ACI

Advancing the Consumer Interest

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AMERICAN COUNCIL ON CONSUMER INTERESTS

Established in 1953, ACCI is a non-partisan, non-profit, incorporated professional organization governed by elected officers and directors.

ACCI MISSION STATEMENT

The mission of ACCI is to provide a forum for the exchange of ideas and presentation of information among individuals and organizations that are committed to improving the well being of individuals and families as consumers. This mission includes the production, synthesis, and dissemination of information in the consumer interest.

GOALS OF THE ORGANIZATION

To promote the well-being of individuals and families as consumers, nationally and internationally, by identifying issues, stimulating research, promoting education, and informing policy.

To provide for the professional development of the membership by creating, maintaining and stimulating interactive communication among advocates, business representatives educators, policy makers, and researchers through publications, educational programs, and networking opportunities.

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The Journal of Consumer Affairs, an interdisciplinary academic journal, is published twice a year.

Advancing the Consumer Interest focuses on the application of knowledge and analysis of current consumer issues.

The *ACCI Newsletter*, published six times a year, offers information on the latest developments in the consumer field.

Consumer Interest Annual. The proceedings of the ACCI annual conference featuring the keynote and other invited addresses, research and position papers, and abstracts of poster sessions, workshops and panel discussions.

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EDITORIAL POLICY STATEMENT

Advancing the Consumer Interest is designed to appeal to professionals working in the consumer field. This includes teachers in higher and secondary education, researchers, extension specialists, consumer affairs professionals in business and government, students in consumer science, and other practitioners in consumer affairs.

Manuscripts may address significant trends in consumer affairs and education, innovative consumer education programs in the private and public sector, reasoned essays on consumer policy, and applications of consumer research, theories, models, and concepts.

Suggested content may include but is not necessarily be limited to:

1. Position papers on important issues in consumer affairs and education.

2. Description and analysis of exemplary education, extension, community, and other consumer programs.

3. Research reported at a level of technical sophistication applicable to practitioners as well as researchers. The emphasis of this research should be on its implications and applications for consumer education, policy, etc. The primary question of the reported research should be, "What does this research mean for practitioners?".

4. Application of theories, models, concepts, and/or research findings to problem solutions for target audiences.

5. Articles summarizing research in a given area and expanding on its implications for the target audience.

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Announcing the New Editorship of

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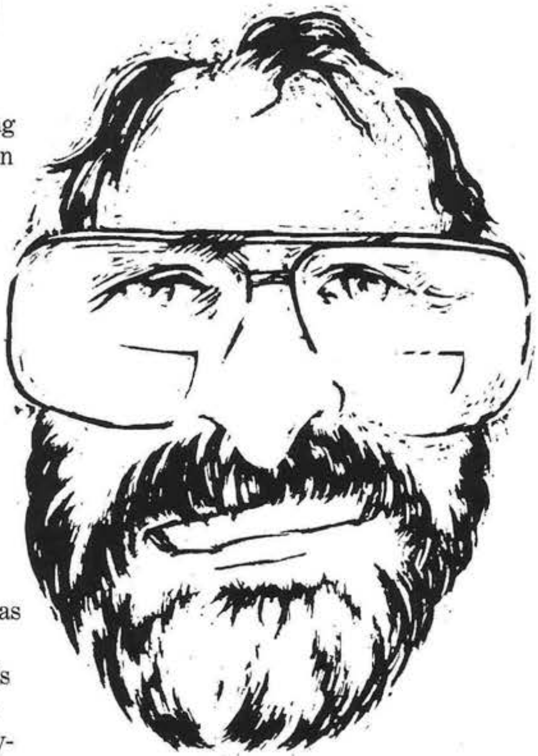
GRUMBLINGS OF A NEOMUCKRAKER



This is the last "grumblings" to be printed in *ACI*. If the ACCI membership survey is correct, this will be a blessing for some and a disappointment for others. This survey did not indicate many respondents were neutral about this section of *ACI*.

Whether or not *ACI* readers thought that grumbling were of interest, I mused whether these words of wisdom from the editor had an impact on the marketplace. Therefore, I looked at past issues to refresh my memory as to the topics I had grumbled about and then checked my file of news clippings to see if my grumblings had impacted the market.

My first two "grumblings" (Autumn 1990, Spring 1991) concerned the topic, "Which are the 'reputable businesses' anyhow?" In these two pieces, I addressed how the so-called large reputable firms were just as likely to rip-off consumers as smaller lesser-known businesses. Have things changed since my editorials? I will cite just a couple of the numerous examples of status quo.

Sara Lee has agreed to pay $130,000 to 13 states in a settlement where this giant food conglomerate was alleged to have used the word "lite" or "light" to mislead consumers into believing the products were low in fat when they weren't (*Wall Street Journal*, August 5, 1994). Part 2 of the "grumblings" described how "reputable businesses" deceive consumers by downsizing products. Several illustrations were given. An example of the continuation of slight-of-hand packaging concerns Sucrets. Sucrets, after 62 years, has decided to retire its old metal container and replace it with plastic (*Wall Street Journal*, July 19, 1994). Not only is the manufacturer eliminating an American icon, but the price will change to $2.69-$2.89 from $2.99 to $3.39. Does using the plastic container make it cheaper? Not really. The contents will change to 18 lozenges compared to the tin's previous 24.

In the Spring 1992 issue, I bemoaned the problems with product packaging, and in particular, the difficulty in opening many packages. Recently, I embarked on several home improvement projects resulting in the purchase of many hardware items that are thermal wrapped. This ingenious packaging technique seems to have been invented by a person whose mission was to foil Houdini. Therefore, in the middle of a tedious project, I am further delayed and frustrated by attempting to extract the product from the package. For example, while hanging a gate, I spent more time getting the hinges and each individual screw out of the package than I did attaching the hinges. Since my time as a carpenter is several times more valuable than my time as a professor, there is great economic loss in opening this type of package. This does not include the psychological cost involved in the frustration of the process.

My most serious grumbling (Autumn, 1992) concerned the issue of how advertisers dictate the editorial content of the media. The same volume of *ACI* also contained an article by Michael Jacobson on this timely consumer topic. This practice appears unabated. The *San Jose Mercury News* recently had to apologize to auto dealers and change editorial policy when the local dealers canceled $200,000 worth of advertising. This boycott was in response to what the dealers thought was a negative story by the consumer reporter on how to negotiate with car dealers. The author commented after the ad boycott: "Where the hell are newspapers going when they can't do this kind of piece without this kind of reaction?...I can't say there hasn't been a chilling effect here, because there has." The car dealers' association response was, "Why feed a dog that keeps biting you?" (*Washington Post*, July 13, 1994). So much for freedom of the press. I also called upon consumer activists to make advertisers dictating content a primary issue but have seen no moves in that direction.

My last grumblings (Spring 1994) was about what I termed, "soft fraud" in oil changing specialty shops and about the onslaught of commercialism. In this piece, I describe where the oil changing equivalent to fast food service induces you to change your oil twice as much as necessary. Well, Jiffy Lube still has not changed it ways as the result of my article. The last time I had my oil changed with them, they still put the little sticker on my windshield dictating me to return in 3000 miles, in contrast to my owner's manual recommending 7500 miles.

Regarding the increasing bombardment of consumers with commercialism, advertising is now creeping into subscription on-line computer services. For example, Prodigy carries ads for Drefus on the "Money Talk" bulletin board (*Wall Street Journal*, August 23, 1994). Consumers should not be too surprised since we pay to see commercials on the screen in movie videos and in theaters. Concerning the latter, in the 1930s, "boo squads" were organized by consumer groups to induce theater goers to voice their displeasure during the showing of commercials on the screen. Is it time for consumer organizations to encourage some form of electronic Bronx cheer whenever a commercial appears on the computer screen?

Although I teach that anecdotal evidence in and of itself does proves nothing, the preponderance of anecdotal evidence on these issues does at least prove to me that either those in power do not read "grumblings" or if they do read them, they just ignore them. Now they will no longer have the opportunity to

CONTINUED ON PAGE 27—NEOMUCK

AUTOMOBILE FINANCE, WARRANTY, AND INSURANCE EXTRAS

Buying a car is usually one of the largest capital expenditures most consumers make, second only to buying a home. Despite its significance, consumers usually do not have an attorney scrutinizing their car purchases to ensure that an automobile dealer has treated them fairly. While consumers in recent years have become more savvy about the tricks of car dealers, most consumers are still relatively unaware of how dealerships profit from automobile finance, insurance, and warranty arrangements. By convincing a car buyer to use their financing or to buy extra insurance and warranties, automobile dealerships can add hundreds or even thousands of dollars to their profits.

DANIEL DENEEN,
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Unfortunately for consumers who have fallen prey to the dealerships, these finance, insurance, and warranty deals are usually confusing, complex arrangements that generally do not violate traditional common or statutory law. Consumers must retain knowledgeable and creative attorneys who will allege and plead as many different legal, equitable and statutory theories for recovery as possible. This article outlines for consumers how some of these complex finance, insurance, and warranty arrangements work and how their attorneys might consider attacking the sellers.

As a general legal principle, a dealership has not defrauded a buyer if the consumer pays more than he/she "should" have for an automobile, unless the dealer made fraudulent misrepresentations to entice the consumer to buy the car. The usual dealership tricks, such as personnel shuffling and loaded suggestions, such as "this car won't be here tomorrow" or "we have another customer coming in this afternoon," are generally not actionable in court. Additionally, dealerships often pad their profits with "add-ons," such as rustproofing. While these services can be overpriced, a consumer does not usually have a cause of action arising from the purchase of these services.

FINANCE, WARRANTY AND INSURANCE OPERATIONS AND REPRESENTATIVE DECEPTIVE PRACTICES

FINANCE. Many consumers finance automobile purchases through installment contracts or leases. Consumers should shop around for independent credit sources such as banks or credit unions prior to purchasing an automobile. The pre-purchase search for a proper credit source should assist consumers in determining the dollar amount they can realistically afford to spend for an automobile. Lenders can also provide some guidance as to the price consumers should pay for a particular model and the approximate wholesale value of the consumer's trade-in vehicle.

If the customer has not obtained independent financing, automobile dealerships will assist the customer with financing. Dealerships have access to financing through lending institutions as well as financial affiliates of automobile manufacturers. In many instances, manufacturers offer very low rates through financial affiliates if customers can meet special conditions. Even a two percent difference (eight percent instead of ten percent) in interest rates on a $15,000 automobile loan for forty-eight months will save a consumer $14.25 per month ($355.19 instead of $380.44), or $684.00 over the course of the loan.

If financing is not procured at special rates provided by an affiliate of the manufacturer, dealerships can "sell" executed installment contract to lending institutions or manufacturers' affiliates at a "buy rate" that varies as interest rates rise and fall. If an automobile dealership convinces a consumer to sign an installment contract for more than the "buy rate," the difference in the net present value between the contracted payment amount and what would have been the payment amount under the "buy rate" is transferred to a "dealer reserve account."

Using the previous example, if a dealership convinced a consumer to sign an installment contract calling for ten percent interest and "sold" the contract to a bank at a "buy rate" of eight percent, its "dealer reserve account" would be credited with $583.50 at the time of sale. This amount is the net present value of $684.00 discounted at eight percent. If the installment contract is subsequently paid off by the buyer, either when the automobile is traded or after forty-eight months of payments, the $583.50 in the reserve account is released to the dealer.

Dealerships do not inform a car buyer that she will be paying additional funds each month to a lender to compensate the lender for the payment to the "dealer reserve account." The greater the difference between the "buy rate" and the percentage rate on the installment contracts signed by the consumer, the larger the undisclosed windfall to the dealership.

In recent years, leasing an automobile has become a popular alternative to financing the purchase of a car. Dealerships often use the same tactics to profit from leasing transactions as they do to profit from financing arrangements. Lease payments are calculated based upon the sale price of the vehicle, the lease period, the value of the vehicle at the end of the lease period, and an internal interest rate. Before signing a lease, consumers should always insist that leasing agents, whether they are private lending institutions or dealerships, disclose all of the above factors. As with financing, consumers should make sure that the automobile dealerships do not profit by arranging a lease at an internal interest rate higher than that offered on the market. Otherwise, the lease arrangement could be very profitable to the dealership.

> Despite the benefits service contract appear to confer upon consumers, some contracts also unnecessarily duplicate the manufacturers' express and implied warranties.

SERVICE CONTRACTS. Dealerships offer to sell service contracts (extended warranties, customer service insurance) to supplement standard manufacturers' warranties when they expire. For simplicity, this article will collectively refer to these arrangements as service contracts.

In theory, service contracts are beneficial because they can provide peace of mind for the consumer by covering most of the cost of expensive repairs[1]. During the service contract period, the consumer does not have to pay more than a deductible amount, no matter how costly the repairs. Although the overall quality of automobiles is improving, the shift to complex electronic equipment and the internationalization of parts market has made the cost of repairs increasingly expensive. Electric windows, power seats automatic antennas, electronic sensors, and other parts can cost an exorbitant amount to repair or replace. These items usually are not covered under the standard "drivetrain" warranty, which only covers the engine and transmission. Only "bumper to bumper" warranties cover all repairs, including ones to electronic devices. Despite the benefits service contract appear to confer upon consumers, some contracts also unnecessarily duplicate the manufacturers' express and implied warranties. Generally, as with the price of a care, an inflated price for a service contract cannot be recovered in a lawsuit.

However, consumers may be able to pursue a legal remedy if they buy a service contract not offered through the automobile manufacturer or a truly independent third-party. With this type of service contract, the dealerships give customers promotional brochures which imply in subtle language that the service contract is issued by a nationwide, independent network. Administrators handle telephone calls and other claim reports from customers, but in reality, the administrator simply acts as a shell for the dealership. A certain amount of money is set aside in a reserve account to pay for future repairs.

If no or few repairs are made by the expiration of the service contract, the dealership receives the money held in reserve. Because the cost of any repairs must be transferred from the dealer's reserve account, the dealership has a financial incentive to refuse to make covered repairs or to minimize repair costs when a customer returns a car to a dealership with a problem. As a result, the customer could claim the dealership had a conflict of interest and engaged in deceptive practices as the basis for a cause of action under consumer protection laws.

For example, the Western Diversified Casualty Insurance Company (Western) has established an extended service contract network called "The Advantage Plus." Western provides dealerships with extended services contract price sheets for new and used vehicles based upon "class codes" for each make and model, with variables depending on mileage, deductibles, and coverage length. The contractual relationship allows the dealerships to charge whatever prices consumers are willing to pay for the contracts, provided that the listed price is forwarded to Western.

In a documented case[2], a customer paid a dealership $399 for a 24 month/24,000 mile Advantage Plus extended service contract on a used Volkswagen Jetta with 30,000 miles. The dealership kept $160 as straight profit and forwarded $239 to Western. Western retained $55 for an "Excess Loss Premium" to insure the service contract and part as an administrative fee. The balance of the funds, $184, was placed in a "Service Reserve" bank account in the dealership's name. If no repairs were necessary to the Jetta by the end of the service contract, the dealer would receive the $184, provided the aggregate of its other service contracts did not exceed the balance of the dealer's service reserve account.

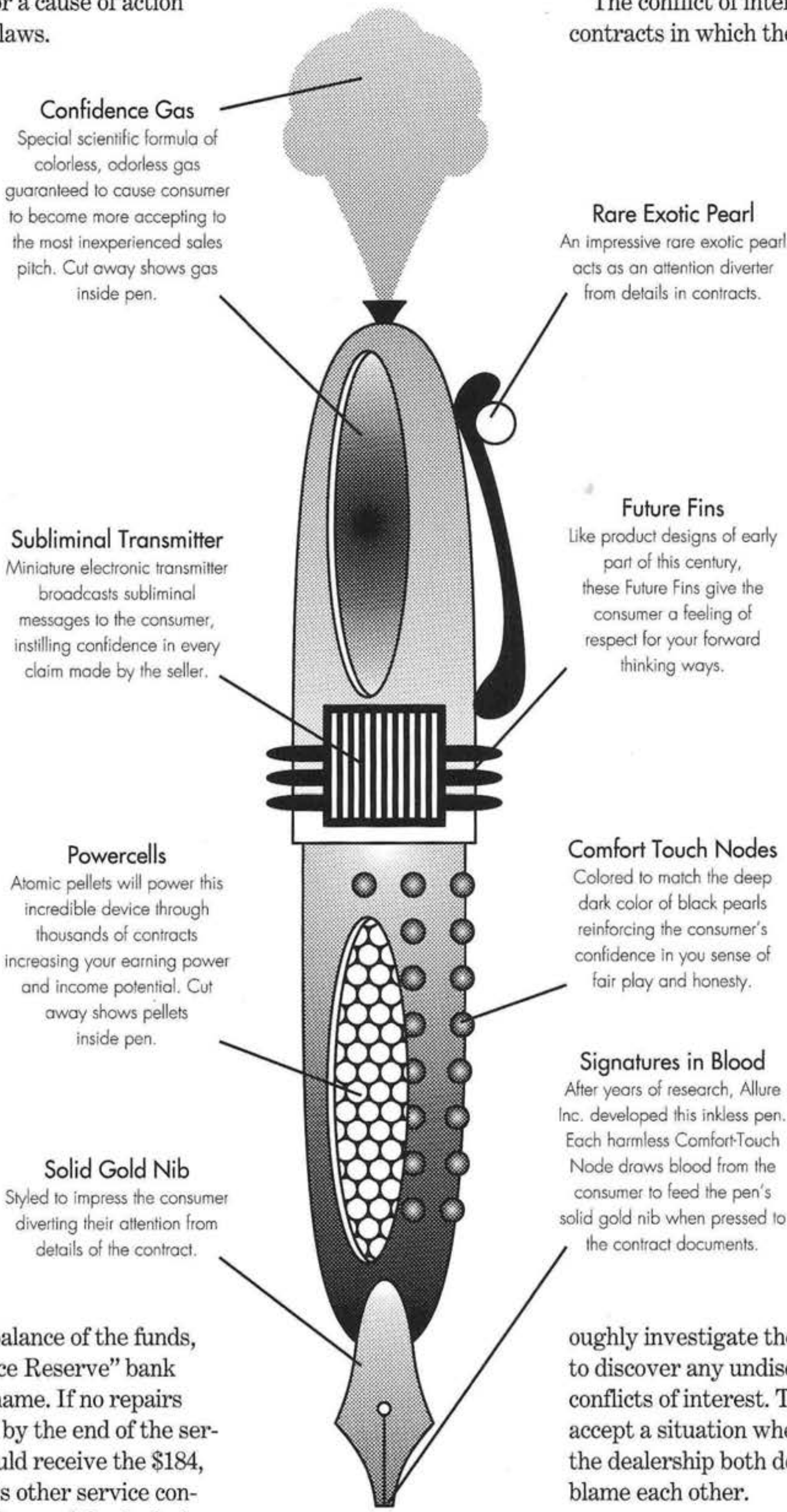
All service contract networks, even the independent ones, proceed on an assumption that a high percentage of service contract purchasers will return to the selling dealerships for repairs. Reportedly, some service contract networks provide a "kickback" if proper claim ratios are maintained by a dealership. Others provide compensation based upon a ratio of net claims to net sales.

The conflict of interest surrounding service contracts in which the dealership retains a financial interest, either directly through a "special reserve account" or indirectly through "kickbacks" or rebates, is flagrant and blatant. If a customer visited a dealership with a leaking gasket two weeks before the service contract expired, the dealership would have a financial incentive to make a temporary repair, such as putting a pint of sealant into the system, rather than to make a permanent repair, which would involve the costly replacement of the gasket. In contrast, when a dealership repairs a vehicle under a manufacturer's or truly independent warranty, the third party pays for the repairs and the dealership does not have an incentive not to make the proper repair.

Whenever a consumer has a repair that has been denied under a service contract for spurious reasons, (e.g. didn't change the oil often enough, didn't monitor the fluid levels, etc., you self-serviced it improperly), they should thoroughly investigate the service contract network to discover any undisclosed arrangements and conflicts of interest. The consumer should not accept a situation where an "administrator" and the dealership both deny responsibility and blame each other.

CREDIT LIFE AND DISABILITY INSURANCE. Dealerships also offer credit life and disability insurance policies, which can be a source of additional profits to the dealer.

HERE, USE MY PEN!



ALLURE SIGNATURE PEN

Guaranteed to increase your ability to close contracts regardless of your experience.

Under these policies, loan payments or outstanding loan balances are paid if a person becomes disabled or dies. While these policies do provide a benefit to the consumer, the cost of the policies offered through the dealerships are often quite high in relation to the small risk of death or disability[3]. Further, if the loan is arranged through the dealership above the "buy rate," the profit to the dealership may be further increased. If the dealership claims that a consumer must purchase this insurance to obtain a loan, it has made a fraudulent misrepresentation, and the consumer would have a cause of action against the dealership.

CONSUMER RELIEF

Consumers and their attorneys must be every bit as resourceful at attacking finance, warranty, and insurance arrangements as automobile dealerships are at designing schemes to squeeze hundreds of dollars of extra profit out of consumers. As illustrated above, the tactics used by automobile dealerships are complicated, confusing, and generally do not openly violate commonly utilized areas of the law. To get through the courthouse door, the consumer's attorney must draft his or her pleadings to properly allege all legal theories for recovery. The facts should be set forth in the pleadings in such a manner that the dealer's conduct amounts to a breach of traditional common law theories, if possible. The complaint should also allege any possible violations of the Uniform commercial Code, the Magnuson-Moss Warranty—Federal Trade Commission Act[3], and any applicable statutory consumer laws available in the jurisdiction. Consumers should expect defendants to file numerous motions to dismiss their complaints for seemingly valid reasons.

Consumers should consider withholding payments to the lender as a means of relief, as allowed under the Federal Trade Commission Holder in Due Course Rule[4]. The rule apparently was intended to protect the consumer from financial distress during a dispute, to allow pressure to be applied to the culpable party, and to place the burden of loss occasioned by an unscrupulous merchant upon the lender and not the borrower. However, this relief should usually only be considered in serious and certain cases because of its potential impact on the consumer's credit history.

The Uniform Commercial Code offers consumers the most comprehensive and widely understood method of relief for warranty claims. The service contract should be considered a warranty, and breach of warranty claims should be included in any complaint. If there has been a breach of an express warranty, then the federal Magnuson-Moss Warranty Act[5] should be used as a supplement to the U.C.C. because of its more liberal remedies for consumers, including compensation for the time and inconvenience of making repairs, as well as attorney fees.

Consumers and their attorneys must be every bit as resourceful at attacking finance, warranty, and insurance arrangements as automobile dealerships are at designing schemes to squeeze hundreds of dollars of extra profit out of consumers.

Statutory Consumer Fraud Acts on the state level should also be utilized, if possible. These acts are usually preferable to traditional common-law fraud actions because of less stringent pleading and proof requirements. Numerous states also have "lemon laws", many of which aren't very beneficial to consumers[6].

In the service contract area, the consumer's attorney should file suit against the dealership, the administrator, and against a joint venture comprising both of them if neither will assume contractual responsibility for the service contract. If the dealer's overall scheme, as opposed to the dealer's actions specific to a particular consumer, are the gravamen for the action a class action, suit should be filed.

Consumers should be aware of the tricks dealers use to squeeze hundreds of dollars of extra profit out of consumers at the end of motor vehicle purchases. Consumers should attack dealerships aggressively and relentlessly when they have practiced fraud or deception to achieve extra profit.

This article is based on an article previously published in the Loyola Consumer Law Reporter, Fall, 1993. For copies of the original article, write Loyola *Consumer Law Reporter*, Loyola University College of Law, One East Pearson Street, Chicago, IL 60611.

1. For an extensive discussion of service contracts and why people buy them, see, "Consumer Perceptions of Service Contracts," in this issue of ACI.

2. Radford v. Western Diversified Servs., Inc., No. 90-LM-279 (Ill. Cir. Ct. filed 1990). This case was settled by the parties and dismissed.

3. For a recent discussion of credit insurance, see: Hudson, Mike (1994). "Credit insurance: Overpriced and oversold," *New York Times*, July 3, F8.

4. 15 U.S.C., 2301 et seq. (West 1992).

5. 40 Fed. Reg. 53,506, 53,510 (November 18, 1975). For a comprehensive discussion of the FTC Holder in Due Course Rule, see, Pridgen, D., (1992). Consumer Credit and the Law, Deerfield, Il: Clark Boardman Co., Ltd., 14.05.

6. 110(d)(1), 15 U.S.C. 2310(d)(1)(1982). For a comprehensive discussion of the private actions under Magnuson Moss, see, Pridgen, D., (1993). Consumer Protection and the Law, Deerfield, Il: Clark Boardman Co., Ltd., 14.07.

7. For an extensive review of consumer remedies, see Any Norman, (1992), "Lemon law cases: What lawyers should know," Illinois Bar Journal, 80, 392, 399; "The sour truth about lemon laws," (1993). Consumer Reports, January, 40.

CONSUMER PERCEPTIONS OF SERVICE CONTRACTS

Extended warranties or extended service contracts were first offered in the late 1950s by Sears, Roebuck and Company and Montgomery Ward when television sets became popular. Today, over 90 percent of all major appliance and electronics dealers sell extended service contracts (Rosen, 1990). According to a 1992 article, "sales for the entire extended warranty business... are somewhere between \$3 billion to \$7 billion" ("Extended Service," 1992, p. 4) and have more than doubled in the last five years.

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Consumers often purchase extended service contracts for home appliances, electronic goods, and automobiles. A *Consumer Reports* article, reported that "nearly half of all car buyers... purchase an extended warranty" ("Insure Against," 1990, p. 226). O'Brien (1993) "estimated that more than \$4 billion worth of them [extended service contracts] will be sold this year in the auto industry" (p. 36).

It is a common belief that consumers buy extended service contracts because they think the contracts offer some value beyond the typical manufacturer's warranty. Consumers are more likely to buy extended warranties as the complexity and the price of the product increase ("Warranty Industry," 1991). According to David Ashton, executive director of the Service Contract Industry Council (SCIC), consumers are more likely to buy an extended service contract on expensive, complicated products such as large screen television sets because "repair costs on the tube alone could exceed 25 percent of the cost of the product" ("Warranty Industry," 1991, p. 92).

Tarr (1989) reported extended service contract "average sales penetration rates for `applicable' products (electronics items costing over \$100) ranging [sic] from 25 percent to 60 percent" (p. 84). O'Brien (1993) reported that "40 percent of the people who buy at electronics and appliance chain stores purchase warranties" (p. 36). Robert Minnick, president of Component Guard, a New York service contract company, said:

> Last year [1988] in the U. S. there was over \$800 million worth of consumer electronics [extended] warranties sold. I would have to say that for \$785 million of those dollars, the customers had no idea what they bought (Tarr, 1989, p. 84).

SERVICE CONTRACTS AS A CONSUMER ISSUE

Consumer Reports asked, "Who needs an extended warranty?" in a January 1991 article. The publication's answer was that no one really needs one. In January 1994, *Consumer Reports* in an article titled, "Should you pay for peace of mind?" continued this discussion with the statement:

> We've advised consumers for years to avoid extended warranties. It makes little economic sense to insure against small risks that individuals can, if need be, cover out of their own pocket. It makes even less sense to buy insurance priced so that most of the premium goes

into profits rather than into payments to the insured consumer. (p. 42)

Industry estimates are that manufacturers and retailers sell 80 percent of all extended service contracts and third-party administrators market the remaining 20 percent ("Extended Service," 1992). According to an article in *Consumer Reports*, profits on extended service contract sales were "far more lucrative for many retailers than anything else in the store" ("Who Needs," 1990, p. 21). Indeed, many independent service contract companies pay commissions of 70 percent or more to retailers who market their contracts.

The salesperson shares in the lucrative profits. They usually earn 20 percent on the sale of extended service contracts (which incidently is nearly always more commission than the salesperson earns on the sale of the product). If the service contract costs the store $50, for instance, and if the salesperson convinces the customer to pay more than $150 (the average), the salesperson's commission is even greater than the usual 20 percent. The trend, however, is for retailers (especially in the appliance and electronics industry) to issue their own extended service contracts and reap even greater short-term profits. To do so, however, presents substantially longer-term liability for the retailer (Tarr, 1989).

The salesperson's persuasion efforts are often intense. Many salespeople believe and proclaim that the "buyer will get the cost of the extended warranty back with just one service call" (Kelly, 1992). Some retailers require their salespeople (1) to sign a statement saying a contract was offered to each customer, and (2) to sell a certain percentage or quota of extended service contracts or risk losing their jobs (Kelly, 1993).

Prices of electronic products have declined significantly forcing several major firms out of business (Winston, 1992). The only item left in the store which has a large profit margin is the extended service contract ("Who Needs," 1990). In general, for every dollar's worth of extended service contracts sold by retailers, only four to 15 cents will have to be spent on service. The remaining 85 to 96 cents is profit to the seller and administrator (which may be the same entity).

In fact, in 1989 several of the nation's largest appliance and electronics chain stores (i.e., Highland and Best Buy) would have posted net losses had it not been for extended service contract sales ("Who Needs," 1990). Moreover, over one-half of Circuit City's 1989 net profit was attributed to sales of extended service contracts ("Who Needs," 1991).

In the December 30, 1990 issue of *TV Digest* magazine, Barry Bryant of Prudential Bache was quoted as saying "if that [the profit margins of extended service contracts] were ever taken up as a cause by some consumer advocate, the profitability of some consumer electronics operations could go down" ("Who Needs," p. 11).

In general, for every dollar's worth of extended service contracts sold by retailers, only four to 15 cents will have to be spent on service.

In 1983, Silber reported that, in the past, many extended service contracts duplicated manufacturers' warranties, failed to cover repairs (arguing the problems were due to normal wear and tear), included numerous exclusions, and were subject to the sometimes subjective interpretation of the warrantor. Some of these same problems appear to exist in 1994. According to *TV Digest* ("Who Needs," 1990), only 12 to 20 percent of people who purchase an extended service contract "ever would use it, and that many calls turn into 'education' visits, explaining how to correctly use [a] product that's functioning well" (p. 11).

Virtually all states regulate insurance providers and administrators. Yet, marketers of extended service contracts are, for the most part, unregulated since extended service contracts technically are usually not considered to be insurance. The traditional insurance industry provides a fund in each state to bail out insurance firms that experience financial difficulty or declare bankruptcy. However, for extended service contract providers, there exists no such protection although a few extended service contract firms have bought separate insurance policies to cover future claims if they are unable to pay.

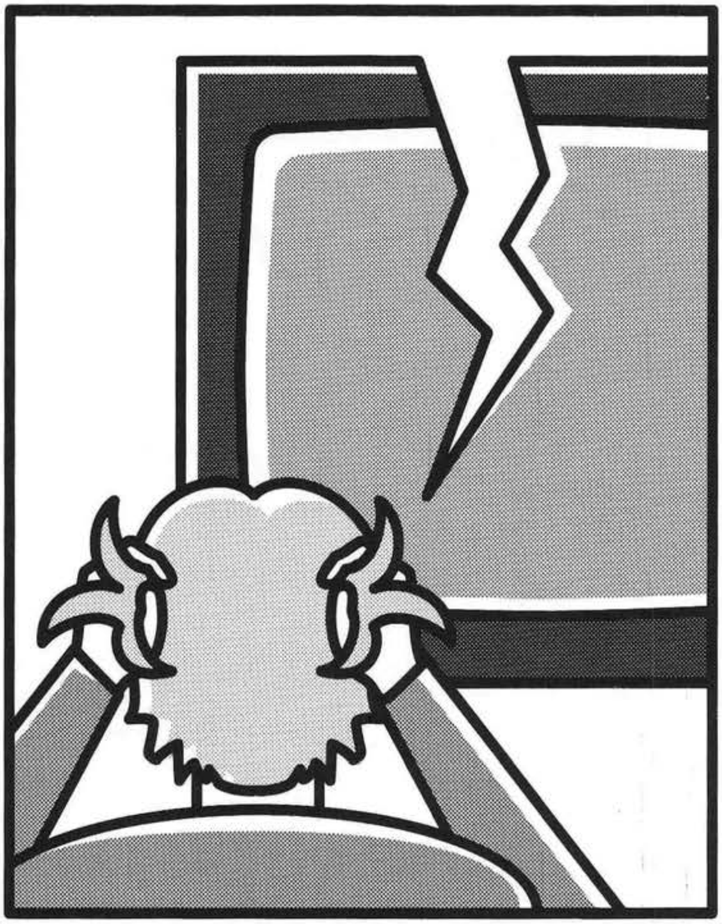
In summary, as Leet and Driggers (1990) argue, extended service contracts "are rarely a bargain for consumers" (p. 279). Moreover, Kelley and Conant (1991) noted that in recent years the "improvements made to express warranties cast into doubt the benefits and value consumers receive from... extended warranties" (p. 68).

THE STUDY

A modest body of literature exists on warranties, but very little empirical or conceptual research on extended service contracts has appeared in the marketing/consumer affairs literature. A literature review has revealed only one empirical study on the topic (Kelley & Conant, 1991). Academic authors write little about service contracts although this topic has received more coverage in the trade press.

In addition, the literature does not address the economic impact on the household of buying service contracts as opposed to self-insuring or using a pay-for-repairs-as-you-go strategy. And since a large number of persons buy this commodity that has relatively little economic value, it is surprising that consumer and family economists ignore this topic.

Another void in the service contract research is that there is inadequate information about the people who purchase them. Why do some people buy a product that pays so little in benefits in relationship to the cost? What are the characteristics of the buyers? Specific information that might address these questions include the demographic characteristics of buyers and non-buyers, specific motivations for buying or not buying, perceptions of the coverage of extended service contracts, and future intentions to buy or not buy service contracts. Extended service contracts appear to be a fertile topic for meaningful research with implications for consumer education and public policy.



The remainder of this article summarizes a study[1] which attempted to distinguish between consumers who bought an extended service contract and those who did not, to find why a consumer would buy an extended service contract, and to profile those consumers who are most likely to purchase an extended service contract. Implications of this study are also discussed along with recommendations for policy and education.

The first problem addressed in this study was to determine the frequency of purchase, what items are typically insured, what were sources of information about service contracts and why people purchased them. The second problem was to distinguish between the two groups of consumers (buyers and non-buyers of the extended service contract) according to: demographic characteristics, motivations for purchasing or not purchasing an extended service contract, perceptions about the coverage of any extended service contract, and future intentions to purchase an extended service contract. The third problem was to develop a profile of those consumers who are most likely to purchase an extended service contract.

The literature shows the most common product categories on which extended service contracts are marketed are (1) automobiles, (2) appliances, and (3) electronics. This study was limited to a random sample of 991 consumers who had recently purchased a television set. The use of television sets for this study was justified since extended service contracts are almost always offered for sale with this product and people with diverse demographic and psychographic characteristics purchase television sets.

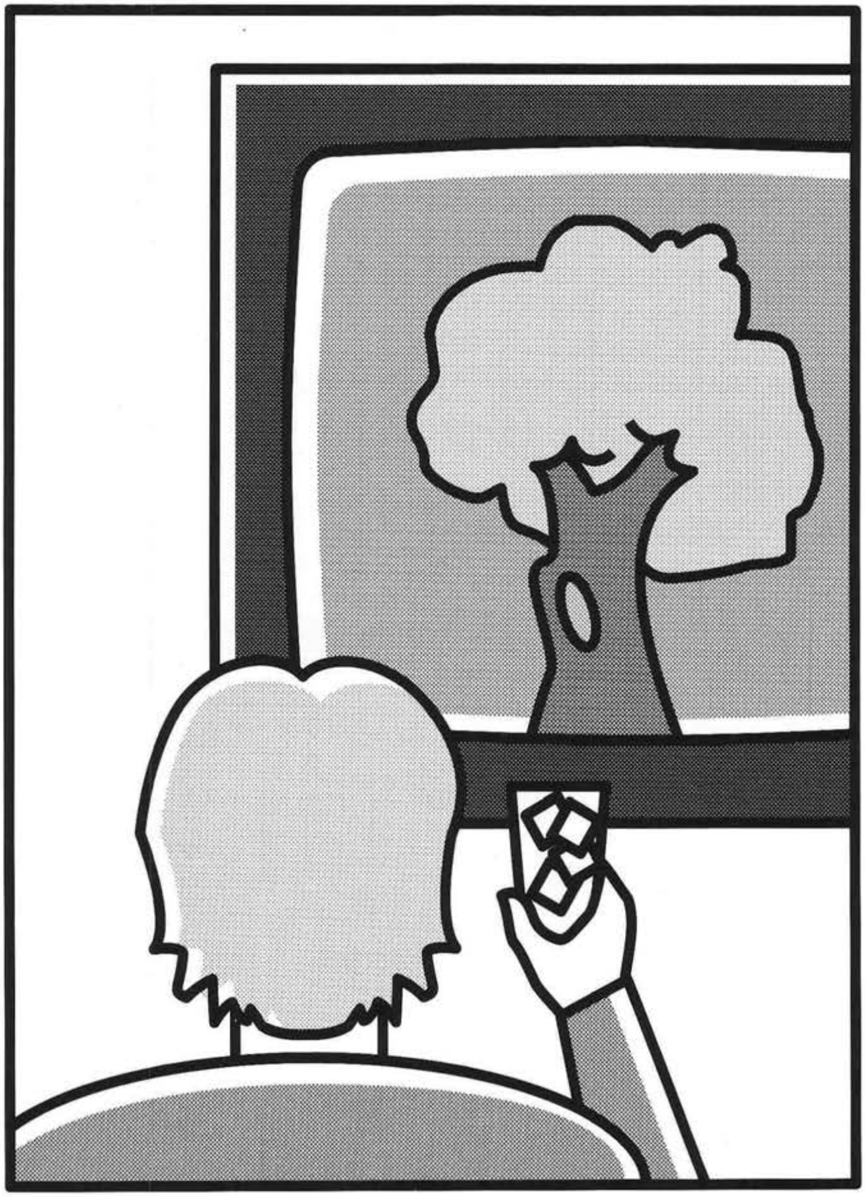
In addition, the study was limited to one seven-store retail chain in the eastern United States. While not a national retailer, this chain attracts a demographically-diverse clientele and has locations in both rural and urban areas. Since the population studied is not necessarily representative of the population of one state or of the United States, care must be taken in generalizing the findings. Although the type of product insured and the nature of service contract administrators are substantive consumer policy issues, these issues were not deemed crucial since the primary objective of this study was to examine why consumers purchase extended service contracts.

The data were collected in 1993 through a mail survey. In addition to the postcard follow up, another mailing consisting of a second cover letter, a replacement questionnaire, and a replacement business-reply envelope was sent three weeks after the initial mailing. Of the original 991 questionnaires mailed, 34 were undeliverable and 440 questionnaires were returned yielding a 46% total return rate. After subtracting unuseable returns, the return rate was 42.7%.

FINDINGS

Over two-thirds of the respondents said that they have purchased one or more extended service contracts at some time. Of those who have previously purchased one or more extended service contracts, a little over one-fifth bought one contract for one or more of their automobiles. Further, the majority of respondents have purchased an extended service contract for one or more electronic products. Moreover, nearly two-fifths of the service contract buyers bought extended service contracts on appliances. Finally, just over three-fifths of the buyers have used an extended service contract for maintenance or service.

Approximately one-third of the respondents purchased an extended service contract for their most recently purchased television set. Interestingly, nearly ninety percent had not "planned on buying an extended service contract before it was offered." About one-half reported the salesperson as a source of information before deciding to purchase an extended service contract. Less than one-fifth said they relied on friends and/or family members for information before deciding about an extended service contract.



A majority (57%) of the respondents indicated that extended service contracts offer peace of mind. Moreover, a majority thought that people who take care of their products do not need to buy extended service contracts. About three-fourths believed that extended service contracts are worth the money people pay for them. Finally, only one-quarter of the respondents agreed that the salesperson talked them into buying an extended service contract.

One objective of this study was to determine if the two groups (buyers and non-buyers of the extended service contract) differed on the selected characteristics—gender, marital status, education, income, occupation, age, and ethnic and racial background. A Chi-Square analysis revealed that for the demographic characteristics studied, only occupation was significant at or beyond $p < 0.05$. A larger percentage of respondents classified as skilled laborers/machine operators and unskilled workers were buyers.

As might be expected, variables measuring the motivation to buy an extended service contract were very important in distinguishing between buyers and non-buyers. Buyers and non-buyers held different opinions about the statement, "An extended service contract offers a person peace of mind." Eighty-six percent of the buyers agreed compared to only 45% of non-buyers. Further, nearly three-fourths of the buyers disagreed with the statement, "People who take care of their products do not need to buy extended service contracts" while only just over one third of the non-buyers disagreed. An overwhelming majority (81%) of the non-buyers indicated that extended service contracts are not worth the money people pay for them compared to nearly one-half of the buyers who thought this.

Just over three-fourths of the buyers agreed with the statement, "People buy extended service contracts because they are afraid their products will break down," while over ninety percent of the non-buyers agreed with the statement. About one-fourth of the non-buyers agreed they knew people who did not buy the extended service contract and later wished they had. However, about one-half of the buyers knew people who regretted not buying an extended service contract. Regarding the statement, "The salesperson talked me into buying an extended service contract," the non-buyers overwhelmingly (82%) strongly or tended to disagree. All the above differences between the buying and non-buying groups were statistically significant beyond $p < 0.05$.

Over one-half of the non-buyers reported that they will not purchase an extended service contract in the future while less than one-tenth of the buyers are reluctant to buy. About two-fifths of the non-buyers but nearly two-thirds of the buyers indicated that they "might" buy an extended service contract in the future.

What are the factors that will predict whether a consumer will purchase an extended service contract in the future? A multiple regression analysis revealed that the best predictor of a future purchase of a service contract was having purchased an extended service contract for the most recently acquired television set. Some additional predictors included consumers who (1) agreed that extended service contracts offer peace of mind, (2) agreed that extended service contracts are worth the money people pay for them, and (3) agreed that they knew people who did not buy an extended service contract and later wished they had.

WHAT DO THESE FINDINGS MEAN?

Over two-thirds of the respondents reported purchasing one or more extended service contracts at some time. One-third had bought a service contract on their most recently acquired television. Yet, over ninety percent of the buyers had not planned to purchase a service contract before making the decision to buy a television. Therefore, one can infer that the salesperson had considerable influence on the consumers' purchase decision. This is interesting since most respondents denied the salesperson influenced their decisions. It seems this contradiction reflects the respondent's desire to appear independent and deny the salesperson's influence. Also, the data infer that although a service contract is an unsought good and virtually all of the information is marketer dominated, the seller has a major influence on the purchase decision. Indeed, the salesperson's speel may be the first time a number of the consumers have heard of an extended service contract. This consumer ignorance results in a great opportunity for the retailer to sell the contract since many consumers, immediately following the decision to purchase a product, experience a feeling of satisfaction (perhaps even euphoria) and are therefore more easily manipulated into buying additional products and/or services. In other cases, the consumer, after spending a lot of money on a durable good, might feel the need to protect their investment.

Another finding was that over three-fifths of the respondents who had previously purchased an extended service contract had used the contract for maintenance or service. The lowest estimate of usage of extended service contracts in the literature was 12 to 20 percent ("Extended Warranties," 1992). In 1994, *Consumer Reports*, reported that the estimates for the probability for products to be repaired under the contract is less than 20 percent. Kelley and Conant (1991) found that about two-fifths of the respondents to their survey had received service under the terms of their extended service contract.

The data suggest that except for occupation, there are no differences between buyers and non-buyers with respect to demographic characteristics. The statistically significant finding that skilled manual laborers, machine operators, and unskilled workers were more likely to purchase extended service contracts than consumers in other occupations may be explained by the possible inflexibility in their work hours. They may have less freedom to deal with repairs and maintenance during the normal work day.

Salespeople have been known to use the "fear" appeal and tell stories about consumers who had products fail the day after the manufacturer's warranty expired.

Intuitively one would think that the higher educated consumers would be more likely to perceive that the extended service contract was not worth buying. Because there often exists a direct relationship between education and occupation, it was inferred that consumers in more prestigious occupations would be less likely to buy an extended service contract. Likewise, consumers with higher incomes (usually more education and more prestigious occupations) would be less likely to see a benefit in insuring against such a small risk. In addition, those buyers with greater incomes may perceive a service contract as a way to save time and reduce hassle.

Responses to the motivation-to-buy statements were the best differentiators between buyers and non-buyers. The buyers of the extended service contract are more likely to indicate that extended service contracts offer "peace of mind." For many consumers, well-established and respected brand names provide sufficient protection. Yet, other consumers desire additional protection and the extended service contract seems to offer this added "peace of mind."

Buyers of extended service contracts also indicated that people buy them because they are afraid their products will break down. This fear (whether real or imagined) can in and of itself motivate certain consumers to buy protection even for small risks. Many consumers believe that the quality of new products has decreased in recent years, contrary to what *Consumer Reports* states (See "Getting Things Fixed," 1994), and coupled with some negative past experiences with shoddy merchandise, these consumers might feel a need to buy coverage in addition to the manufacturer's warranty.

Buyers reported they knew of people who did not purchase an extended service contract and regretted it. It is debatable whether consumers actually knew people with that experience or heard a salesperson's story. Salespeople have been known to use the "fear" appeal and tell stories about consumers who had products fail the day after the manufacturer's warranty expired.

Many of the buyers thought it was cheaper to buy the extended service contract than to pay for repairs that they might need. In addition the buyers of the extended service contract were more likely to indicate that "Extended service contracts are worth the money people pay for them." However, the literature suggests that the notion that one saves money by buying a service contract is without merit. For example, Miller (1990) quoted a retired service manager for the National Association of Retail Dealers of America as saying "the odds are if a product performs well during the warranty period, it will continue to do so, and what repairs might be necessary will be less than the cost of a service contract" (p. 281). On the other hand, Miller (1990) argued that an extended service contract might be suited for (1) individuals who do not take care of their products, and (2) consumers who buy products which need annual cleanings

> ...because, having paid for the contract, you will be more motivated to have your equipment cleaned annually...[and] may decide to have smaller, less important repairs performed more frequently [therefore]...may extend the [product's] useful life...(p. 280)

For both buyers and non-buyers intentions to buy an extended service contract in the future were consistent with their past behavior. This might indicate that buyers were satisfied with either the service or the peace of mind they received while non-buyers had no significant problems with their goods that caused regret for not buying a service contract. In effect, their skepticism of the value of the service contract may have been validated.

ETHICAL IMPLICATIONS

Because virtually all of the information about extended service contracts a consumer receives is marketer dominated and because many salespeople are pressured by their employers to sell service contracts, there are several ethical implications involved in the sale of this consumer commodity. Most of these ethical implications pertain to either passive or active disinformation in the seller's description of the attributes of extended service contracts.

It is doubtful that most consumers are made aware that (1) consumer-oriented publications recommend against buying extended service contracts ("Who Needs," 1991; "Getting Things Fixed," 1994), (2) the average life expectancy of the consumer's purchase is probably longer than the consumer is told—15 years for a television set (Kelly, 1993), 14 years for a refrigerator ("Getting Things Fixed (1994); (3) electronic goods have only a 20 percent failure rate and generally do not need repairs until two to five years after purchase ("Extended Warranties," 1992); (4) between 85 and 96 cents of every dollar retailers take in selling extended service contracts is profit ("Extended Warranties," 1992), (5) the cost of the extended service contract can exceed the price of the product (even an extended service contract which costs 15 percent of the price of the product—considered a good deal by many—will exceed the cost of the product in less than seven years), and (6) it is often cheaper to take the money it costs to buy extended service contracts and set up a repair or replacement fund. Although one cannot reasonably expect the salesperson to tell the consumer these six caveats about service contracts, in an ethical market the seller should not, as is commonly done, flagrantly contradict or distort these facts.

Unfortunately, there is virtually no way other than from the salesperson for most consumers to obtain knowledge about extended service contracts. This paucity of information not only is detrimental to the individual consumer, it also makes for an informationally imperfect market. This in turn results in market failure in the form of a relatively high-priced service that has high penetration but gives little economic return from the investment.

Unfortunately, there is virtually no way other than from the salesperson for most consumers to obtain knowledge about extended service contracts.

DISCUSSION

What can be done to reduce both the sales deceptions and the exorbitant price of service contracts that is alleged in the articles about them? A two-pronged effort in terms of education and public policy might be considered. In the process of completing the literature search for this study, it was found that textbooks usually give little space to the discussion of the problems of service contracts and other than in *Consumer Reports*, little information is published in the popular press. Because of this, consumers remain ignorant of the poor economic value of service contracts. Consumer educators need to be persuaded to include more discussion of service contracts in consumer education curriculum and materials.

The information derived from this study can assist government officials by providing data which may be useful in designing more effective laws and regulations which would be fairer to both consumers and marketers. Regulation of the sale of extended service contracts, which probably should be at the federal level, may well be the only equitable solution for protecting consumers and legitimate firms from the unethical marketers of extended service contracts. However, federal regulation seems unlikely in the foreseeable future. As noted by Burton (In-press), the FTC does have some rule-making power to regulate service contracts but they have not used it. Burton also points out that major consumer groups do not have service contract regulation as a priority agenda item. A few states, such as

California, do have some fairly strong regulations; however, most states leave the service contract consumers to fend for themselves.

The National Association of Insurance Commissioners currently has a subcommittee writing model legislation that would authorize states to regulate service contracts as insurance. Although regulation by insurance commissioners is a step in the right direction, there is a substantial industry block who argues that the only significant problems are with under-funded third-party suppliers of auto service contracts. In addition, industry representatives have argued for excluding from regulation manufacturer backed service contracts and those offered by large retailers, such as Sears. The current version of the model appears to offer little consumer protection. If this model legislation is offered in a form that does not provide the consumer with any worthwhile protection, then consumer advocates must be on guard when it is debated in state legislatures.

Since one of the basic rights of the consumer is to be informed, a federal service contract labeling law might be enacted that would give consumers the following information: (1) the average life expectancy of the product, (2) when in the life of the product most repairs are made, (3) the frequency rate of repairs, (4) the average cost of repairs, (5) the payout ratio for repairs, (6) the net present value of the extended service contract, and (7) who insures the contract should the provider go bankrupt.

A significant problem that consumers have is that they are often misinformed about the service contract coverage and, in particular, how it overlaps with the coverage of the manufacturer's warranty. One particular labeling scheme that might address the problem of consumer ignorance of overlapping coverage is similar to the mandatory energy labeling laws. In this bar graph pictorial, the total coverage of a service contract along with the overlap in coverage with the manufacturer's warranty is illustrated (See Burton, 1994).

In summary, although trade journals and consumer magazines generally report that extended service contracts are not worth the money paid for them, this study found that a substantial number of consumers felt that they were worth it and that this form of insurance offered peace of mind. The question is, does this peace of mind come at too high a price? If so, how do educators get this message across to consumers and how do policy makers affect the market to minimize the alleged deception and price gouging?

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CORPORATE CIVIL DISOBEDIENCE IN THE CONSUMER INTEREST

We tend to think of civil disobedience as an activity implemented by (an) individuals against the law. Through civil disobedience individuals attempt to change law for the greater good of the broader society. Through catalytic issue management, corporations proactively seek to affect resolutions of issues in which they have some interest (Crable and Vibbert, 1985; Jones and Chase, 1979). We are witness to a new manifestation of both civil disobedience and catalytic issue management. Corporations, rather than individuals, now catalyze legal changes by purposely disobeying existing law, facing the associated consequences, and lobbying for said changes.

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We refer to this phenomenon of civil disobedience by corporations as catalytic defiance (Dennis, 1993) and ponder whether it is in the best interest of consumers. We call this action catalytic after work by Crabble and Vibbert (1985) who refer to catalytic issue management when corporations aggressively manage issues rather than simply reacting to them. We call this action defiant because in this case, as in the case of civil disobedience, the corporation does not merely try to benignly influence laws; it actively defiles laws/regulations and puts itself at some legal peril. The catalytic defiance that we propose to exist today may be thought of as civil disobedience on a collective corporate level.

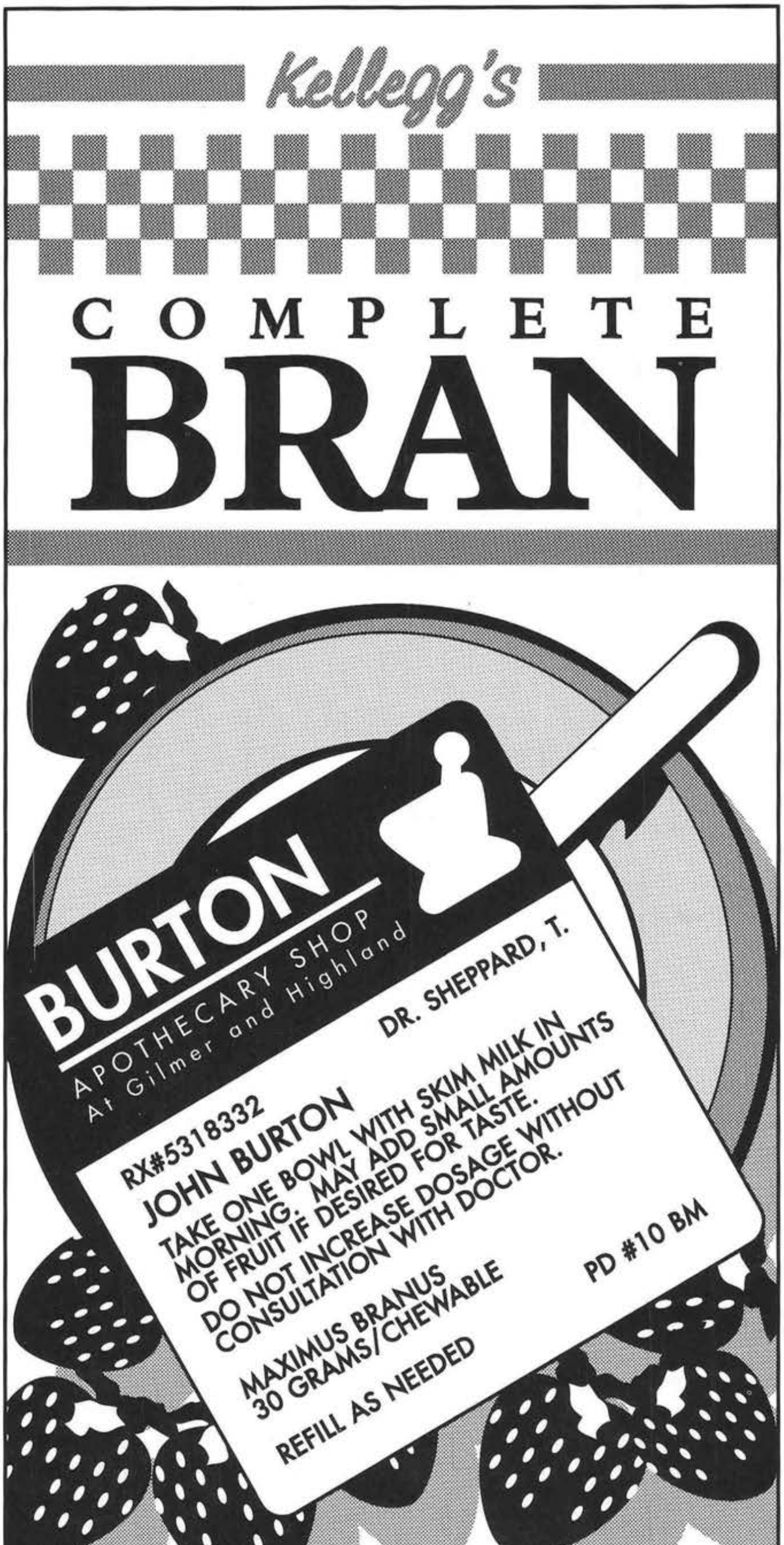
In 1992 a sweeping change in regulations affecting food labels and advertisements occurred when a Food and Drug Administration prohibition of disease-specific health claims, in place since 1938, was repealed. This repeal can be viewed as being in the consumer interest in that it allows legitimate claims of health benefits to appear where such information is most accessible to consumers. This change in the legal environment surrounding the food marketplace can be directly linked to the catalytic defiance of the Kellogg Company, the breakfast cereal market share leader.

THE KELLOGG CASE IN CONTEXT

Prior to 1992, the use of advertising or labeling health claims linking a food product to the prevention, treatment or cure of a specific disease brought the product within the FDA's drug regulation realm. Under the associated burden-some restrictions as such, the product could essentially be prevented from appearing in the mass market.

In October of 1984, the Kellogg Company defied this by publishing on the package of their All-Bran breakfast cereal product the National Cancer Institute's finding of a correlation between high fiber diets and lowered risks of certain forms of cancer. In doing so Kellogg faced the possibility of having All-Bran classified as a drug, thereby making the product unavailable to the mass market on the supermarket shelf ("What has All-Bran Wrought", 1986). While continuing to defiantly make health claims for various products, including All-Bran and Nutrific cereals, Kellogg petitioned the FDA to change their regulations and spent the next seven years arguing to lift the restrictions. The FDA acceded to Kellogg's suggestions for allowing and overseeing health claims in a proposal of rule making in August of 1987 (Federal Register, 1987). This may have been due to the favorable public opinion of Kellogg's illegal health claims, the well-adapted arguments presented in Kellogg's petition to the FDA, or Kellogg's smart recruitment of the Federal Trade Commission as an ally.

The FTC is not only a sister agency to the FDA, but, also holds jurisdiction in the realm of advertising. However, the FDA soon



reversed its position due to pressure from organizations such as the Center for Science in the Public Interest, which feared consumers might be misled by unscrupulous food manufacturers who would abuse the privilege and practice deception via health claims. After several position reversals, the FDA allowed scientifically substantiated health claims as part of the 1992 standardization of food labels.

It can be argued that the consumer interest was served by Kellogg in that information about the scientifically defined health benefits of bran-based cereals appeared on the shelves of the supermarket, where the consumer actually makes the purchasing decision.

Kellogg is not the only example of a company defying law in the name of a broader interest. In 1970 the FDA outlawed cyclamates based on what Abbott Laboratories later claimed to be dubious scientific findings linking the artificial sweetener to cancer ("Abbott Sweetens Its Pitch", 1982). Abbott is still struggling to reinstitute cyclamates within government channels. As part of its fight, Abbott defiantly produced Sucaryl, its cyclamate product, in the U.S., but found a loophole by only selling the product abroad. Abbott claims that the U.S. ban is based on faulty science and prevents consumers who need sugar-restricted diets from obtaining a safe and effective sweetener, which was erroneously labeled as carcinogenic.

In a third example of corporate defiance, American Cyanamid disobeyed Title VII of the Federal Equal Rights Act and its 1978 Pregnancy Discrimination Amendment ("OSHA Loses", 1980). In 1978, American Cyanamid introduced a medical policy prohibiting women of child bearing age from working in high-risk, high-lead level environments that might harm unborn or future children. In January of 1979, five female workers sued Cyanamid for violation of their civil rights claiming that to avoid lower paying positions they would have to undergo sterilization ("Cyanamid Attacked", 1979). While Cyanamid eventually abandoned the controversy, Johnson Controls later catalyzed the dormant issue again by adopting the same policy of fetal protection via illegal discrimination and took the case to the Supreme Court in 1991 before losing.

More recently, Whittle Communications has risked legal sanctions and millions of investment dollars by installing advanced communications devices in schools throughout the nation. The battle is for the right to broadcast a ten-minute news program to students with two minutes of advertising each day ("Classroom TV", 1990). The defiance in this case constituted continued programming and investment despite the threat of increased legal restrictions by authorities such as the New York State Board of Regents and the State of California. The moral argument in this case rests on Whittle's claim that the public interest is served by providing an opportunity for well-educated and informed students, while education associations and governments object to having captive audiences for advertisements in the classroom.

What interests us now in each of these cases is not so much defiance of the law per se, but the claim that, (a) the defiance is in the greater interest of the public, and (b) the benefits will be enhanced if the defiance is successful in implementing legal change so that other companies are allowed to follow suit. The Kellogg case is of special interest to consumer professionals in that Kellogg equated its defiant act and subsequent publication of other health claims with the serving of consumer interest.

In its *A Citizen's Petition: The Relationship Between Diet and Health*, as submitted to the FDA in 1985 (Kellogg Company, 1985), Kellogg correlated health claims with consumer interest by compiling hundreds of pages of survey abstracts to support the notion that consumers were aware of, used, and desired exactly the type of information supplied in disease-specific health claims. Kellogg further argued that scientific studies substantiated the link between nutrition practices and incidence of various diseases. In addition, the company offered suggestions not only for allowing disease-specific health claims for the first time but also for regulating them. The guidelines they offered were designed to ensure the safety of vulnerable consumers from unscrupulous food manufactures who might mislead and deceive by way of health claims.

The right of a corporation to defy its legal contract with government must logically stem from the same rights afforded individuals.

CIVIL DISOBEDIENCE AND CATALYTIC DEFIANCE

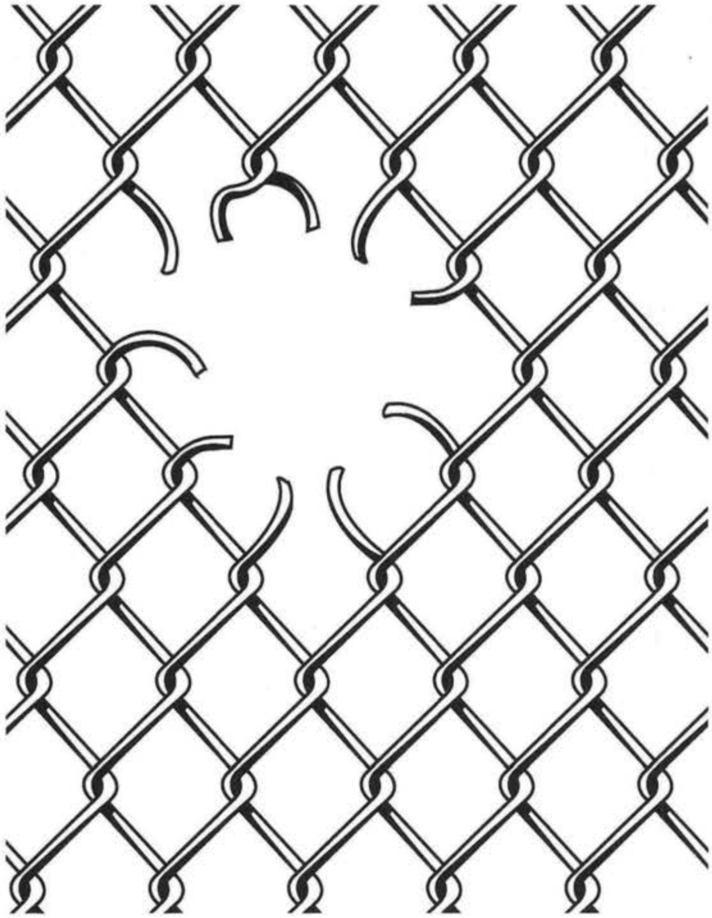
Civil disobedience is a defiance of authority or violation of some rule or law undertaken in hopes of overturning the offending regulation. Civil disobedience involves acts which test the legality of laws or question the morality of them (Coffin and Leibman, 1972). To be civilly disobedient by our definition, an act must be open and public, as well as defiant, and be accompanied by both willingness to accept consequent punishments and an apparent moralistic motivation.

We tend to think of civil disobedience as an activity of an individual against the state. However, in the 1970's an interesting trend emerged as the tactics of civil disobedience were adopted by corporations to fight against regulations and laws. To avoid confusion with actions of labor and consumer forces against corporations, Dennis (1993) coined the term corporate catalytic defiance to describe those instances in which a corporation becomes a catalyst for social change by defying existing law. We have outlined a number of examples of corporate catalytic defiance in the interests of consumers.

The right of a corporation to defy its legal contract with government must logically stem from the same rights afforded individuals. John Locke believed that any individual citizen has a right to break contacts, disobey laws, and seek to change repressive laws of an oppressive ruler (Walzer, 1971). The social functionalists (typified by the philosophy of John Stuart Mill) stressed the right of an individual to defy law if that defiance resulted in the greater common good (Walzer, 1971). Corporations, under this reasoning, could justify engaging in catalytic defiance to the extent that such actions are in the best interests of the public and result from oppressive governmental regulations.

CATALYTIC DEFIANCE AND THE CONSUMER INTEREST

The notion of the consumer interest being served by a corporation's deliberate opposition to the law presents something of a dilemma to consumer economists. The microeconomics model of the marketplace sets the firm and the consumer at odds, each trying through the bargaining process to maximize its own gain. The corporation represents a corruption of the marketplace to imperfect competition, wherein the consumer needs protection against conduct of the firm that may be detrimental to the consumer interest.



The relationship between consumers and corporations in imperfect competition was perhaps best characterized by Galbraith in his theory of countervailing power (American Capitalism). The corporate seller will tend to dominate a market unless an opposing power block of comparable strength forms on the buyer side. Consumers, by their disparate nature, cannot easily organize themselves into such a countervailing power group. The situation then requires that some other source of countervailing power be available. Galbraith saw large retailers and the State as potential sources of support.

How, then, is the consumer to view catalytic defiance by corporations which assume the role of champions for the consumer interest? An optimist might see catalytic defiance as a new stage of evolution by the socially responsible corporation. Corporate social responsibility involves action to meet social needs and solve emerging social problems. In a situation of catalytic defiance, the corporation views the law as a barrier to socially responsible action, and involves itself in civil disobedience. To the consumer who sees phenomena such as the rise of the consumer affairs department and the improvement of post-sales redress as socially responsive actions of corporations, catalytic defiance would be hailed as a desirable new trend in social responsibility. The benefits of health claims to consumers as detailed by Kellogg in its petition to the FDA attests to this desirability.

A pessimist might, on the other hand, see catalytic defiance as only a tool used in attempts to increase market share and profits while just happening to coincide with consumer interests. Marketing opportunity is clearly evident in all of our exemplars of catalytic defiance. With successful defiance, and the new allowance of claims concerning bran's cancer prevention properties, Kellogg should sell more cereal. (Whittle will sell more ads, and Abbott more cyclamates, if they are successful in their defiance, while American Cyanamid and Johnson Controls would have been free of costly tort liability resulting from lawsuits waged by employees who birthed unhealthy children.) Indeed, during the six months following initiation of the All-Bran campaign health claims, the sales of all high fiber cereals rose 37% while those of All-Bran rose by a very bulky 47% (Hunter, 1987)!

Marketing includes those actions of the corporation initiated to react to, or anticipate, changes in the market place. The market driven corporation creates profits by recognizing changes in consumers' needs and by meeting those needs. The catalytically defiant corporation meets consumers' needs by openly defying a law in hopes that the law will change, and in the process, defines the consumers' interests. Catalytic defiance may proactively create market opportunities by allowing corporations singularly to meet consumer needs not being met due to government, legal, or regulatory prohibition. Consumer protection agencies and consumer professionals who recognize the adversarial nature of the marketplace may not welcome such actions if they ultimately exist to serve the corporate interest of increased market share and profitability, rather than the consumer interest. This concern is especially valid if the corporation takes other actions that appear not to be in the consumers' interests. In our featured case, a complete look at Kellogg's conduct toward the consumer might be necessary before support is given to the catalytic defiance. In all fairness, it should be noted that Kellogg's entire existence since its 19th century Battle Creek origins has featured attempts to increase consumer knowledge of nutrition and healthy practices.

The above viewpoints represent two perspectives on catalytic defiance. Whether those concerned with the consumer interest adopt these or some other intermediate view, catalytic defiance is consistent with the American experience of civil disobedience and calls for serious consideration. The literature on civil disobedience notes the right of the individuals to decide what laws are so reprehensible as to be ripe candidates for disobedience. It now seems possible for corporations to also make these decisions. The positioning of corporations as practitioners, rather than targets of civil disobedience, suggests both a new corporate strategy and a new field of study.

As a further case in point, and to raise the kinds of issues that might be involved in this field of study, consider the example of Wal-Mart. Wal-Mart maintains a corporate policy of buyers having to affirm that they have attempted to convince American manufacturers to produce products before they are allowed to purchase products in foreign markets. The argument is that this creates jobs in the United States, thereby presumably putting more money in consumers' pockets so that it may be spent later in Wal-Mart stores (Feinberg, 1991). Also, Wal-Mart encourages and rewards companies which use recycled material in the manufacturing process even if it means Wal-Mart will have to pay more for that product as a result. The compliant company has the opportunity to be promoted in the 2500 Wal-Mart stores. In both instances Wal-Mart arguably promotes the consumer interest within the structure of the law, and could claim to be socially responsible.

At the same time, Wal-Mart is also pursuing a course of catalytic defiance. Wal-Mart recently lost a case in Arkansas of predatory pricing—the charge being that they sold pharmaceuticals below cost and drove smaller local drug stores out of business. Yet, Wal-Mart continues to defy the law in the name of being able to sell drugs at substantial savings to the consumer. Should Wal-Mart be viewed as a corporate Ghandi or a corporate raider? Is Wal-Mart to receive approbation from consumer educators and support from consumer activists?

We would like to close by reviewing the implications of catalytic defiance for consumer advocates. The agenda for consumer advocates has, in a sense, been set by the Consumers' Bill of Rights approved by the United Nations. The *ends* of advocacy are enshrined in the rights themselves—safe products, full information and so on. Now comes along a corporate organization, which claims that current government regulations are preventing the attainment of certain rights and initiates action to overthrow the regulations. What position is a consumer advocate to take?

The question can be rephrased in more familiar terms: *does the end justify the means?* Should the consumer advocate side with the corporation against the regulators who supposedly are the guardians of public interest—knowing that a successful catalytic defiance will likely strengthen the seller's position opposite the consumer in the marketplace?

The phenomenon of catalytic defiance is recent enough that there is little precedent to guide the consumer advocate. This does not mean, however, that the consumer advocate should sit on the sidelines. At the very least a long hard look needs to be taken at each case as it develops, with particular attention being paid to the quality and objectivity of research claims being made in the name of consumer interests. The resolution of the means-ends conflict requires a fuller consideration of the phenomenon by The American Council of Consumer Interests. We hope that this paper will begin such consideration.

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TARGETING COMMUNITY ENERGY EDUCATION PROGRAMS

When planning a new educational program, a community educator would like to know whether program participants are likely to use the information and skills to be introduced. In this study, age and a combined variable of home ownership and type of dwelling were significant in predicting the number of energy conservation practices respondents used. However, the research suggests that socioeconomic and demographic variables may be less important in predicting program success than highly motivated participants and opportunities for the participants to practice the desired behaviors.

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Often, community education program planners know little about prospective learners. Through a formal needs assessment or a well constructed registration form, planners may learn some socioeconomic and demographic information about target audiences. This study was undertaken to determine whether such information can be used with confidence to determine the likelihood that program participants will use the energy conservation behaviors introduced in a community education program.

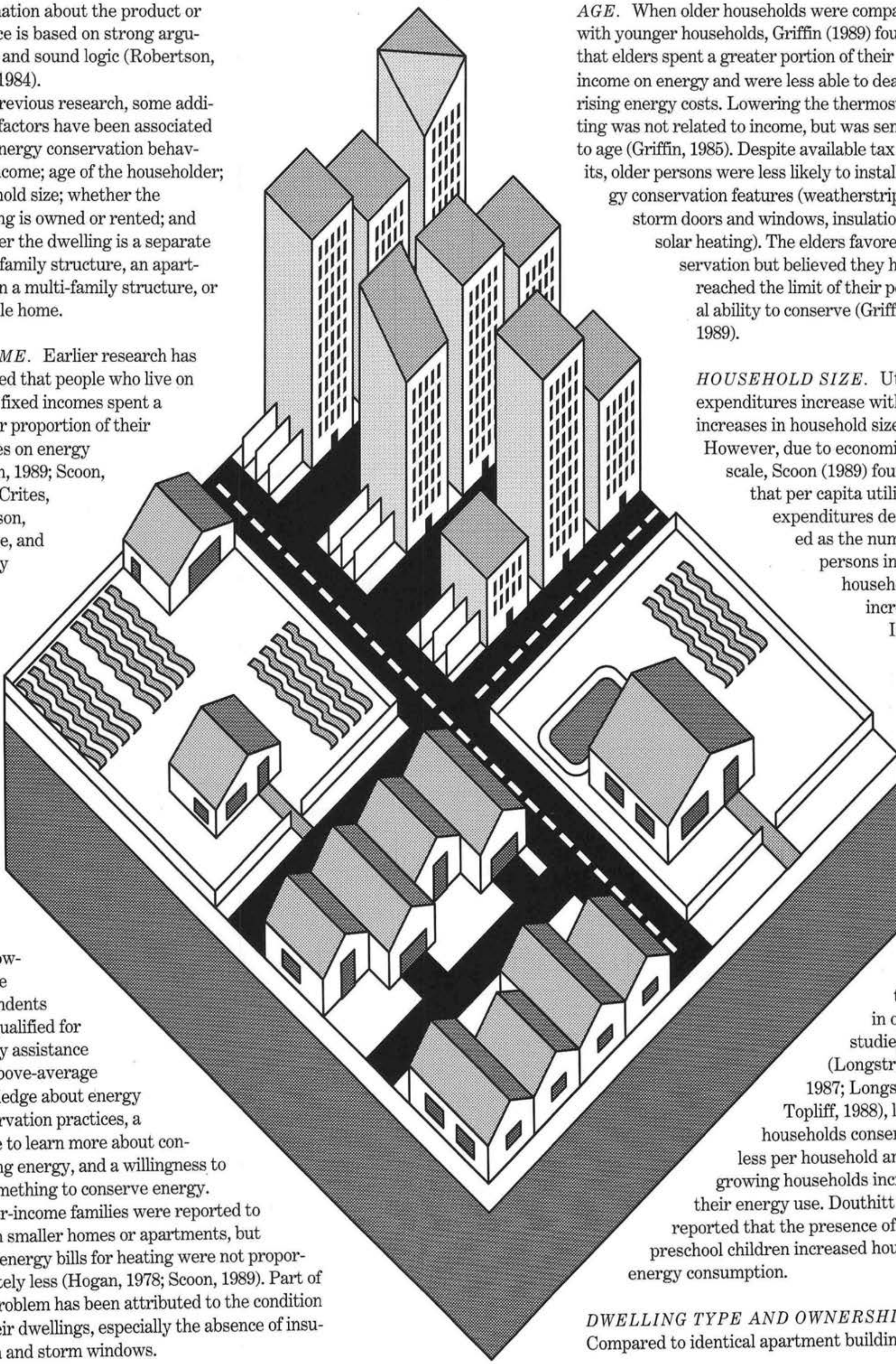
Desire for involvement in energy conservation may be high among lower socioeconomic population segments because they have difficulty meeting the increasing costs of energy in the home (Robertson, Zielinski, & Ward, 1984; Griffin, 1985). As described in the following sections, other socioeconomic and demographic characteristics have also been reported to be predictive of conservation behaviors.

THE PROPENSITY TO CONSERVE

Since behavior change is needed to effect conservation of energy resources, the ability to understand and even predict an individual's propensity to conserve would be helpful when developing energy conservation education programs. Ajzen and Fishbein (1980) demonstrated that beliefs, attitudes, and intentions are the precursors of behavior. Consumer behavior theory indicates that when the consumer has a high level of personal identification with the product or practice and when the product or practice is perceived as relevant, the consumer is likely to be highly motivated to change behavior. There is an even greater propensity to change when information about the product or practice is based on strong arguments and sound logic (Robertson, et al., 1984).

In previous research, some additional factors have been associated with energy conservation behaviors: income; age of the householder; household size; whether the dwelling is owned or rented; and whether the dwelling is a separate single family structure, an apartment in a multi-family structure, or a mobile home.

INCOME. Earlier research has reported that people who live on low or fixed incomes spent a greater proportion of their incomes on energy (Griffin, 1989; Scoon, 1989). Crites, Pederson, Markee, and Murray (1990) found that low-income respondents who qualified for energy assistance had above-average knowledge about energy conservation practices, a desire to learn more about conserving energy, and a willingness to do something to conserve energy. Lower-income families were reported to live in smaller homes or apartments, but their energy bills for heating were not proportionately less (Hogan, 1978; Scoon, 1989). Part of the problem has been attributed to the condition of their dwellings, especially the absence of insulation and storm windows.



AGE. When older households were compared with younger households, Griffin (1989) found that elders spent a greater portion of their income on energy and were less able to deal with rising energy costs. Lowering the thermostat setting was not related to income, but was sensitive to age (Griffin, 1985). Despite available tax credits, older persons were less likely to install energy conservation features (weatherstripping, storm doors and windows, insulation, or solar heating). The elders favored conservation but believed they had reached the limit of their personal ability to conserve (Griffin, 1989).

HOUSEHOLD SIZE. Utility expenditures increase with increases in household size. However, due to economies of scale, Scoon (1989) found that per capita utility expenditures decreased as the number of persons in the household increased. In contrast, in other studies (Longstreth, 1987; Longstreth & Topliff, 1988), larger households conserved less per household and growing households increased their energy use. Douthitt (1987) reported that the presence of preschool children increased household energy consumption.

DWELLING TYPE AND OWNERSHIP. Compared to identical apartment buildings in which apartments were individually metered, energy consumption in master-metered buildings was 35% higher (Midwest Research Institute, 1975). Although no studies were found that compared single-family dwellings with multiple-family dwellings or mobile homes, Meeks (1988) indicated that the size of the housing unit was related to energy consumption and conservation. There was also evidence that home ownership was associated with increased efforts to conserve energy (Fujii & Mak, 1984; Hirst, Goeltz, & Carney, 1981).

METHODS AND PROCEDURES

In this study, all respondents were Low Income Home Energy Assistance (LIHEA) program participants.[1] Since previous research suggested this population believes in and has positive attitudes toward energy conservation (Crites, et al., 1990), the objective of this study was to determine whether socioeconomic and demographic factors other than income were also associated with LIHEA participants' propensity to conserve energy.

In July 1989, University of Nevada Cooperative Extension (NCE) developed a booklet which used strong arguments and sound logic to describe low-cost, effective energy conservation practices. For example, an "energy pie" (figure 1) was used to illustrate how the average southern Nevada household uses energy.

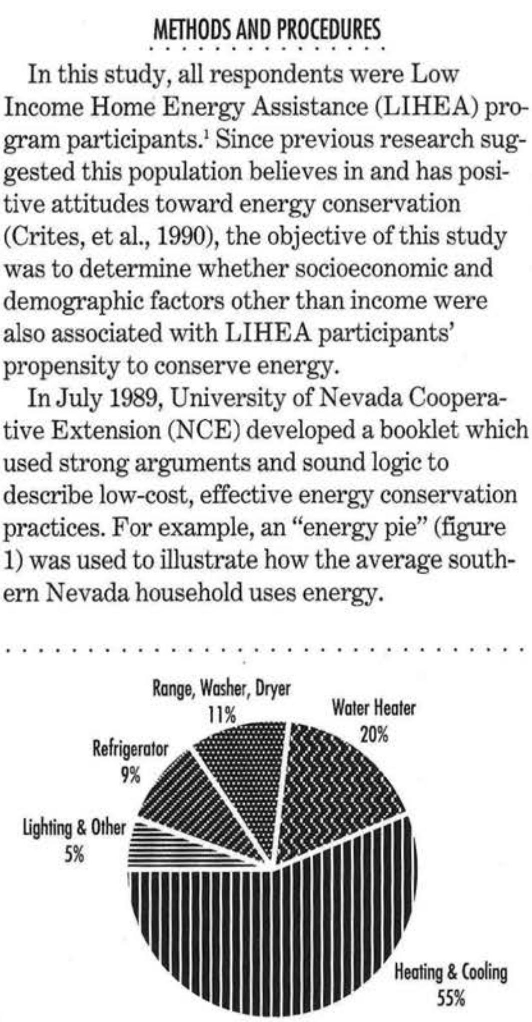


Figure 1
Percent of Energy Used by Energy Consumption Area in an Average Southern Nevada Household

The booklet also listed estimated money savings for specific energy conservation practices. For example, an energy-saving suggestion for the summer was:

"Set your air conditioner thermostat at 78 degrees or on low. Check the temperature inside your home with a wall thermometer to make sure your thermostat is correct. Air conditioning costs $55 a month on an average energy bill of $100 a month. Changing your thermostat to a higher setting from 75 to 78 degrees can save you as much as $8.25 a month.

Only age and the combination variable (type of dwelling and home ownership) were significant in predicting conservation scores.

The booklet, "Save Money by Saving Energy," was mailed to 5,954 people who had applied for the LIHEA program during the previous sign-up period in four southern Nevada counties (Clark, Lincoln, Nye and Esmeralda). Inside the booklet was a yellow postage-paid Energy Survey Form that recipients could fill out and return to the NCE office if they wanted to receive a free energy kit. On the form, respondents indicated whether they had engaged in, or planned to engage in 14 low-cost energy conservation practices discussed in the booklet.

Two weeks after the original mailing, the researchers estimated that approximately two-thirds of those who had responded were older clients. Consequently, a second mailing was sent to those under age 60 who had not already returned the form (n=2,204). The half-size white envelopes with, "It's Not Too Late" printed on the outside, contained a blue copy of the survey form encouraging recipients to respond within 2 weeks. Of the 711 survey forms returned, 710 were usable.

RESULTS AND CONCLUSIONS

Of the 710 low-income respondents, 371 were under age 60 and 339 were age 60 or older; 416 rented their dwelling while 287 owned their home. Approximately 42% (296) lived in apartments; 27% (191) lived in single-family dwellings; 24% (173) lived in mobile homes; and 4% (31) reported that they lived in another type of dwelling. The majority of respondents (456 or 64%) had school-age children living in their home.

A series of regression analyses were used to determine whether any of four independent variables could be used to predict use of energy conservation practices. The independent variables were: age of the householder, whether or not children were present, whether the residence was in an urban or rural location, and a combination variable which indicated whether the dwelling was a single- or multiple-family building or a mobile home and whether it was occupant-owned or rented. The dependent variable was an energy conservation score, determined by awarding one point for each conservation practice used and adding the points for each respondent. The respondents' use of 14 energy conservation practices is reported in Table 1.

Only age and the combination variable (type of dwelling and home ownership) were significant in predicting conservation scores. Those who owned single-family homes were more likely to use multiple energy conservation practices than were renters who lived in apartments or mobile homes. Contrary to previous research (Griffin, 1989), conservation scores increased with age. That is, older respondents used more energy conservation practices than younger respondents.

Although the relationship between conservation scores and age and type of dwelling/home ownership was significant, the two independent variables explained less than 5% of the variance in conservation scores. This result supports earlier research (Haldeman, Peters, & Tripple, 1987) that socio-economic and demographic factors alone may not be strong predictors of conservation-related behaviors. According to theories of reasoned action (Ajzen & Fishbein, 1980) and consumer behavior (Robertson, Zielinski, and Ward, 1984), the respondents' propensity to conserve may be influenced by socio-economic and demographic factors combined with participants' beliefs about and attitudes toward energy conservation as well as their involvement in educational programs.

Table 1
Frequency of Use and Plans to Use Energy Saving Practices

Energy Saving Practice a	I Have Done (%)[b]	I Plan To Do (%)	I Need Info (%)	Does Not Apply (%)	Total c (N=710)
Examine my home	386	87	157	18	648
	(54)	(12)	(22)	(2)	
Weatherstrip doors & windows	196	282	144	40	662
	(28)	(40)	(20)	(6)	
Caulk cracks to stop air	153	289	135	56	633
	(22)	(41)	(19)	(8)	
Use a fan in summer	513	78	27	37	655
	(72)	(11)	(4)	(5)	
Wear warmer clothes in winter	578	95	9	4	686
	(81)	(13)	(1)	(.5)	
Check room temperature with thermometer	341	173	83	30	627
	(48)	(24)	(12)	(4)	
Involve everyone in conserving	395	95	47	90	627
	(56)	(13)	(7)	(13)	
Keep curtains closed	627	48	10	8	693
	(88)	(7)	(1)	(1)	
Use small appliances instead of standard ones	538	77	43	27	685
	(76)	(11)	(6)	(4)	
Replace light bulbs with lower wattage	433	148	62	16	659
	(61)	(21)	(9)	(2)	
Set air conditioner to 78°	415	74	24	153	666
	(58)	(10)	(3)	(22)	
Set heat to 68°	384	146	39	83	652
	(54)	(21)	(5)	(12)	
Check water heater temperature setting	328	142	109	79	658
	(46)	(20)	(15)	(11)	
Contact home weatherization program	104	141	248	86	579
	(15)	(20)	(35)	(12)	

[a] Only brief descriptors of the energy conservation practices are used in the table.
[b] Percent of total respondents (N=710).
[c] Not all respondents gave a reply to each conservation statement.

This result supports earlier research that socio-economic and demographic factors alone may not be strong predictors of conservation-related behaviors.

The researchers faced several tough challenges in designing the education project. Because the program was designed for self-study, there was no instructor nor any opportunity for learner competition. The targeted group (socio-economically disadvantaged) was one customarily viewed as relatively less interested in education; however, earlier research had demonstrated that they held positive beliefs about and attitudes toward energy conservation. Basing the program on knowledge gained from previous research was critical to overcoming the obstacles. The program was designed for high participant involvement and used information that was based on strong arguments and sound logic. The suggested behaviors were easily implemented by program participants. Because participants were self-selected, it is likely they had a positive attitude toward energy conservation. When individuals with positive beliefs and supportive attitudes have the opportunity to put logical information into practice, they are empowered to take control of a segment of their lives. In this case individuals were empowered to save energy as well as money.

LIMITATIONS OF THE STUDY

The low response rate and the possible bias created by self-selection and double solicitation of younger respondents could be limitations in this study. Several factors combine to explain the low response rate. Since the targeted population was low-income householders who received assistance with their energy bills, a low response rate might be expected. Respondents to previous mail surveys in Nevada had higher-than-average incomes (Haldeman, Peters & Tripple, 1987; Haldeman, Peters, and Martin, 1987; Haldeman & Peters, 1988). A lower than average education level among the population would reduce the expected response rate. Furthermore, no systematic reminder strategy was used to encourage responses. The only incentive to respond was the promise of an energy conservation kit. Perceived lack of ability or time to use the kit would have reduced the value of the incentive.

The study's reliance on self-reported data from self-selected respondents may have created a biased sample. The low-income householders who chose to participate in the project were probably those more likely to believe in energy conservation and to have a positive attitude toward it. However, the researchers believe the respondents' self reports of their behaviors were honest and accurate. For each behavior, respondents could select from four responses: "I have done this," "I plan to do this," "I need more information," or "Does not apply to my home."

Regardless of the answer selected, the respondent would receive the promised kit.

Finally, double solicitation of younger respondents may also have created a biased sample. Since 61% of the original mailing list were over age 60, the stronger response by the elders not unexpected. The high numbers of elders, and a tendency for elders to have higher than expected response rates in earlier Nevada mail surveys (Haldeman, Peters & Tripple, 1987; Haldeman, Peters, and Martin, 1987; Haldeman & Peters, 1988), led to the decision to limit sending a reminder to those under age 60.

THE CHALLENGE FOR EDUCATORS

Community education programs designed to use empowerment techniques are likely to be effective. Self-selected audiences are likely to have positive beliefs and supportive attitudes. Using information based on strong arguments and sound logic and empowering participants to use the information greatly enhances the probability that participants will practice the desired behaviors. Change in behavior operationalized by a few key persons in a targeted population may be the beginning of a change in beliefs and attitudes of others who observe and hear of the success of the innovators. This gives rise to the possibility of a new group of potential program participants, and the continuation of the cycle of stimulation of interest, participation, empowerment, change, and influence.

The challenge of community-based education is to help people, but the ultimate goal must be to expand empowerment, change, and influence beyond the initial group of program participants. Some questions for future community education research are: How can empowerment of one segment of the targeted population trigger demand for additional programming? How can empowerment of a small segment of the targeted population trigger changes in behavior of persons outside the initial group involved in the educational program? The questions will not be easily answered for they pose methodological challenges for community education programming and impact assessment.

[1] To be eligible for the program, income must not be greater than 150% of poverty level. In 1988, the poverty guideline was $5,770 for a family of 1, $7,730 for 2, $9,690 for 3, $11,650 for 4, $13,610 for 5, $15,570 for 6, $17,530 for 7, $19,490 for 8, and another $1,960 for each additional person (Statistical Abstract of the United States, 1988).

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CONSUMER EDUCATION

SUCCESSFUL CONSUMER STUDIES PROGRAMS

Editor's Note: In the last issue of ACI, *the article by Zick and Widdows, "Assessing the Health of Consumer and Family Economics Programs," stated that this current issue will contain descriptions of selected successful consumer and family economics programs. In this issue, the program at Purdue was selected by the editor for description.*

CONSUMER SCIENCE AND RETAILING, PURDUE UNIVERSITY

Does Purdue University have a successful program in consumer affairs? The answer is, as are most answers in life, "it depends."

Purdue University has a "pure" consumer affairs major that is independent from other "business" oriented and "consumer" oriented majors, and independent from financial planning and counseling. Thus, the success of our major is not dependent upon the attractiveness of other areas. On the one hand, except for a recent short-term decline, we have a small but solid enrollment that has not changed noticeably in the last five years. On the other hand, consumer affairs is not the largest major in the department, the school, or at Purdue; nor does the earth rotate around it. It is not clear what the enrollment should be other than some multiple of the number of faculty.

I. TRENDS FOR ENROLLMENT. While there has been no major shift in enrollment over the last five years the following trends exist:

1. Enrollment in all business programs have declined significantly across our campus and across the nation. As a business oriented consumer affairs program, the short term decline in enrollment can be attributed to this general trend.

2. The consumer affairs program is highly dependent upon a "champion" who will make the program compelling for undergraduates. It is clear that high school students do not get up on the morning and say, "Hey, what I really want to be is a consumer affairs major." The campus champion is a wonderful teacher who takes advantage of the opportunity presented in a broad introductory course to increase awareness of the major and sell the opportunity. The champion must also be the focal point for the student organization of SOCAP, a source for advising and counselling, and a repository of possible jobs for graduates.

3. The introduction to consumer affairs in business course must be designed to appeal to business students in other majors and be a compelling attraction if we expect awareness to increase and majors to sign up.

4. Ultimately the success of the major depends upon our ability to partner with industry so that consumer affairs majors have a career track that serves their professional education. Industry must be energized to treat the area as a technical profession and serve those schools that design and teach majors. It is not clear that this is happening on an industry-wide basis although we have successfully found companies that partner with our isolated small program.

5. We have seen a trend over the last couple of years for students to want consumer affairs to be a minor to their major. Thus, retail, financial planning, and business/management students want to minor in consumer affairs to increase their degrees of freedom upon graduation. Unfortunately, Purdue does not have an official minor system so these students are not considered in the official reporting of the major.

II. CAREER BUILDING ACTIVITIES. We organize internship experiences for students in major consumer affairs functions. We actively invite professionals into the classes. A student SOCAP group organizes invited speakers and field trips. This summer we hosted a European trip for 20 consumer affairs majors to study multi-national approaches to consumer affairs.

III. SUCCESS FACTORS.

1. We have an active partnership with businesses and business leaders. This partnership provides opportunities for students, allows easy access of guest speakers, and provides research projects for student work experience.

2. There is a "critical mass" of dedicated and talented faculty whose research and professional interests focus on consumer affairs issues. Their involvement in consulting, research, academic and professional organizations is essential for our program's success.

3. We have started an Institute for Consumer Driven Quality which promotes the partnership between business and students/program. The institute does contract work for companies and, in doing so, involves students in the planning, conduct, write-up, reporting, and follow-up in national and statewide studies of consumer affairs issues. The institute provides very positive public relations and word-of-mouth for the University, the department, and the consumer affairs program.

4. We "walk the walk" as well as "talk the talk". We are a "consumer driven" program and solicit feed back and survey all priority parties (students, faculty, business) to our program. We consistently reexamine what we do and how we do it and make necessary modifications based on that feedback. We have a Board of Advisors to steer us.

5. Faculty are very involved in consulting and attending professional seminars in an international and national arena.

6. We have a wonderfully fulfilling introduction to Consumer Affairs in a Business class. This class attracts

majors from around the University. The class is built around top level executive visits and lectures concerning customer service, satisfaction, and consumer affairs.

IV. WHAT ASPECTS OF OUR PROGRAM DO WE FEEL OTHER DEPARTMENTS SHOULD FOLLOW?

1. Build the entry level beginning course into a university wide attraction.

2. Separate consumer affairs from other majors so that a mission-oriented effort and focus exists.

3. Build partnerships with business and industry.

4. Hire a "champion"—someone who has extensive consumer affairs in business experience and is not simply an academician/researcher.

5. Become a consumer driven consumer affairs program that "listens to" and involves students, faculty, and business professionals in all aspects of design, development, and implementation of the major.

6. Hang in there. Time is on our side as business and industry become disillusioned with the non-consumer oriented nature of business programs.

Richard Feinberg, Gong-Soog Hong and Richard Widdows
Consumer Sciences and Retailing

Neomuck—Continued from Page 4

read or to ignore. However, all this has not been without some positive outcomes. While there have been a few frustration in being an editor, the one pleasure I have had is the opportunity to write "grumblings".

• • •

TIME TO GIVE THANKS

This is the last issue of *ACI* under my editorship and it is time that I thanked all the persons who helped me make it through the last seven years. My associate editors, Bob Kroll, Julia Marlowe, Rosella Bannister, Mary Carsky, and Brenda Cude contributed significantly by giving advice, finding articles and authors, reviewing and editing pieces, and in the case of Bob, helping me through several editorship-related nervous break downs.

My editorial review board, member's names too numerous to mention here, also contributed much to the content of *ACI*. They not only did much of the screening of the content that eventually made it into print, they were the ones who shouldered the blame, albeit anonymously, when an author asked why her/his manuscript was butchered or rejected.

Timothy Sheppard receives special thanks. Timothy is the person who is not only responsible for the artistic composition of *ACI*, but is also the one who designs the format for each issue, makes corrections, draws the illustrations, and authors the outrageous titles for the book reviews. Although Timothy is an active Mormon, he has assured me that he has not placed subliminal proselytizing messages in his art work. However, knowing Timothy, *caveat lector* (let the reader beware).

There are my departmental colleagues who helped a lot but were never recognized in print. These informal assistant editors are Rob Mayer, Cathleen Zick, Daigh Tufts, and Jutta Joesch. These are people who gave me ideas, criticism (some solicited, some not), and last-minute advice on acceptance or rejection of certain material. Daigh and Jutta were on the editorial review board but helped beyond this assignment.

Monroe Friedman cannot be ignored in the history of *ACI*. Not only was it was primarily Monty's idea to create this applied journal, the name, *Advancing the Consumer Interest*, was his notion. Monty also gave me invaluable advice in the early years of my editorship.

In the tradition of Stewart Lee who involved his family members in publishing the *ACCI Newsletter*, I also used some nepotism in publishing *ACI*. My wife, Jan Ellen, my daughter Becky, and my sister Lorna helped at times with proofreading. Jan Ellen also gave me a lot of psychological support. My son, Michael with his Washington political connections, procured some articles and my former wife, Grace, was a guest reviewer.

As you can see, the success of *ACI* in the past seven years has been the result of many persons who unselfishly dedicated some of their own time and energy. Thanks to all of them.

Editor

STEWART M. LEE AWARD

GARMAN WINS EDUCATION AWARD

E. Thomas Garman, Professor of Housing, Interior Design, and Management at Virginia Polytech University, was awarded the annual Stewart M. Lee Education Award at the 1994 ACCI conference in Minneapolis.

Dr. Garman's recognition was based on his accomplishments as a teacher and researcher; and for his contributions to professional service. In addition to being a professor of consumer affairs and family management, Dr. Garman has been a visiting professor at several colleges and universities and has taught a unique on-site summer graduate course, "Consumer Issues in Washington." He has also authored over forty journal articles relating to consumer education and research in addition to receiving grants in both these areas. Dr. Garman may be best known for his textbooks—*Personal Finance, Consumer Economic Issues in America*, and *The Consumer's World*. Dr. Garman's service includes being president and board member of several professional organizations including ACCI.

Dr. Garman's nominator writes:

> It is to Tom's credit that he undertakes these "labors of love" for the field without any realistic prospect of monetary remuneration. These and other projects currently in place will ensure that Tom remains at the forefront of those providing outstanding, long-term contributions to consumer education. But with the track record he has already established and his unbridled enthusiasm for consumer education, I can think of no one more worthy to receive the prestigious Stewart M. Lee Award.

AN ILLUSTRATED TRIBUTE TO THE EDITOR

Ever since John Burton assumed the editorship of *Advancing the Consumer Interest*, I have pestered him about including the caricature on the opposite page. With this, his last issue, John has relented.

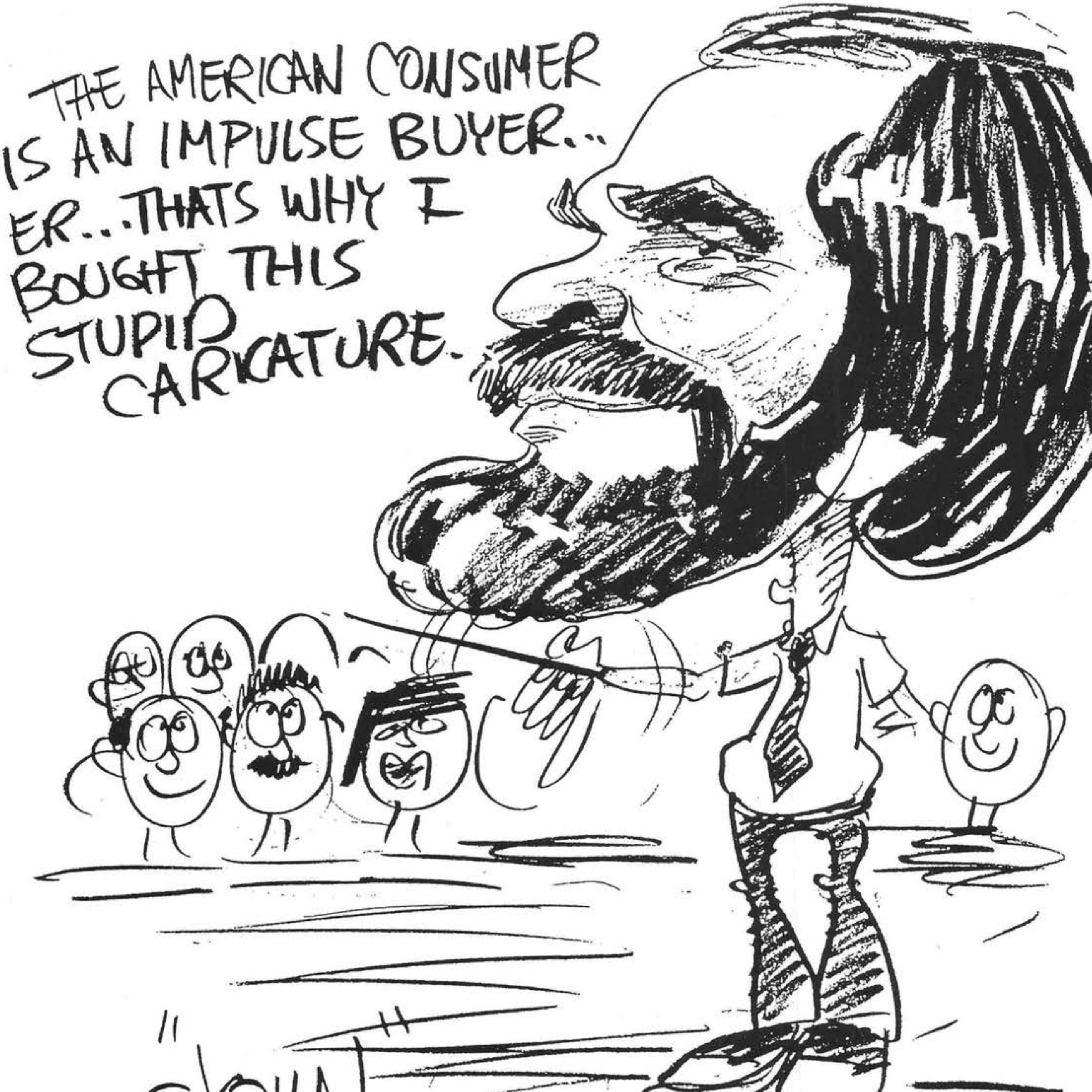
Why do I like this picture so much? First, it was sketched by a free-lance caricaturist one evening in Denver during the 1977 ACCI annual conference. I barely knew John at the time, having just agreed to join the faculty at the University of Utah and become his colleague. So this picture of John reminds me of his loyalty to ACCI. As a young graduate student, he joined in 1967, attended his first conference in 1969, and hasn't missed a single conference for the past quarter of a century.

I also like this picture because it emphasizes John's strong chin. Unfortunately, he keeps it hidden under a thick beard, but his chin is something to behold. Kirk Douglas, Jay Leno, and Dudley Dooright have nothing on John.

Most of all, I enjoy this sketch because it reminds me of human frailty, in particular the difficulty of practicing what you preach as a consumer educator. We do an excellent job of telling consumers how they ought to behave, but if they followed our advice to the letter, there wouldn't be much joy in the act of consumption. As soon as the lengthy process of pre-purchase information search is completed, consumers are supposed to read the instructions, check the warranty, file their receipts, and fend off cognitive dissonance. So it's important to let down our guard, at least once in a while. When John bought this caricature, it was like Jenny Craig ordering a chocolate cake or Gloria Steinem purchasing a copy of *Playboy*.

Normally, John leads an austere life as a consumer. He dutifully consults *Consumer Reports* before buying a major appliance and obtains most of his wardrobe at garage sales. But John has his weak moments. Tell him that your telephone is broken and he will arrive at your home that evening with one he has put together from spare parts. Ask him to contribute funds and time to an environmental organization, and he's there. This same altruistic spirit has infused John's tenure as editor of ACI. I hope that this caricature will remind people of the generosity—and temporary insanity—required to edit a professional journal. Thanks, John.

Rob Mayer


THE AMERICAN CONSUMER IS AN IMPULSE BUYER... ER...THATS WHY I BOUGHT THIS STUPID CARICATURE.
"JOHN"

BOOK REVIEW

A JUNGLE GUIDE TO HASSLES AND SCAMS

Howard, Clark and Mark Meltzer (1994) *Clark Howard's Consumer Survival Kit.* Marietta, GA: Longstreet Press, Inc. $14.95.

As a consumer economics student, I spend a great deal of time in classes geared toward teaching one how to become a better consumer. Yet *all* consumers are students of market practices. After all, it's impossible for consumers to know all there is to know in the jungle of everyday hassles and scams. Unfortunately consumers are often unaware of possible problems until trouble strikes. Howard and Meltzer seek to reduce the risks associated with being a consumer in, *Clark Howard's Consumer Survival Kit.* The authors attempt to help consumers get the most for their dollar, whether it is spent, saved or invested. This book contains helpful hints which Howard has compiled from his own experiences as Georgia's best known consumer advocate.

In the chapter "The Basics," the authors remind us, first and foremost, of the power to vote with dollars. This section covers a variety of subjects from dry cleaning to contracts. The importance of educating oneself in order to protect oneself is stressed. It is the authors' impression that dealing only with reputable retailers limits hassles. They obviously have not read the *ACI* editorials, "which are 'reputable business' anyhow?'

The chapter titled "Money," offers advice on topics such as credit, taxes, and investments. Howard and Meltzer advocate Consumer Credit Counseling Services to those who get into credit trouble. They stress the importance of savings and suggest investing in a 401K. This section also includes the financial aspects of divorce and death.

In the chapter regarding automobiles, buying cars, getting repairs, and information about what to do in case of accidents are covered. The authors suggest consumers first look at cars when a dealership is closed to avoid pushy salesmen. They state the willingness to walk out of a dealership is the best protection when buying a car. The authors give guidelines for financing a new car and oppose buying an extended warranty. Before buying a used car, they advise taking the car to an independent mechanic. Getting more than one estimate for repairs, and asking the mechanic to return the old parts is also advised. This chapter also includes information on recalls, lemon laws, arbitration and the steps one should take following an accident.

The "Real Estate" chapter covers everything from buying or selling a house to being a landlord or tenant. The authors believe the first decision the consumer needs to make is whether the house is to be purchased as a financial investment or for personal reasons.They recommend that landlords manage rental property as if it were a business, requiring all prospective tenants to fill out an application with a copy of their credit report. When renting property, they recommend never signing a lease on the spot and adding a clause enabling the termination of the contract before expiration should circumstances change. This chapter also includes tips on warranties, remodeling, moving, home security systems, financing and mortgage servicing.

The most interesting chapter pertains to "Ripoffs." Con artists are described as masters at persuading consumers to make quick and hasty decisions. Advice on avoiding a number of ripoffs is offered. Consumers are warned not to sign a contract on the spot. But if they do, the authors remind readers of laws that may permit voiding of certain contracts. Since credit insurance protects the lender and not the consumer, the authors consider it a it a ripoff. Employment scams, telemarketing, long-distance calling, contests, charities, buying clubs, extended warranties, and advance-fee loans are also covered in this chapter.

The chapter on insurance is comprehensive. Since insurance is a complicated purchase, Howard and Meltzer give guidelines for purchasing each type. Because the odds of being disabled are much greater than the odds of dying prematurely, they advise consumers to purchase disability insurance. With rising health care costs,they consider HMOs as the best alternative to the traditional fee-for-service plans. They feel homeowner's insurance should cover replacement costs rather than actual cash value.

The best advice offered in the "Travel" chapter is to be flexible. By not being rigid about travel dates, consumers can often take advantage of lower travel rates. Howard and Meltzer also offer a number of tips on car rentals, places to go, handling money while traveling, and bed and breakfast inns.

They close with a workbook section which helps consumers take action with their disputes in the marketplace. The "Workbook" includes a variety of tools such as a model complaint letter, a sample "Drop-dead" letter to collection agencies, a specimen living will, and a phone book containing an appropriate contact for just about any consumer problem.

The *Clark Howard's Consumer Survival Kit* might be used as a supplemental textbook for senior-level high school classes and for introductory college consumer courses. It is readable and appeals to a wide variety of consumers from college students about to make a number of infrequent, yet expensive purchases to a retiree considering the purchase of vacation homes. With such a diversity of topics, a consumer need not read the book from cover to cover to find it useful. Affordably priced, a consumer can recoup the cost of the book by making efficient purchases.

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