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Cooling off and backing out: Understanding consumer decisions to rescind a product purchase☆

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ABSTRACT

Consumers sometimes have the right to exit a sales contract during what is known as a cooling-off period. Sales process research generally does not address cases when consumers withdraw from sales contracts during this period. Since securing product sales involves substantial marketing and sales costs, a need exists to better understand not only consumer rescission decisions and their legal context but also the managerial implications of the cooling-off period. This exploratory qualitative study examines purchase rescinding and develops a conceptual model using timeshare as the context. Results suggest that rescission relates to a mismatch between product features and personal circumstances, post-purchase concerns about product value, reassessment of financial capability, reflections on sales presentations, and cautionary influences of reference groups.

1. Introduction

Most developed nations have laws dating back to the 1970s requiring a cooling-off period for the sale of numerous consumer products (Tootelian, 1975; Walker & Ford, 1970). Originally incorporated into legislation dealing with door-to-door sales (Hogan, 1971; Loos, 2009), this protection now applies to consumers purchasing a range of high-priced, high-risk, or high-complexity products, possibly under duress or without due rational consideration. The opportunity to cool off also provides a remedy for irrational behavior on the part of the consumer (Rekaiti & Van den Bergh, 2000).

This paper argues that the practice of rescission is both common and costly. However, extant research says little about the psychological and social processes that underlie rescission decisions: Why do consumers rescind? What information sources, self justification processes, professional agencies, and other factors shape the decision? This paper reports an exploratory qualitative study of these phenomena. The research set out to understand the process of undoing purchase decisions from a consumer viewpoint and to develop a model that captures the dynamics of these processes. In the context of timeshare (vacation ownership), this study investigates cognitive and emotional aspects of purchase and rescission, places these processes within broader legal and societal contexts, and examines the sales and marketing implications of cooling-off provisions and rescission. This examination contributes to knowledge on buyer behavior by identifying five theoretical concepts that underlie rescission, each of which is a possible target for marketing strategies aimed at encouraging buyers to complete their purchase. A conceptual process model of rescinding emerges from the experiences and viewpoints of people who have made a product purchase but then withdrew from the contract, and study findings suggest that buyer regret manifests particularly through doubts about the financial costs, concern about the views of significant others, and uncertainty over whether the product would deliver on promises. To address the doubts of buyers, marketing personnel can proactively enact counteractive strategies. This study also contributes to the growing body of research that adopts a social constructivist paradigm (Lynch, 2005) to gain understanding of the processes that shape decision-making/buyer behavior.

2. Literature review

2.1. Legal contexts

Legal protection for consumers entering contractual arrangements has varied greatly through history. Today, jurisdictions around the

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world provide a range of statutory provisions to level the playing field in circumstances where one party is likely to be subject to manipulations and abuses from the party in the stronger position, usually the goods and services provider (Hogan, 1971; Loos, 2009). Examples include disclosure statements, warning statements advising consumers to seek legal and financial advice before entering a contract, and rights of withdrawal within a specified cooling-off period. In different jurisdictions, cooling-off provisions are mandated in relation to contracts covering motor vehicles, insurance, products sold via telemarketing, real estate property sales, leases, financial services, consumer credit transactions, cell phones, and timeshare sales (Hartlief, 2004; Loos, 2009; Smits, 2011). Most legislation providing a cooling-off period stipulates a timeframe in days as well as a procedure for exercising the right to withdraw, often without penalty.

2.2. Timeshare

The present research uses timeshare as a context in which to explore consumer perspectives on rescinding purchase decisions. Timeshare is a tourism product that gives the purchaser the right to use designated accommodations on a time-interval basis. Once simply the purchase of annual access to a week in a resort, timeshare is now more extensive, varied, and flexible, and frequently includes options to exchange, transfer, or bank accumulated weeks and points. Most buyers now purchase an opportunity to swap their timeshare for an equivalent resort accommodation (and other tourism products/experiences) elsewhere in the world (Powanga and Powanga, 2008; Sparks, Butcher, and Bradley, 2008; Upchurch and Lashley, 2006).

Timeshare is quite an expensive purchase. In addition to incurring the buy-in cost of around US$15,000–$20,000 (Powanga and Powanga, 2008; Price Waterhouse Coopers, 2009), owners share on-going expenses associated with the property or club through an annual levy or maintenance fee. Despite these costs, timeshare owners number over six million worldwide, with more than 5000 timeshare resorts (Ragatz Associates Inc., 2003), including approximately 1600 resorts in the U.S., 1300 in Europe, and 110 in Australia. Buyers are mainly couples, over 40 years, well educated, and earning in excess of US$50,000 per annum (Crotts and Ragatz, 2002).

2.2.1. Selling timeshare

Knowing something of the timeshare sales process helps in understanding the decision to revoke a timeshare purchase, especially because in many parts of the world high-pressure sales tactics have tarnished the timeshare industry's reputation (Chen McCain, Hu, and Woods, 2005): “Potential buyers are not looking to invest in timeshares; they have to be persuaded to do so” (Powanga and Powanga, 2008, p. 75).

Timeshare companies usually rely on a highly structured sales process based on the AIDA model's steps of attention, interest, desire, and action (Rix, 2006). Sales typically start with a (cold) contact, either by phone or at a contact point such as a shopping mall, to attract the attention of potential buyers and encourage them to attend a sales presentation. In most cases, the company invites couples and, after assessing whether they qualify financially, offers them an incentive to attend the presentation.

Sales presentations usually take approximately 90 minutes with one or two salespeople working intensively with each couple, affording the potential purchasers little opportunity to interact in private. Upon conclusion, a salesperson asks the couple to make the purchase, usually requesting a deposit of 10% of the purchase price. To assist in securing the sale at a time when emotions are running high, many timeshare companies offer “on the day” purchase incentives such as a free holiday or a membership upgrade.

A major change in the timeshare industry in the past two decades has been the entry and growth of hotel brands such as Wyndham, Marriott, Disney, Hilton, Starwood, and Accor. Participation of these brands may increase perceptions of the legitimacy and appeal of timeshare (Kaufmann, Severt, and Upchurch, 2006), and consumer regulation governing timeshare seems to have improved the acceptability of sales practices (Chen McCain et al., 2005). Notwithstanding these changes, the sales process has remained much the same, and issues surrounding sales of timeshare continue to challenge the industry (Woods, 2001). Stringam (2010) goes further, arguing that its sales model is a major weakness of the industry. However, despite the bad press associated with the sales process, research shows that most timeshare owners are satisfied with the product and derive considerable value over the life of ownership (Sparks et al., 2008; Upchurch and Rompf, 2006).

2.2.2. Cooling off under a timeshare contract: An international perspective

Most jurisdictions where timeshare sales occur regulate the transaction through legislation. According to the American Resort Development Association (ARDA, 2010), all but four states in the U.S. have specific timeshare regulations, rules, or policies. In February 2011, a new directive of the European Parliament and the Council on the Protection of Consumers became operative, governing aspects of timeshare, long-term holiday products and experiences, and resale and exchange contracts, and European countries that fully implement this directive as law include Austria, Denmark, France, Germany, Greece, the Netherlands, Portugal, and Sweden. Australia regulates timeshare as a financial product under the Corporations Act, 2001. In all of these countries, and in others such as Canada and South Africa, legislation allows timeshare purchasers to rescind a contract post-signing. (A summary comparing legislation across jurisdictions is available from the authors on request.)

Each jurisdiction allows purchasers to cancel a timeshare contract within the cooling-off period without reason and without a penalty. Cooling-off periods vary, ranging from 5 days (e.g., in Nevada and South Africa), to 7 (California), 10 (Florida, Canada) and 14 (Europe and Australia). Usually the purchaser must notify the seller in writing of the intent to withdraw, and no jurisdiction allows the purchaser to waive the right to rescind. Legislation provides various ways for alerting purchasers of this right, and the purchaser is responsible for reading and understanding information the seller provides. Often these statements are lengthy, and the purchaser may receive voluminous information from multiple sources.

2.3. The current study

To date, limited research investigates how consumers react to, and use, consumer protection laws to withdraw from sales transactions. The timeshare industry provides a suitable context for this investigation, as estimates from Price Waterhouse Coopers (2009) indicate that in 2008, the timeshare sales of the 26 major U.S. companies totalled $64 billion. While precise data are difficult to obtain, one industry study suggests U.S. timeshare rescission rates range from 10% to 19.9% of all sales (Price Waterhouse Coopers, 2009, p. 33). Together, these data suggest that rescissions may result in between $6 and $13 billion in lost revenue in the U.S. in a single year.

In sum, given the worldwide prevalence of consumer protection legislation that specifies cooling-off provisions, the high marketing costs associated with selling products that such legislation covers, and evidence that consumers' decisions to rescind their purchase represent significant opportunity costs to industries such as timeshare, cooling off and backing out are important issues. The current study explores the contexts and processes associated with consumer rescission by identifying the reasons consumers rescind a purchase decision, developing a model describing the processes underlying rescission, and exploring the implications of rescission for businesses that market and sell products covered by legislation that specifies a cooling-off period.