The six items had a coefficient alpha of 0.923. Equity was comprised of two borrowed items (Maxham, 1999) having a coefficient alpha of 0.816. Opportunistic behavior used two borrowed items (McKee et al., 2006) that posted a coefficient alpha of 0.723. Satisfaction with the offer and satisfaction with the bank had three and four items, respectively, borrowed and modified for the research (Mittal and Lasser, 1996; Oliver and Swan, 1989). Exploratory factor analysis found all items loading on their appropriate model variable with acceptable statistics, as noted by Hair et al. (1995, p. 365). Satisfaction with the offer had a coefficient alpha of 0.94 and satisfaction with the bank a coefficient alpha of 0.901. The Burger and Cooper desirability of control scale (Burger and Cooper, 1979) was reduced to the four items that specifically measured attitudes regarding being told what to do. The wording of
these four items appeared more consistent with the NOM concept than other items in the scale. The four items had a coefficient alpha of 0.797.

The scale items were:

(1) *Perceived value* (Petroshius and Monroe, 1987; Burton and Lichtenstein, 1988) ($\alpha = 0.923$):
   - I consider the offer a good buy.
   - The cost of the offer is very acceptable.
   - I think the offer has value.
   - The service offered would appear to be a bargain.
   - I find the offer a good value for the money.
   - I find the cost of the offer very economical.

(2) *Perceived equity* (Maxham, 1999) ($\alpha = 0.816$):
   - The bank’s offer would result in a positive outcome for me.
   - What I receive in benefits from accepting the offer seems fair to me.

(3) *Perceived opportunistic behavior* (McKee et al., 2006) ($\alpha = 0.723$):
   - The offer seems to take advantage of the customer.
   - The offer does not seem to have my best interests at heart.

(4) *Satisfaction with the offer* (Mittal and Lasser, 1996; Oliver and Swan, 1989) ($\alpha = 0.804$):
   - Compared to other offers this one looks like it provides good service.
   - The service offered seems to meet or exceed my expectations.
   - Overall, I am satisfied with the offer made by ABC Bank.

(5) *Desirability of control* (Burger and Cooper, 1979) ($\alpha = 0.797$):
   - I try to avoid situations where someone else tells me what to do.
   - When it comes to orders, I would rather give them than receive them.
   - I prefer to avoid situations where someone else has to tell me what it is I should be doing.
   - I would rather run my own business and make my own mistakes than listen to someone else’s orders.

(6) *Satisfaction with the bank making the offer* (Mittal and Lasser, 1996; Oliver and Swan, 1989) ($\alpha = 0.901$):
   - I would recommend ABC Bank to my friends.
   - Overall, I am satisfied with the service provided by ABC Bank.
   - The service I receive from ABC Bank meets or exceeds my expectations.
   - Compared to other banks, ABC Bank provides good service.

*Data collection and sample characteristics*

NOM has the potential to be an important marketing tool in the financial services sector. The industry is seeking new sources of revenue, offering new services and changing old ones. Technology makes it easier and less expensive than in the past for
the industry to effect these changes. From a negative perspective, the new technologies could allow the industry to profit by surreptitiously billing unsuspecting customers for unwanted products and services. However, the use of NOM by responsible service providers operating in competitive markets can enable financial institutions to offer better service more easily and with greater efficiency.

Consequently, the sample identified was non-interest bearing demand deposit account holders (DDA, e.g. checking account customers) of a community bank in the southwestern USA. These customers have a contractual, primary transaction relationship with the bank. Banks often offer additional services that can be billed directly to the customer’s DDA. We gained access to a 1,000-customer mailing list with all names having a retail DDA relationship with the bank. The survey was blind, coming from professors of a nearby university. Nowhere in the survey packet was it indicated that the bank had anything to do with the research. There were no pre-announcement or follow-up mailings used. The survey contained a scenario where the respondent’s primary bank was offering AD and D insurance (accidental death and dismemberment insurance of up to $100,000 to customers for $3.50 per month). There were four versions of this offer, one positive option version and three negative option versions:

1. The customer can positively complete the transaction by sending the bank an acceptance card (included in the monthly statement).

2. The insurance will start today and the customer’s DDA will be debited $3.50, beginning this month, until the customer opts out of the coverage (by calling the bank).

3. The insurance begins today and the customer’s DDA will be debited $3.50 three months from now (giving three months free) unless the customer opts out of the coverage (by calling the bank within the next three months).

4. The insurance begins today and the customer’s DDA will be debited $3.50 beginning next month (giving one month free) unless the customer opts out of the coverage (by calling the bank within the next month).

Respondents were randomly assigned one of the four versions of the offer for a between subjects design.

The mailing list had 848 valid addresses with 194 usable returned surveys. The sample was comprised of an almost even split by gender (female 45.9 percent, male 53.1 percent), with 34.6 percent holding a college degree or advanced degree, average age of 36.6 years. The majority of the respondents (52.6 percent) were currently married and had an average household of 2.9 persons. The distribution of respondents by version was as follows:

- Version 1 (positive option) included 55 responses for 28.4 percent.
- Version 2 (negative option, starts today) included 41 responses for 21.1 percent.
- Version 3 (negative option, payment starts in three months) included 50 responses for 25.8 percent.
- Version 4 (negative option, payment starts in one month) included 48 responses for 24.7 percent of the sample.

Comprehension of the offer was checked with a question at the end of the survey regarding the offer made at the beginning of the survey. Miscomprehension of the offer
ranged from 12.8 percent for Version 3 to 22.5 percent for Version 2 (Version 1 and 4 had 21.6 percent and 10.6 percent miscomprehension respectively).

Results
Mean index scores were computed for all model concepts. Table I illustrates the means of the variables and the correlation coefficients. Using a one-sample t-test, all means were found to be significantly different from the middle scale value of 2.50, thus indicating respondents were not neutral regarding attitudes toward any of the variables. The lowest mean score was satisfaction with the offer (mean = 2.89), while the second highest score was for satisfaction with the bank (mean = 3.73).

Table II illustrates the means based on the version of the survey. It is interesting to note that only the means for opportunistic behavior were significantly different between the four groups, based on an ANOVA. The p value for opportunistic behavior was 0.018 (F = 4.11), Value (F = 0.90, p = 0.442), Equity (F = 0.77, p = 0.511), satisfaction with the offer (F = 1.05, p = 0.370) and even desirability of control (F = 0.43, p = 0.733) had means that were statistically equal for the four sample groups.

A series of hierarchical regressions were used to test the model. Table III illustrates the six regression equations and their results. The adjusted R² for each model indicated that all models have good explanatory power. The correlation of variables showed all correlations greater than 0.50, p < 0.01. The effect size for the regressions were greater than 0.5. Alpha was set at 0.05. According to the Hair et al. (1995),

<table>
<thead>
<tr>
<th>Variable</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
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<tr>
<td>Value</td>
<td>3.24</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>0.831*</td>
<td>2.95</td>
<td></td>
<td></td>
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<tr>
<td>Opportunistic behavior</td>
<td>-0.573*</td>
<td>-0.551*</td>
<td>3.23</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satisfaction – offer</td>
<td>0.792*</td>
<td>0.813*</td>
<td>-0.587*</td>
<td>2.99</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Desirability of control</td>
<td>-0.068</td>
<td>-0.005</td>
<td>0.997</td>
<td>0.062</td>
<td>3.57</td>
<td></td>
</tr>
<tr>
<td>Satisfaction – bank</td>
<td>0.377*</td>
<td>0.368*</td>
<td>-0.381*</td>
<td>0.350*</td>
<td>-0.059</td>
<td>3.75</td>
</tr>
</tbody>
</table>

Table I:
Means and correlation coefficients for model variables total sample

Notes: p < 0.01; Means are in italic, on the diagonal

<table>
<thead>
<tr>
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<tbody>
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<td>Value</td>
<td>3.31</td>
<td>3.03</td>
<td>3.24</td>
<td>3.35</td>
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<tr>
<td>Equity</td>
<td>2.91</td>
<td>2.76</td>
<td>2.99</td>
<td>3.09</td>
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<tr>
<td>Opportunistic behavior*</td>
<td>2.92*</td>
<td>3.59*</td>
<td>3.39*</td>
<td>3.13*</td>
</tr>
<tr>
<td>Satisfaction – offer</td>
<td>2.86</td>
<td>2.68</td>
<td>2.98</td>
<td>3.00</td>
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<tr>
<td>Desirability of control</td>
<td>3.51</td>
<td>3.70</td>
<td>3.59</td>
<td>3.50</td>
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<tr>
<td>Satisfaction – bank</td>
<td>3.90</td>
<td>3.54</td>
<td>3.77</td>
<td>3.67</td>
</tr>
</tbody>
</table>

Table II:
Comparing means of measures based on version of offer

Notes: * Based on the wording of opportunistic behavior items, the lower the mean, the lower the perceptions of opportunistic behavior; * means are significantly different, F = 3.43 (3, 190 df) at p = 0.018, ANOVA results; NO 2 – insurance begins today, account debited this month; NO 3 – insurance begins today, account debited three months from now; NO 4 – insurance begins today, account debited 1 month from now
<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
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<tbody>
<tr>
<td><strong>Dependent variable: satisfaction with the offer</strong></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Perceived value</td>
<td>0.318*</td>
<td>0.337*</td>
<td>0.249*</td>
<td>0.254**</td>
<td>0.358*</td>
<td>0.382*</td>
</tr>
<tr>
<td>Perceived equity</td>
<td>0.407*</td>
<td>0.386*</td>
<td>0.455*</td>
<td>0.449**</td>
<td>0.368*</td>
<td>0.345*</td>
</tr>
<tr>
<td>Perceived opportunistic behavior</td>
<td>-0.137*</td>
<td>-0.141*</td>
<td>-0.123***</td>
<td>-0.123***</td>
<td>-0.158*</td>
<td>-0.169*</td>
</tr>
<tr>
<td>Desirability of control</td>
<td>- -0.105* - -0.018** - -0.155*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>0.720</td>
<td>0.723</td>
<td>0.784</td>
<td>0.781</td>
<td>0.701</td>
<td>0.709</td>
</tr>
</tbody>
</table>

**Notes:** * $p < 0.01$; ** $p < 0.05$; *** $p < 0.10$

**Overall sample:**

Model 1—$Satisfaction = a + \beta_1(\text{perceived value}) + \beta_2(\text{perceived equity}) + \beta_3(\text{perceived opportunistic behavior}) + e$

Model 2—$Satisfaction = a + \beta_1(\text{perceived value}) + \beta_2(\text{perceived equity}) + \beta_3(\text{perceived opportunistic behavior}) + M_1(\text{desire for control}) + e$

**Positive option sample:**

Model 3—$Satisfaction = a + \beta_1(\text{perceived value}) + \beta_2(\text{perceived equity}) + \beta_3(\text{perceived opportunistic behavior}) + e$

Model 4—$Satisfaction = a + \beta_1(\text{perceived value}) + \beta_2(\text{perceived equity}) + \beta_3(\text{perceived opportunistic behavior}) + M_1(\text{desire for control}) + e$

**Negative option sample:**

Model 5—$Satisfaction = a + \beta_1(\text{perceived value}) + \beta_2(\text{perceived equity}) + \beta_3(\text{perceived opportunistic behavior}) + e$

Model 6—$Satisfaction = a + \beta_1(\text{perceived value}) + \beta_2(\text{perceived equity}) + \beta_3(\text{perceived opportunistic behavior}) + M_1(\text{desire for control}) + e$

Overall $n = 194$

considering effect size, alpha and sample size, the statistical power of the regressions should well exceed the recommended level of 80 percent (Hair et al., 1995, p.11). When the mediator was added (Models 2, 4, and 6) the adjusted $R^2$ does not appear to improve significantly. According to Baron and Kenny (1986), a variable is a mediator if the path between the independent variable and dependent variable, which was found to be significant, is no longer significant when the mediator is added to the equation. This was not the case. An additional test was conducted to determine if there were any indirect mediation effects on the path of the independent variables.

Each independent variable was subjected to Sobel's Critical Ratio, which tests the indirect effect of independent variables on the dependent variable by way of the mediator (Sobel, 1982). If the effect of the independent variables differs significantly from zero then indirect mediation is assumed (Preacher and Leonardielli, 2003). Table IV illustrates the results of Sobel's test for the overall sample as well as the positive option and negative option sub-samples. Holding a $p$ value of 0.05, Table IV illustrates that, indeed there is an indirect mediating effect for desirability of control for all paths of independent variables in the overall sample. When sub-samples are analyzed it would
appear that desirability of control does not indirectly mediate the path for perceived value or perceived opportunistic behavior for the positive option sub-sample. Whereas, the test statistic indicated that desirability of control indirectly mediates all three independent variables for the negative option sub-sample.

There are a number of issues tangential to testing the model. First, does the satisfaction with the offer affect the customer’s satisfaction toward the bank making the offer? Recall from Table I that the lowest mean score was Satisfaction Offer (2.89 on a five-point scale, significantly different from a neutral score of 2.50). Interestingly, one of the highest means was satisfaction with the bank making the offer (Satisfaction Bank mean = 3.73). A one-way ANOVA with Satisfaction Bank as the dependent variable indicated that Satisfaction Offer posted a significant F statistic (3.95, p < 0.001). Interestingly, the F statistic changes depending on the sub-sample. For the positive option sub-sample, the F was 0.974 (p = 0.479) and for the negative option sub-sample, the F was 3.74 (p = 0.000).

A second issue concerns the impact of Satisfaction Offer on the customer’s intent to purchase the service. A univariate regression, with intent to purchase as the dependent variable and Satisfaction Offer as the independent variable was significant (F = 2.79, p < 0.11, R² = 0.212). The results when based on sub-samples remain significant (positive option: F = 2.23, p = 0.039; negative option: F = 2.17, p = 0.014). Therefore, it appears that even though the level of satisfaction with the negative option offer was relatively low, it positively influenced the intent to purchase the service regardless of version.

A third issue is the economic impact of the offer for the bank making the offer. Respondents were given four choices:

1. very interested in buying the service;
2. somewhat interested in buying the service;
3. not interested at all in buying the service; and
4. don’t know if interested or not in buying the service.
The scenario involving one month free service followed by debiting the customer’s DDA (version 4) had the largest positive response (very interested to somewhat interested in buying the service – 61.5 percent). The other versions varied from 36.6 percent for very to somewhat interested for version 3 (three months free), to 48.9 percent for very to somewhat interested for version 1 (positive option). Although intentions to purchase are not the same as purchase behavior, thus making a financial projection inappropriate, it would appear that the negative option offer with a one month free period yielded a higher percentage of purchase intention than even the positive option offer.

Discussion
The current research examines NOM where a purchase is imposed on the consumer unless he/she acts in a timely fashion to prevent the sale. This seems to be a very popular strategy among financial services providers. Despite the frequency of this marketing strategy there has been no research to gain insights on the strategy from the consumer’s perspective. The current investigation is the first to examine the effectiveness of the strategy and attempt to apply consumer behavior theory to the strategy.

At the beginning of the article, we posed four basic research questions. **RQ1** asked what consumer perceptions might impact the consumer’s satisfaction with a negative option offer. The data indicated that overall, 72 percent of the variance explained in satisfaction with a negative option offer was attributed to consumer perceptions of value, equity, and opportunistic behaviors with each independent variable posting a significant unstandardized coefficient. **RQ2** and **RQ3** asked if the consumer’s satisfaction with the negative option impacts satisfaction with the organization making the offer and intentions to purchase. The research indicated that satisfaction with the negative option offer significantly impacted satisfaction with the organization making the offer. Intentions to purchase were not significantly impacted by satisfaction with the offer, regardless of the option of the offer. **RQ4** addresses the mediating effect of desirability of control on satisfaction with the negative option offer. Additional mediational testing indicated that there was indirect mediation on the paths from independent variables to the dependent variable except for the paths from perceived value and opportunistic behavior for the positive option sub-sample.

From a practical perspective, the results demonstrate that one of the negative option offers (one month free ride period) yielded a higher percentage of respondents intending to purchase than a positive option offer. It would appear that a negative option offer may be more effective than a positive option offer. One caveat – the results show that respondents felt there was a significantly higher degree of opportunistic behavior on the part of the bank with the negative option offers than with the positive option offers.

Limitations
The research, although exploratory, had certain limitations. First, the research utilized only one context and one contractual situation. Would the findings hold for another contractual situation, say a health club or lawn service? Because of this limitation,
findings cannot be generalized – rather findings might be used as a comparison for further research utilizing other contractual situations. The second limitation involves the variables of the model. Certainly there are other mediating variables that should be tested in the model, such as experience with the service, years doing business with the organization, etc.

**Managerial implications**
Although it might not be appropriate to generalize from the research, based on the limitations just noted, there may be some possible managerial implications. First, it appears the reason why this marketing strategy is so popular is because it is effective. NOM has worked long and well for book, record, and video clubs. In these competitive markets a relationship is voluntarily established by the customer. A key feature required of these programs (and required by FTC regulations) is that all terms and conditions of the buyer/seller relationship be explicitly laid out and acknowledged up front. NOM can be advantageous to both parties when transparency and tangible benefits to the consumer are evident, (e.g. convenience and better value for money), and when the respective administrative burdens or costs to both parties are reduced.

Another potential positive use of NOM involves automatic contract renewal clauses. Under existing contracts, automatic price rise clauses (negative option price clauses) can eliminate costly renegotiation of contracts whenever there is a price increase. Moreover, in a negotiated contract when there is more or less equal bargaining power, one can assume that there will be benefits to both parties.

The most effective offer, when considering respondents’ intentions to purchase, was a negative option offer providing a one month trial period. For this particular offer, the consumer did not seem to feel particularly positive or negative, thus avoiding negative outcomes. The negative option offer, although receiving a lower satisfaction rating as well as higher perceptions of opportunistic behavior than the positive option offer, had a positive impact on satisfaction with the bank. Perhaps the offer represented another “touch” situation, and as long as the offer was not viewed as highly negative, it positively effected satisfaction with the bank. Additionally, it seems there is not an unusually high level of miscomprehension with these offers. In sum, it appears that transparent and beneficial negative option offers might be an effective new tool for marketing managers whose service has a contractual relationship foundation.

In the final analysis information emerges as one of the key issues in matters of NOM. Clear, accurate, comprehensible information, presented in plain language, is required for consumers to make informed decisions and choices and to understand the terms and conditions of contracts. U.S. Organizations considering adoption of NOM plans would do well to review US Federal Trade Commission (1998) information with regards to book clubs, record clubs, and video clubs as a source of guidance in implementing a NOM, regardless of industry (16 CFR § 425 1998).

**References**


**Further reading**


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