Journal of Retailing and Consumer Services 53 (2020) 101953

Contents lists available at ScienceDirect

Journal of Retailing and Consumer Services

journal homepage: http://www.elsevier.com/locate/jretconser

The relevance of interaction choice: Customer preferences and willingness to pay

Niklas Barwitz

Institute of Insurance Economics, University of St. Gallen, St. Gallen, Switzerland

ARTICLE INFO

Keywords:
Interaction choice
Multichannel
Willingness to pay
Choice-based conjoint

ABSTRACT

As the number of available channels and ways to use these channels proliferate, current literature and managerial practice assume that broader interaction choice invariably generates value for customers. In light of the costs and complexity of offering these interaction options, the questions become how important having interaction choice is for customers, how much actual willingness to pay exists, and which customer groups particularly value such choice. To investigate this domain, two choice-based conjoint analyses are implemented in the health insurance industry, which provides a unique research opportunity since regulation naturally limits the relevant attributes of offerings. To cope with the substantial heterogeneity in prices for health insurance depending on the insureds' risks, the methodological innovation of quasi-individual pricing is introduced, which leads to highly satisfactory validity of the estimation results. The results indicate that customers have considerable additional willingness to pay for more interaction choice; however, in contrast to the extant literature, this does not hold for all interaction options. Customers' elicited preference structures further show that health insurers can optimize the configuration and pricing of their offerings to improve customers' experiences and to create value.

1. Introduction

Through recent technological developments, an unprecedented range of potential interaction options challenges firms regarding what interaction choices to offer customers (Chheda et al., 2017; Sousa and Voss, 2006). The multi- and omnichannel literature as well as managerial practice implicitly or explicitly suggest that greater interaction choice, defined as broader choice of channels and more ways for customer to engage in these channels for interactions along the customer journey, always generates value for customers since their preferences can be better accommodated (e.g., Bitner et al., 2000; Lemon and Verhoef, 2016; Neslin et al., 2006). However, interaction choice is costly and challenging to provide due to the resulting complexity (Bianchi et al., 2016; Van Bruggen, Antia, Jap, Reinartz and Pallas, 2010), thus triggering the questions of how important this feature is vis-à-vis other attributes, whether substantial willingness to pay (WTP) exists and, for which customers it may be particularly pronounced.

Health insurance provides a distinct opportunity to study these questions for two main reasons. On the one hand, health insurance provides unique methodological advantages since prevailing regulation naturally limits the factors that can influence customers' choice of insurance provider and coverage. This allows the implementation of choice-based conjoint (CBC) analyses, which have preferential properties in estimating the relative importance of attributes and WTP but are limited to a comparably small number of attributes that can be considered (Breidert et al., 2006; Orme, 2013).

On the other hand, the challenge to capitalize on optimal interaction choice is particularly prevalent for health insurers, which face rising healthcare costs well above gross domestic product growth (OECD, 2017). Coupled with strong competition among insurers and comparably low innovation, improving customers' experiences at lower cost is a key priority (Andrews et al., 2016). In light of this, it is surprising that very few empirical investigations of customers' preferences have been conducted in health insurance in general, with some notable exceptions that pertain to the perspective of social welfare and policy making, particularly in times of scheme changes (Booske et al., 1999; Kerssens and Groenewegen, 2005; Van den Berg et al., 2008). Therefore, this study provides three main contributions.

The first contribution is to the multi- and omnichannel literature. Through the research opportunity in health insurance, it can be investigated whether and to what extent the assumption that more interaction choice creates value for customers holds. While recent indications suggest that offering more interaction choice may not in all cases be value accretive for firms (e.g., Konuş et al., 2014), the case has not been

E-mail address: niklas.barwitz@unisg.ch.

https://doi.org/10.1016/j.jretconser.2019.101953
Received 11 January 2018; Received in revised form 19 March 2019; Accepted 19 September 2019
Available online 1 October 2019
0969-6989/

contested for customers. In addition, not all interaction options are equally valuable to customers. By estimating the WTP for these options, this study provides insights that enable firms to make informed decisions about which interaction options to offer and how to price them to optimize outcomes for customers and themselves (e.g., Patrício, Fisk, & e Cunha, 2008; Polo and Sese, 2016; Verhoef et al., 2009).

The second contribution pertains to health insurance. When considering that this industry settles expenses in excess of USD 7 trillion globally each year (OECD, 2017), health insurance is often underrepresented in the marketing literature. This study provides rich insights into customer preferences that insurers can use to make better decisions about which product and service bundles to offer and where to place the focus in innovation. In particular, WTP for certain features is a helpful indicator that also allows for pricing offerings more effectively by supplementing traditional cost-based pricing approaches with preference-based pricing. For auto, home, and house insurance, for example, Hansen et al. (2016) illustrate substantial additional profit potential through such pricing procedures.

The third contribution is to the conjoint literature. While health insurance features specific advantages for this research, it also poses a methodological challenge since prices can differ enormously depending on the insureds' demographic particulars and health status. This study tackles this challenge by introducing a methodological advancement in the form of quasi-individual pricing, that is, showing each participant in the CBC experiment price levels that are relevant for the specific participant and most likely differ from all other participants. This form of a respondent-specific approach has not been implemented to date; instead, earlier research has circumvented this complexity, for example, by conducting separate analyses for a number of risk groups that each feature fixed prices (e.g., Braun et al., 2016). While such an approach can only approximate the prices individuals encounter in the marketplace, quasi-individual pricing has the potential to increase analyses' validity whenever prices are heterogeneous, which may be the case for more and more products and services as firms more strongly differentiate and individualize prices.

This paper proceeds as follows. First, the interaction choice literature is reviewed to delineate the state of knowledge to which this study contributes. Next, the CBC design and the data collection process are detailed, and then the results are reported. The paper concludes with a discussion of theoretical and practical implications, the study's limitations, and potential future research directions.

2. Review of interaction choice literature

Research on interactions has a relatively long-standing tradition in the marketing literature (e.g., Bitner et al., 1990; Håkansson, 1982; Solomon et al., 1985). One reason for this extent of scholarly attention is the demonstrated importance of interactions for relevant outcomes such as overall customer satisfaction (e.g., Durvasula et al., 2005), perceived service quality and value (e.g., Bolton and Drew, 1992), loyalty (e.g., Crosby and Stephens, 1987), customer experience (e.g., Wu and Liang, 2009), and value creation (e.g., Kumar and Reinartz, 2016). The advent of multi- and omnichannel management in recent years has further led to the investigation of whether and why offering interaction choice to customers may be beneficial despite the cost that accompanies maintaining and coordinating these options.

2.1. Attractiveness of multichannel customers

A first stream of research has investigated the attractiveness of multichannel customers. Engaging in diverse channels in their customer journeys, studies suggest that these customers are particularly appealing. For instance, Thomas and Sullivan (2005) find that multichannel customers tend to generate higher revenues and buy more items, which Kushwaha and Shankar (2013) extend to the overall value of such customers. Similarly, Kumar and Venkatesan (2005) report that multichannel customers provide increasing lifetime revenues, share of wallet, and ultimately profitability. In addition, multichannel customers are more satisfied and loyal (e.g., Wallace et al., 2004) and innovative (e.g., Konuş et al., 2008). However, Cambra-Fierro et al. (2016) show that fully multichannel customers, who use all available channels, are not necessarily most profitable. Still, offering interaction choice may benefit firms regardless of the underlying reasons for customers' use of multiple channels.

2.2. Organizational benefits and costs

A second stream of research focuses on firm- and market-level reasons to offer interaction choice to customers. Specifically, Coelho and Easingwood (2004) discuss increased market coverage, cost reduction if added channels provide relatively cheaper interactions, information gain, which may be easier to elicit in some channels than in others, and the diversification of business risks as firm-level drivers for providing customers with interaction choice; however, they also highlight potential disadvantages and issues in managing the channel multiplicity. Jindal, Reinartz, Krafft, and Hoyer (2007) add a firm's customer orientation to be directly linked to the breadth of interaction options offered. Other authors, including Cespedes and Corey (1990), Coelho and Easingwood (2008), and Easingwood and Storey (1996), elaborate on these findings, suggesting that from a firm-centric perspective offering multiple interaction choices tends to be beneficial despite the inherent management challenges.

Further expanding the perspective to account for competitive forces, Payne and Frow (2005) argue that increased competition drives firms to create both direct (i.e., owned) and indirect (i.e., outsourced) interaction channels to reduce costs. Frazier and Antia (1995) supplement market share considerations in more competitive markets as another factor. In addition, channel conflict (e.g., Falk et al., 2007; Webb and Lambe, 2007) and cooperation (Banerjee, 2014; Wiertz et al., 2004) between organizations lead to employing more channels. Further increasing the attractiveness of maintaining multiple interaction options, strategies to improve the challenging management of these channels in competitive environments are recommended (e.g., Sharma and Mehrotra, 2007; Van Bruggen et al., 2010).

However, offering more interaction options also has some drawbacks, such as cross-channel conflicts (Vinhas and Anderson, 2005) and cannibalization (e.g., Deleersnyder et al., 2002; Pauwels et al., 2011). In addition, the coordination effort and costs increase with each channel addition (Neslin and Shankar, 2009). In light of this, Konuş et al. (2014) show that eliminating a search channel can have both positive (e.g., increased order size) and negative consequences (e.g., reduced order incidence), leading to a net positive profit impact when taking the lower costs due to the channel elimination into account.

2.3. Customer preferences

A third and more extensive stream of research centers on customers and argues that providing interaction choice helps in better matching customers' preferences. While there is a strong notion in both the extant literature and managerial practice that more interaction choice generates value for customers, the proliferation of channels may confuse customers, particularly when prices are discriminated between channels (Neslin and Shankar, 2009) and when customers switch channels. Along their customer journeys (i.e., the sequence of interactions with the firm and possibly third parties), customers generally do not revert to the same channel but choose one that best fits their needs (Lemon and Verhoef, 2016; Venkatesan et al., 2007). For search goods and services choice among more channels may be specifically beneficial early in the customer journey, while this may shift to later in the journey for experience products and services (Huang et al., 2009; Lemon and Verhoef, 2016).

A wealth of research focuses on the determinants of customers'