

Customers will pay more today if there's payback later, shows equal billing study

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What's not to like about getting a refund? It's a possibility under equal billing plans, where consumers are charged the same amount every month for consumption-based services such as energy or water. Those billings are later reconciled with actual usage, usually at the end of the year, leading to either a refund for overpayment, or an extra charge.

Consumers like the predictability—no more shocker whopper bills for occasional usage spikes such as cranking the [air conditioner](#) during a heatwave. Service providers like them too. They get money upfront, can lower their operating costs and face lower risks of customers not paying their bills.

But a study of the best ways to structure equal billing plans says that smart companies should set them up so that customers get money back at the end of the term. Not only do they think they prefer to pay a little more each month to make sure they get that refund later but after having experienced a refund they are more satisfied and more loyal.

It's an irrational attitude for consumers to have but, "if companies don't consider it, they may end up losing customers, primarily because companies end up making their customers less happy than they could be," says study co-author Nina Mazar, an associate professor of marketing at the University of Toronto's Rotman School of Management.

The team of researchers studied the attitudes and actual behaviours of

home electricity customers in Germany, where equal billing is used exclusively. Besides preferring higher equal bills resulting in a refund over lower equal bills resulting in an extra payment at the year end, refund-customers were more willing to recommend the company to friends, were less focused on the size of their payments and were less likely to switch providers than extra payment-customers.

But the study also found you can have too much of a good thing. Getting a significantly large refund led to less positive consumer feelings, probably because they figured out that they were being considerably overbilled the rest of the year and could have used the money in more productive ways.

"It doesn't really make sense from a normative perspective to be happier with a refund than an extra payment sequence, yet people prefer to make this 'financial mistake' - at least within a range" says Prof. Mazar.

Companies already offering equal billing may want to consider small increases in monthly billings to increase the chance of issuing a refund at the end of the pay period, the paper suggests. They could also give customers the option of an increase.

The paper was co-written with researchers from University of Toronto's partner university the Goethe-University Frankfurt and from WHU—Otto Beisheim School of Management. It is forthcoming in the upcoming September issue of the *International Journal of Research in Marketing*.

Provided by University of Toronto

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