

Extended service contracts: When and why do people buy them?

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Consumer experts have long recommended against buying Extended Service Contracts (ESCs) with products, since they are rarely cost effective. A new study in the *Journal of Consumer Research* examines the reasons why so many people ignore the experts' advice.

Authors Tao Chen (University of Maryland, College Park), Ajay Kalra (Rice University), and Baohong Sun (Carnegie Mellon University) used purchase data from the electronics department of a retail chain to examine who buys the extended service contracts and what factors drive their decisions.

"The first finding is that the type of product category matters," write the authors. "Consumers are more prone to buying ESCs for hedonic (pleasure-related) products such as game controllers than for utilitarian products like printers." The authors suggest that hedonic products hold more value than utilitarian products and consumers may expect to keep hedonic products longer. "The pain of potential loss is higher for hedonic products, making insuring the product more attractive," the authors write.

Price promotions also play a role in service contract purchases. For example, when consumers discover an unadvertised price promotion after coming to a store, they are more likely to use the unexpected savings to buy service contracts.

The researchers also discovered that low-income consumers are more

likely to buy Extended Service Contracts than wealthier customers. "This is probably because poorer consumers cannot afford to replace the product if it breaks down," write the authors. "Poorer consumers are also more likely than rich [consumers](#) to use money saved from promotions to buy the ESCs," the authors add.

The authors did not find that gender affected the rate of purchase for service contracts. But they did find differences between men's and women's reasons for buying them. "Men are much more sensitive to the costs involved in replacing the product in case it breaks down," write the authors. "There may be some truth to the stereotype of men being responsible for repairing gadgets; and therefore they are more willing to buy ESCs to avoid the hassle."

Source: University of Chicago Press Journals

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