Determinants Influencing Customers' Decision to stay or Swicth with their Service Provider: A Conceptual Study of Banks

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Abstract

In this paper, the researchers have projected a conceptual framework to investigate the determinants influencing customer's decision to stay or switch with their service providers. Switching behavior and customer retention is possibly an effective contraption that banks can exercise work out to get a strategic pro and survive in today's escalating banking competitive situation This study is an attempt to study the factors influencing switching behavior of the customers and customer retention in the banking sector. In order to even the development of managerial action, we thrash about what are those determinants and how are these connected to the switching behavior and customer retention by reviewing the literature. Our approach and findings have meaningful implications for managing customer retention in the service sector

Keywords:

Customer retention, Service quality, Customer satisfaction, Customer Loyalty, Switching Barriers

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Introduction

Banks must drive sustainable competitive advantage which must be on top of their marketing strategies. At present, banks have large customer base but are not acquiring ample share of wallet of their customers. There is a great need to develop a new product or service, not a breakthrough type of innovative product in order to distinguish their product or service from other banks to make sure of customer retention and get back their share of wallet. Customer retention is a vital element of bank's strategy in today's competitive era. The banks are required to explore these factors that can limit customer defection rate. Customer retention can act as a vehicle of strategic marketing as defensive marketing policies or offensive marketing policies of banks. In a service sector, the longevity of customer relationship with its service providers is the customer retention (Menon and O' Connor, 2007). The propensity of customers to stay with their service providers is customer retention. Some researchers studied that the service providing firms which keeps their existing customers significantly can improve their firm's performance and success rate (Jones, Beatty and Mothersbaugh, 2000; Colgate, Stewart and Kinsella, 1996). The defensive marketing policies considers the impact of marketing resources to be better spent on keeping existing customers rather on attracting new one as recent surveys shown that keeping existing clients is more profitable than acquiring new one.

While the marketing literature contains extensive research devoted to the consequences of switching costs in terms of customer retention and customer switching behavior, little is known about the drivers of these costs and behavior. However, knowledge about the factors that generate and enhance the level of switching costs can be of great interest to both academics and practitioners. Switching behaviour and customer retention is potentially an affective mean that banks can work out to add a strategic pro and survive in our day's competitive situation. In the current era of the competitive business environment and challenging economy, switching cost is a critical factor in an organization. If service providers don't give their customers any good reason to keep on, their competitors would give them a very tough reason to leave.

Through the use of customer retention strategies service providing firms can be assured of customers' support as they are getting benefits (Peppers and Rogers, 1999), which escorts the firm to higher profits and enhanced success levels (Bergeron, Roy and Fallu, 2008). Moreover, a firm can also anticipate for profits in terms of word-of-mouth marketing strategies, cost savings and an increase in profits and revenues with chalking out well-made customer retention strategy. Additionally, customer defection (when service providers lose their customers as opposed to retaining them) rate can also be decreased. As a result of well-known relationship of the customers with their service providers, some retained customers may feel their risk of making use of, acquiring and maintaining the product or service is trimmed down.

Hence, it is becoming an industry-wide belief that the best core marketing strategies for the future is to try to retain existing customers by heightening customer loyalty and taking into consideration its link with switching barriers. Most of the previous studies considered the factors influencing customer retention from customer's point of view. They perceive customer retention as a propensity of consumer to remain with the service provider and therefore they conceptualize the customer retention as a behavioral factor.

This paper analysis the determinants influencing switching behavior of the customer taking banking sector as an example. The remainder of this article is organized as follows. In the next section, we provide the review of literature and then present the main constructs of switching behavior and its connection with retention of customers. Then conclude with an assessment of managerial implications, limitations and directions for future research.

Theoretical Framework

The switching barrier refers to the difficulty of switching to another provider that is encountered by a customer who is dissatisfied with the existing service or to the financial, psychological and social burden felt by a customer when switching to a new service provider. (Fornell, 1992). Therefore the higher the switching barrier, the more a customer is forced to remain with his or her existing provider i.e. bank. According to a previous study, the switching barrier is made up of switching cost, the attractiveness of alternatives, and interpersonal relationships. It's obvious that a key element in customer retention program is switching cost and service quality of service firms. However, service quality and customer satisfaction need not to be the only element of firm's strategic marketing efforts. The barriers to customer defection in service sector like strong interpersonal relations, customer loyalty, customer satisfaction, price perceptions, inertia also depicts the additional marketing strategies in service industry. Hence, the driving variables of customer retention should be long-established so as to deal with the policies and ways to avert customer defection.

Earlier studies suggest that customer loyalty makes the foundation of a firm's sustained competitive advantage, and that developing and increasing customer loyalty is a crucial factor in a firm's growth and performance (Reichheld, 1996; Lee and Cunningham, 2001).

Lee and Lee (1999) studied the link between customer satisfaction and customer loyalty; identify the customer segment with asymmetric level of satisfaction and loyalty. They also studied the influence of switching cost on customer retention. The findings of this study reveal that in segment 1, none of the switching cost variables is important as if customers decide to switch to other provider. Switching cost is not a barrier. In segment 2, the quality element is more important as compared to price element of customer satisfaction because customer loyalty is less concerned and influenced with pricing plan and hence they are willing to pay the price premiums. In segment 3, customer shows high loyalty then low to medium satisfaction. They are dissatisfied with the services but information elements act as a switching barrier for them. Therefore, it affects the customer retention rate. Jones, Mothersbaugh and Beatty (2000) tested a customer retention model which encompasses contingencies between the switching barriers and customer satisfaction. The proposition of this exploration was to know whether the higher levels of core- service satisfaction, strong interpersonal relationships, higher perceived switching cost, lower attractiveness of competing alternatives is/ are associated with higher repurchase intentions. The results disclosed that the influence of core – service / product satisfaction on repurchase buyer's intent decreases when customer perceived high switching barriers like strong interpersonal relationships, switching cost and attractiveness of alternatives etc. They also concluded the fact that firms should build up many switching barriers for retaining the existing customers despite of their being deficient in customer satisfaction with service offerings. And, they also revealed that the switching barriers have no impact on repurchase intension when customer satisfaction is high. The switching barriers influence the repurchase intentions in positive way only when customer satisfaction is low. Ranaweera and Neely (2003) developed a model of customer retention including service quality perceptions, price perception, customer indifference and inertia, switching barriers with special emphasis on repurchase intentions dimension. They found in their study that service quality perception has direct linear association with customer retention even in mass services with low customer contact. Customer indifference and price perception also have a direct affect on retention. To moderate the relationship between perceptions of service quality and retention, Switching Behavior, customer indifference and price perceptions act as moderator whereas inertia has no association with customer retention. They also suggested that if we combine service quality and price strategy, which can work as best strategy for service providers. Gustafsson, Johnson and Roos (2005) scrutinized the effect of customer satisfaction, affective commitment created through personal interaction and calculative commitment, as created through the cost of switching the providers, on customer retention. The qualitative interviews and periodic surveys are conducted. The results of the study reveal that 1) Customer satisfaction has positive effect on customer retention. 2) Affective commitment is when combined with customer satisfaction does not predict a churn because when satisfaction is measured as a complete factor of performance evaluation, it predicts churn. 3) The another important finding of this study was that calculative commitment has negative effect on churn. However, the triggers have no influence on churn models or retention strategies. Akbar and Parvez (2009) analyzed a conceptual framework empirically that states the interrelationships of customer's perceived service quality, customer loyalty, switching barriers and trust and customer satisfaction. The results of this study show that trust and customer satisfaction are very important variables and positively associated to customer loyalty. It also helps to retain the customers by making loyal customer base. They suggested that managers should focus on customer satisfaction for which service quality is an antecedent for achieving the goal of creating loyal customer base and switching barriers. Ladhari et al. (2011)evaluated the customer service quality perceptions regarding bank's services of Tunisian and Canada. They also determined certain dimensions of switching behavior that influences overall customer loyalty and satisfaction. The results show the fact that both the country's respondents reported high degree of perceived service quality in banks. But, Canadian customers reported high level of perceived service quality as compared to Tunisian respondents. They opine that the Canadian bank managers should acknowledge the significance of "empathy" in service delivery by implementing best customer-oriented strategies and Tunisian bank managers should concentrate on giving trustworthy services efficiently and accurately.

Constructs

Switching barriers plays a role of a regulating variable that describes the relationship between customer satisfaction, loyalty with customer retention. The concept of switching barriers is employed as the marketing strategies which turned out switching costly for its customer to another organization. Such barriers build customer defection costlier and difficult. Switching barriers comprises of interpersonal relationships, attractiveness of alternatives and perceived switching costs . Switching barriers influences customer's decision to stay or leave the organization. Ahmed and Buttle (2001), explores some benefits of retaining the existing customers as a 5 percent increase in customer retention rate leads to an increase between 25 – 85 percent in net present value of customers. These benefits are as:-

- Saves customer acquisition and replacement costs.
- Guarantees the base profits as alreadycontinued customers are likely to have minimum spend per period.
- Savings in operating costs as firm can spread this cost over many more customers for a long period of time.

Interpersonal Relationships

Interpersonal relationships denote social and psychological relationship that is evident itself as intimacy, communication, trust and care. It implies to the power of personal bonding that build up between customers and their service providers. The interpersonal relationship is highly noteworthy in the services specified a high degree of personal bonding of customers with their service providers, heterogeneity of service results; and customers play the high-flying role in the service production (Bowen, 1986)

Switching Costs

From a hypothetical point of view, switching costs in explaining customer retention that leads too stable and long-lasting relationships (Ganesan, 1994; Dick and Basu, 1994; Bendapaudi and Berry, 1997). From an empirical point of view, researchers have shown that the mediating role of switching costs in elucidating customer retention in numerous service industries including banking, credit cards, airlines and telecommunications (Jones, Motherbaugh and Betty 2000, 2002; Burnham, Frels and Mahanjan, 2003; Lam et al. , 2004; Harris and Uncles, 2007). Customer switching costs are also a crucial driver of customer retention but have received much less attention in the service marketing literature. From a practical perspective, executives are mainly concerned about the negative outcomes of customer switching in terms of the market share and profitability (Rust and Zahorik, 1993).

Attractiveness of Alternatives

The attractiveness of alternatives denotes to service quality that the customer expects from the present service provider in most excellent available alternative. It is linked with the conception of service differentiation – providing unique and value added service to the customers whom their contenders do not offer (Jones, 1998; Kim et al., 2004). Depending on the quality of challenging alternatives, the customer perceives a benefit in altering the service provider (Oliver, 1997). The more attractive the alternatives are, the higher the perceived benefits will be when switching (Jones et al, 2000). Therefore, consumers are likely to switch as soon as they perceive alternative offerings as being better-quality with respect to cost-benefit ratio. There is also empirical evidence from Rusbult at al. (1982), reporting that the quality of alternatives is connected positively with existing and negatively with customer loyalty and then customer retention.

Lots of other determinants are there which influences customers' decision to stay or switch with their providers. The first of four factors contains reasons related to apathy, the second one contains negative reasons for customers staying with their current service provider, the third factor leads to relationship variables and the final factor relates to service recovery (Colgate, 2006).

Discussion

In this research, we study the drivers of customer switching behavior. In particularly, we focus on exploring the extent to which such determinants influences switching behavior and customers' decision to stay or switch the organization. Even though marketing literature as long underlined the significant outcomes of switching barriers in terms of customer retention, research is limited. The customer satisfaction does not anticipate the longevity of customer's relationship with the service providers (Curasi and Kennedy, 2002). Switching cost is a very significant driver or construct of customer retention that results in long-lasting and secure relationships of customers with their service providers (Dick and Basu, 1994; Ganesan, 1994; Bendapudi and Berry, 1997). So far, the key focus of previous research scholars were on the customer satisfaction and / or commitment as core motivational factor for customer's long-standing relationships with service providers (Morgan and Hunt, 1994; Garbarino and Johnson, 1999; Szymanski and David, 2001). So as to keep up their customers in relationship with service providers, the firm emphasized upon satisfaction as crucial retention tool (Fornell, 1992). In contrast, the influence of switching cost is more on customer repurchase intent than satisfaction. So, switching barriers and switching cost is highly important issue for marketing strategy that ascertained the strategies and determinants influencing the customer's relationship with service providers and that may also makes switching costly. So as a result, switching barriers are very important as they can strive hard for greater customer retention and also facilitated the service firms to handle the short term fluctuations in quality of services provided by the organizations, if not that can result in customer defection.

To the best of our knowledge, this study signified the first effort to incorporate marketing variables and relationship characteristics into a particular framework about the determinants of switching barriers and to demonstrate the influence of such barriers on the magnitude of the retaining the customers. This approach offers a great contribution to the service marketing literature for the reason that a better understanding of customer retention and switching barriers is vital to the relationship marketing theories and formulating marketing strategies.

Managerial Implications

From a management point of view it must be essential to incorporate attractiveness of alternatives, switching costs and interpersonal relationships and not only customer satisfaction in consideration of the customer retention and defection, and then segment the customer base using these three variables, if negative switching barriers are low, and as a result few constraints exist to defect, a well built emphasis on service to create customer satisfaction should be imperative. Alternatively, when switching barriers are high and possibly expected to remain so, less emphasis on the customer retention programs must be required.

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