

EXECUTIVE SUMMARY

Flat rate pricing, as opposed to charging customers for actual usage, dominates many service industries (e.g., telecommunications, health clubs, music streaming), and customers often express a flat-rate bias and choose flat rates even if a pay-per-use tariff would be less expensive for them. However, evidence of the effect of this bias on churn is mixed. The competitive market position of a service provider may represent a relevant contingency factor related to this effect; building on attribution theory, the current study predicts that customers attribute their flat-rate bias differently, depending on service providers' strategic positioning, which leads to varying churn behavior. A survival analysis of approximately two years' transactional data gathered from 21,490 customers of a premium Internet service provider affirms that a flat-rate bias leads to churn in the premium segment. Two experimental studies show that customers of premium service providers attribute their flat-rate bias more externally and exhibit lower fairness perceptions but increased churn intentions compared with low-cost customers who make internal attributions and who thus have less negative perceptions and lower churn intentions.

“Managers face a double bind”, states Sabine Moser, lead author of this research. “On the one hand, customers' flat-rate bias is a significant profit source. According to previous research, service providers earn up to half of their revenue from rate plans that are not financially optimal for customers. On the other hand, service providers seek “zero defections” and want to enhance customer loyalty”. Literature shows that customer retention costs service providers substantial amounts every year. To resolve this dilemma, our results can help service managers decide how to deal with customers who exhibit flat-rate biases. Premium service providers should manage them proactively. For example, they could approach customers at risk and offer to switch them to a pay-per-use tariff or cheaper flat-rate offers. This procedure decreases the level of external attribution too, thereby reducing customers' unfairness perceptions. Alternatively, service providers might try to increase customers' usage

levels; in the ISP context for example, they could highlight or offer new content or complimentary video-on-demand vouchers. If customers use more data, they are less likely to experience the flat-rate bias. This option is especially pertinent for customers with a high level of flat-rate bias, who are at greater risk of churning to a competitor. In contrast, low-cost providers can profit from their customers' underlying flat-rate bias: Flat-rate biased customers in the low-cost segment already are likely to stay with their provider, due to their stronger internal attribution, so managers in this segment should embrace and perhaps even try to stimulate these flat-rate biases. For example, they might trigger flat-rate biases with marketing or "hedonize" their service through marketing communications and service designs that increase customers' likelihood of selecting a flat-rate tariff.