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Evaluating the FTC Cooling-Off Rule

The head of a company that sells books door-to-door has lamented government efforts to curb abuses in direct selling [2]. He claims that these attempts are driving direct-to-consumer sales organizations out of business. Not all executives in the door-to-door selling field share his pessimism. Some of them have been careful to keep their operations free of abuses and consequently are largely unconcerned about regulation.

The major piece of regulation impinging on direct sellers is the Federal Trade Commission rule providing a three-day cooling-off period for in-home purchases of $25 or more. The proposition advanced and empirically supported in this article is that door-to-door sellers which use forthright selling methods have nothing to fear from the FTC rule. It does not encourage or promote customer cancellations in the direct sales organization that eschews deceptive selling techniques.

Perhaps the major impediment researchers encounter in attempting to ascertain the effects of laws or regulations designed for consumer protection is in obtaining internal corporate records which, if available, would greatly facilitate the evaluation process. A large direct sales firm commendably has broken with tradition and released to the researchers current proprietary field sales data. These data make possible an ex post facto examination and corollary discussion of the effects of the FTC cooling-off rule on the sales productivity of a law-abiding direct seller. The company wishes to remain anonymous.

THE FTC RULE

Abuses of consumers in door-to-door selling were early targets of the FTC's Bureau of Consumer Protection [2]. In 1970 the commission proposed a trade regulation rule to provide a cooling-off period for door-to-door sales. The rule was promulgated in October 1972 and became effec-

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tive on June 7, 1974 [3]. For purposes of the rule, a door-to-door sale is defined as:

> A sale, lease or rental of consumer goods or services with a purchase price of $25.00 or more, whether under single or multiple contracts, in which the seller or his representative personally solicits the sale, including those in response to or following an invitation by the buyer, and the buyer's agreement or offer to purchase at a place other than the place of business of the seller. [3].

The in-home purchaser must be informed orally of the right of cancellation. The rule additionally requires the seller to furnish the buyer with either a written receipt or contract concerning the sale. It must be provided at the time of the transaction and stated in the same language as that used in the oral sales presentation. The receipt or contract must contain a standard FTC-prescribed statement apprising the buyer of the right to cancel the transaction any time prior to midnight of the third business day after the date of the sale. A business day is defined as any calendar day with the exceptions of Sunday and certain named holidays. A buyer must also be furnished with a "Notice of Cancellation" form [3] which reads:

> You may cancel this transaction, without any penalty or obligation, within three business days from [the transaction date]. If you cancel, any property traded in, any payments made by you under the contract or sale, and any negotiable instrument executed by you will be returned within 10 business days following receipt by the seller of your cancellation notice, and any security interest arising out of the transaction will be cancelled. If you cancel, you must make available to the seller at your residence, in substantially as good condition as when received, any goods delivered to you under this contract or sale: or you may if you wish, comply with the instructions of the seller regarding the return shipment of the goods at the seller's expense and risk. If you do not agree to return the goods to the seller or if the seller does not pick them up within 20 days of the date of your notice of cancellation, you may retain or dispose of the goods without any further obligation. To cancel this transaction, mail or deliver a signed and dated copy of this cancellation notice or any other written notice, or send a telegram, to [name of seller] at [address of seller's place of business] not later than midnight of [three business days after the transaction date].

Cooling-off laws have also been enacted in 37 states [4]. The FTC rule does not exempt a seller from complying with these state laws or with similar local ordinances regulating door-to-door selling, except when the laws or ordinances are directly inconsistent with the rule's provisions. A state law or local ordinance can impose more stringent requirements on direct sellers than does the FTC rule. However, portions of state laws or local ordinances imposing standards which are less restrictive than those in the FTC rule are considered to be inconsistencies. Whenever inconsistencies arise the FTC rule prevails and thus preempts the salient part of the state law or local ordinance.

BUYER CANCELLATIONS

The company that provided data for this study is a door-to-door seller which has been in business for well over 100 years. It has salespeople working in about 30 states. The sales force is comprised mostly of college students who work during the middle of May to early September selling season. Management trains and closely monitors their field sales representatives in striving to assure that honest selling methods are practiced and that legal requirements are complied with. The company's products include religion and educational books, printed works tailored for black consumers, and assorted books for home use such as cookbooks and home maintenance manuals. Over 30 titles are sold. The findings cited here pertain to direct-to-consumer sales of the company's religion books.

All of the firm's salespeople are evaluated for proficiency at the close of each selling season. One performance criterion used is the total number of customers sold during the course of the summer. A second standard is the dollar amount of sales generated. Each salesperson is also evaluated on an index called delivery percentage. This index is calculated as total number of customers sold less number of cancellations divided by number of customers sold. For instance, if a salesperson made 900 sales and 54 of the buyers cancelled their orders, then the salesperson's deliver percentage would be 900 minus 54 divided by 900 or 94%. Another way of saying the same thing is that 6% of all the customers sold by the sales representative cancelled their orders. So a high delivery index indicates a low cancellation rate and vice versa.

Table 1 contains longitudinal sales data for fifteen individuals who sold full-time for the company in the Summers of 1973–1976. The FTC cooling-off rule became effective on June 7, 1974. Therefore the 1973 figures in the table refer to a selling period when the rule was not in force and the 1974–1976 figures relate to a period when it was operative.

The total number of customers sold increased each year from 1973 through 1975 and then decreased from 1975 to 1976. Based on historical trends the company's management felt that these fluctuations were attributable mostly to prevailing economic conditions. Rather expensive religion books of the kind the company offers for sale are largely discretionary purchases which consumers tend to forego in economically depressed times and to buy more vigorously in better times.

The average cancellation rate for the fifteen salespeople was 3.9% in 1973. Although the FTC rule was not binding in 1973, there were nevertheless customer cancellations for two reasons. A few of the fifteen sales-

TABLE 1
Cancellation Rates for Fifteen Direct Salespeople, Pre- and Post-FTC Cooling-Off Regulation, 1973–1976.

	Cancellation Rates[1]			
	Pre-rule	Post-rule		
Salesperson	1973*	1974*	1975*	1976*
1	2.8%	3.6%	1.4%	2.0%
2	0.0	0.0	3.4	3.5
3	5.9	1.7	0.9	2.2
4	3.3	5.1	1.1	0.9
5	9.6	26.2	0.2	0.5
6	4.4	2.2	3.2	1.1
7	1.7	2.1	0.8	0.5
8	3.8	4.1	1.5	1.2
9	10.6	6.4	1.7	0.9
10	2.6	0.9	0.4	0.8
11	6.6	4.7	2.8	1.4
12	3.8	4.6	0.4	1.7
13	3.1	2.7	1.4	3.5
14	0.0	0.0	2.2	1.8
15	0.0	1.3	0.5	1.2
Average Cancellation Rate	3.9%	4.4%	1.5%	1.5%
Number of Sales	4844	6963	8481	7247

[1]Cancellation rate = 1 − (number of customers sold − number of cancellations/number of customers sold)
*Cancellation rates for 1975 and 1976 are significantly different statistically from cancellation rates for 1973 and 1974.

people were selling in locales with cooling-off laws or ordinances and some orders were simply undeliverable—for example, buyers moved without leaving forwarding addresses. In 1974, the FTC rule was binding for part of the summer—after June 6. In that year the average cancellation rate rose slightly to 4.4%, but statistically this was not a significantly different rate from 1973. In 1975 the average cancellation rate decreased to 1.5% and remained the same in 1976. The cancellation rate for 1975 and 1976 was statistically different from those of 1973–1974.[1]

It is not possible to determine for certain why cancellation rates were generally lower after the FTC rule became effective. However, it is plausible that the cooling-off provision (of which buyers were informed

[1]To test for statistically significant differences in the cancellation rates for 1973–1976, the Kruskal-Wallis one-way analysis of variance by ranks test [1] was applied to the data. A parametric one-way analysis of variance test was not used because the statistically conservative assumption was made that the cancellation rate measure was no stronger than ordinal data. The Kruskal-Wallis test statistic = 9.79, $p < .025$, degrees of freedom = 3 assuming a chi-square distribution.

orally and in writing) served to mitigate postpurchase dissonance (doubts about the wisdom of a purchase) and thereby reduced customer cancellations.[2] No other explanations for the decrease in cancellation rates could be found. For example, the company's canned sales presentation was not changed in the years 1973–1976, except to accommodate the FTC's oral notification requirement concerning the buyer's cancellation right. Moreover, cancellation rates are not felt to be sensitive to economic aberrations. Company records show that they have historically remained stable irrespective of economic conditions.

In initially interpreting the data there was also the concern that the 1975 and 1976 cancellation rates may have decreased, relative to 1973 and 1974, because the fifteen salespeople had become more experienced and accordingly more proficient. This possibility was rejected after further analysis. The cancellation rates for a representative number of first-year salespeople in each of the years 1973–1976 were compared. When the comparison was made the same pattern for 1973–1976 that was manifest among the experienced sales personnel was also evident among the inexperienced salespersons. The cancellation rates for first-year sales representatives in 1975 and 1976 were lower than the corresponding rates for first-year salespersons in the earlier years. At the very least it can be concluded that the FTC cooling-off rule definitely did not stimulate a rise in the rate of customer cancellations.

CONCLUSION

The FTC cooling-off rule is no panacea for curtailing door-to-door selling abuses. However, the rule helps greatly by enabling the purchaser to have a change of mind with impunity and by affording consumers with some protection from the high pressure, mountebank door-to-door operator whose goal it is to make a sale and then quickly depart with a legally binding contract in hand. The rule does not appear to encourage customer cancellations as many door-to-door sellers initially argued it would. There is a strong likelihood that direct sellers are actually assisted by the cooling-off provision, since the customer's right to cancel is a risk-reducing aspect of the sales presentation. Any regulation that helps consumers without economically injuring legitimate business must be considered to be exemplary or model regulation.

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[2]The reduced cancellation rate does not necessarily imply more satisfied consumers. Buyers could become dissatisfied after the cooling-off period has elasped but be unable to do anything about it.

REFERENCES

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