

An Investigation into Relationship between Switching Costs & Repurchase Intentions

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Last few years have seen business organizations focusing more on gaining competitive advantage through retention of customers with higher repurchase intentions as well as increase in their purchasing volume. This present paper attempts to delineate the concept and significance of repurchase intentions for business. It also explores the various categories of switching costs as well as their role in determining customers' repurchase intentions. Further, the paper offers a conceptual understanding of multi-dimensional nature of switching costs which can help the marketing practitioners in designing constructive and controlled switching barriers before their customers, thereby lowering the defection rate without losing on the profits.

Keywords: Customer Retention, Switching Costs, Repurchase Intentions.

Introduction

Relationship marketing has been achieving greater significance in both manufacturing and services industry for last few years. Sheth and Paravatiyar (1995); Sharma and Patterson (1999) pointed that relationship marketing is of great relevance for consumer services. Gronroos (1990, 1994); Heskett et al. (1997) opined that marketing practitioners are acquainting themselves with the nature and role of factors responsible for building, sustaining and enhancing the customer relationships. The reasons behind rising importance of relationships in business are heightened competition coupled with low costs of switching. Berry (1983); Fornell and Wernerfelt (1987); Fornell (1992) posited that companies strategic focus has shifted to customer retention activities due to increase in competition and high customer acquisition costs. Widely acknowledged benefits of customer retention have made it a mainstay concept in business.

Companies are not only including it into their primary business goals but also devising carefully planned efforts directed at making customers stick with the business in long-term and repurchase the products and services regularly.

Customer retention is supposed to result into higher repurchase intentions as well as increased

purchasing volume. However, a customer's decision to stay with the business doesn't actually imply that he is going to repurchase its products and services in future. The decision to stay can simply be a result of higher switching costs which restrain the customer from shifting to the alternate offerings. Switching costs, though compliment a company's retention practices, can exert a negative impact on customers' repurchase intentions.

Literature Review

Customer satisfaction has always been considered the primary source of customer retention as it was general assumption that customers who stay with the business choose to do so because they are satisfied. Oliver and Swan (1989); Cronin and Taylor (1992) stated that satisfaction is the key element of any customer retention program. Crosby et al. (1990); Rust and Zahorik (1993); Patterson and Spreng (1997) considered customer satisfaction/dissatisfaction and trust as the core concepts of customer relationships. This seemingly suggests that dissatisfaction causes customer defection. Fornell and Wernerfelt, (1987); Fornell (1992) opined that in order to maintain long-term relationships, companies need to strive for securing customer satisfaction. However, Reichheld (1993) empirically established that customer satisfaction cannot always result in customer retention. The findings of their study suggested that 65.85% of customers who switched were very satisfied with the organization they left. In another study, Reichheld and Aspinall (1993-1994) chose banking industry to show that 90% of the customers who switched reported that they experienced a reasonable level of satisfaction in

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their relationship with their bank. Storbacka et al. (1994) pointed that satisfaction is not the only element responsible for strong customer relationships as customers are found to stay in the relationship even if they are discontented. Jackson (1985); Gronhaug and Gilly (1991); Hallowell (1996) suggested that switching barriers such as search cost, learning cost, emotional cost, and risk involved in opting for a new company make switching expensive for a customer. These barriers may involve strong interpersonal relationships as well as switching costs acting as an additional retention strategy. These barriers help the company in retaining its customers and widening their zone of tolerance which results in lower rate of defection. It is easy to predict that customer satisfaction cannot be declared the solo driver of customer retention as some switching barriers do exist which are entirely detached from level of satisfaction. However, excluding few studies like Maute and Forrester (1993); Anderson (1994), the concept of switching barriers has largely been ignored in the marketing literature.

The following section explores the literary contributions to the area of switching costs and repurchase intentions with an aim to build a better understanding of these concepts and to establish the impact of former on later:

Switching Costs

Porter (1998) postulated that shifting from one service provider to another entails some cost which can be termed as switching cost. Jackson (1985) suggested that the sum of economic, psychological, and physical costs form switching costs. Guiltinan (1989) posited that switching costs may involve search costs due to geographic dispersion of service alternatives and learning costs which stem from the customized nature of several service encounters. Dick & Basu (1994); Kim, Kliger, & Vale (2003) stated that apart from calculable monetary costs, switching costs also comprise of time and psychological efforts that are required to deal with the uncertainty of transacting with a new service provider. Gremler and Brown (1996) defined switching cost as the investment of time, money and effort that made switching difficult in customers' opinion.

Jones et al. (2000) stated that "perceived switching costs are consumer perceptions of the time, money, and effort associated with changing service providers". Hellier, Rickard, Carr, and

Geursen (2002) argued that switching cost is the customer's estimate of the time, effort and money that have been sacrificed while changing to another service provider. Shy (2002) pointed that generally switching cost is different for different customers. Aydin and Ozer (2005) reviewed Guiltinan (1989), Jones, Beatty and Mothersbaugh (2002) and Burnham, Frels, and Mahajan (2003) before conceptualizing perceived switching cost as a group of notions like perceived monetary costs, uncertainty costs, evaluation costs, learning costs, and set-up costs. Islam (2010) stated that "switching cost can be considered as sunk cost that appears when customer changes his/her brand. Examples are the costs of closing an account with one bank and opening another with a competitor, the costs of changing one's long-distance telephone service or the costs of changing one's GSM service provider. It can happen for the lack of loyalty when a firm fails to satisfy and anticipate its customer's expectations and perceptions".

The mechanism that works beneath switching costs is that the probability of a customer demonstrating a particular action shrinks as the perceived cost of that action rise. This has been indirectly approved by Urbany (1986) who worked in the area of information economics and suggested that the search for information declines as the cost of information increase. Similarly, Becker (1960); Farrell and Rusbult (1981) in their, research on employee turnover found that there are lower chances of employees changing their jobs if the cost of job switch over is higher. Service providers build and enhance various behavioural and psychological costs as a part of their retention strategy to prevent the switching tendencies among their customers.

Nature of Switching Costs

Gummeson (1995); Shy (2002) opined that switching cost is consumer specific and its nature differs depending upon the industry structure and product characteristics. Klemperer (1995); Bloemer et al. (1999) posited that switching cost primarily consist of search and evaluation costs, and the economic and performance risk associated with shifting to a new provider. Such costs are mostly psychological in nature instead of being objective and monetarily measurable and are mainly related to customers' perceptions of sacrifices they are supposed to make in order to switch.

Literature is not united about the nature and dimensionality of switching cost. Studies pertaining

to switching cost are largely divided into two classes based upon their approach towards its operationalization. Hellier, Geursen, Carr, & Rickard (2003); Apaolaza, Hartmann, & Zorilla (2006); Antón, Camarero, & Carrero (2007) in their studies viewed switching cost as a single dimensional construct. Lam et al. (2004); Ruiz, Gremler, Washburn, & Cepeda (2008) contended that this approach undermines the complex character of switching cost. Klemperer, (1987, 1995); Guiltinan (1989); De Ruyter et al. (1998); Weiss & Anderson (1992); Ping (1993); Jones et al. (2007); Maicas, Polo, & Sesé (2007) recognized the multi-dimensional nature of switching cost and gave several descriptions 'tangible', 'intangible', 'artificial', 'positive', and 'negative' for various types of switching costs.

The multi-dimensional nature of switching costs has been acknowledge by literature but it did not render sufficient attention as only few researchers such as Chen and Hitt (2002); Jones et al. (2002); Sheer & Smith (1996); Whitten & Wakefield (2006); Zhang & Gosain (2003) endeavoured to examine the antecedents and outcomes of each dimension. The empirical assessment is also scarce as even fewer studies such as Burnham, Frels, & Mahajan (2003); Jones et al. (2007) attempted to test the dimensions through empirical process.

Types of Switching Costs

Burnham, Frels and Mahajan (2003) classified switching costs into following three categories: (a) Transaction costs: These include the costs that are required to initiate a relationship with a new service provider and end the association with an existing one, (b) Learning costs: Learning costs refer to customer's effort to attain the identical level of comfort or familiarity acquired by using an item which may not be readily transferred to other brands of the same product, and (c) Contractual costs: Contractual costs represent firm-induced costs to control the switching act of customers by penalizing them.

Yanamandram and White (2006) reviewed the studies related to classification of switching costs (Jones, Mothersbaugh and Beatty, 2002; Burnham, Frels and Mahajan, 2003) and proposed following domain of switching costs:

- **Benefit loss costs** (Burnham, Frels and Mahajan 2003; Guiltinan 1989): Continued patronage of a service provider often brings in accretion of

perks and special treatment which are absent in a new relationship and thus represent disincentives to switching (Guiltinan, 1989; Turnball and Wilson 1989). These costs are referred to under various names such as loss of special treatment (Patterson and Smith 2003) and loss performance costs (Jones, Mothersbaugh and Beatty 2002).

- **Uncertainty costs** (Guiltinan 1989): It represents the cost associated with inability to continue an existing relationship and particularly involves the psychological uncertainty contiguous to performance of an unfamiliar or untested service provider. Services have a definite level of uncertainty costs inherent in the business due to intangibility and heterogeneity.
- **Personal risk** (Newall 1977): Personal risk represents buyer's fears of being held responsible for a decision which could lead to unsatisfactory consequences.
- **Company risk** (Newall 1977): Bozzo (2002) opined that the reason behind customer's repeats buying behaviour is his perceived risk associated with a wrong choice.
- **Pre-switching search and evaluation costs** (Jones, Mothersbaugh and Beatty 2002): These costs occur before actual switching and involve customer perceptions of the time and effort required to search out information about available alternatives and assess their viability.
- **Set-up costs** (Jones, Mothersbaugh and Beatty 2002; Patterson and Smith 2003): Services are usually customized to a great extent resulting in additional learning, referred to service-provider learning. According to (Guiltinan 1989) set up costs represent the time and effort required to initiate a new relationship with another provider or setting up a new service for initial use (e.g. installing and configuring software). Williamson (1979); Lee and Cunningham (2001) stated that transaction costs are related to service provider's explicit knowledge about individual customers' idiosyncrasies and their needs and desires. Patterson and Smith (2003) also found in their study that few customers were worried about having to explain their idiosyncratic preferences all over again in case of switching to a new provider. Therefore, customer perception of the inconvenience and time required to train

Switching Costs & Repurchase Intentions

Morgan and Hunt (1994) postulated that customer retention can be considered as an indication of customers' intention to repurchase a service from the service provider. They conducted their study in industrial marketing context and found switching cost to be a direct antecedent of (loyalty) commitment. Sharma and Patterson (2000) carried their study in consumer, professional services and suggested that switching costs exert a moderating effect on the relationship between commitment and to its antecedents i.e., service satisfaction and trust. They reported that in case of low or negligible costs of switching, satisfaction and trust have a direct effect on commitment. However, the strength of this effect diminishes in case of higher switching cost is high which implies that customers stay committed to the particular service provider even if they are dissatisfied and trust is absent.

Dwyer et al. (1987); Heide and Weiss (1995) suggested that a customer will be stimulated to continue with an existing relationships to economise on switching costs, such as transaction-specific investments that the customers made for the sake of relationships. These investments pose a large barrier to shifting to other service providers when the dissatisfaction prevails in the relationship. Heide and Weiss (1995) in their study about purchase of computer workstations, concluded that organisational buyers hesitate at both the consideration and choice stages to consider or choose new suppliers over existing ones. Ping (1993) empirically assessed the effect of switching costs on retailer-supplier loyalty.

The above discussion clarifies the concept and role of switching costs in terms of customer retention. Switching cost is found to be a multi-dimensional construct. Identifying and managing these costs effectively can provide significant advantages to the business. Yanamandram and

and/or educate a new service provider forms another set up cost. Further, as per the qualitative research businesses also are concerned about the effect of switching on their employees and customers (buying firms customers) during the process of setting up a new service.

Post-switching behavioural and cognitive costs (Jones, Mothersbaugh and Beatty 2002): Heskett et al. (1990) suggested that post switch learning is particularly relevant in context of services since customers usually play a primary role in service routines and processes. Customer perceptions of the time and effort he has to put in for getting hold of the new procedures and routines consist of post-switching behavioural and cognitive costs.

Contractual and reciprocal purchase arrangements (Jarvis and Wilcox 1977): These costs abolish liberty of selection in a buying situation and entail arrangements between a buyer and seller ensuring that all orders are placed with a specific service provider for some mutually agreed epoch of time.

Although literature proposes numerous conceptualizations and typologies, switching costs can broadly be grouped into economical and psychological categories. The economic risk cost, which has been identified by Burnham et al. (2003) within the procedural dimension of switching cost, talks about the psychological costs due to perceived risk stemming from the ambiguity involved in trying an unfamiliar provider. Burnham et al. (2003); Jones et al. (2002); Wan-Ling Hu and Ing-San (2006) posited that psychological switching cost such as insecurity related or risk perceived or loss in relational investments and social bonds or the many other procedural costs (related to time, search, evaluation, and set up) have a major impact on switching barrier. According to Jones et al. (2002) even the sunk costs which are mainly economic in nature, become psychologically vital in evaluating the perceived switching cost. Wan-Ling Hu and Ing-San (2006) noted that these psychological costs cover the whole switching process and beyond and make switching cost occur multiple times instead of leaving it as a one-time cost. Klemperer (1995) attributed the reason behind such tendency to customers' consideration of post switching behavioural and cognitive dissonance costs while switching which makes them a part of overall switching cost.

Conclusion

The above discussion clarifies the concept and role of switching costs in terms of customer retention. Switching cost is found to be a multi-dimensional construct. Identifying and managing these costs effectively can provide significant advantages to the business. Yanamandram and

White (2006) posited that a conceptual understanding and empirical testing of different switching cost dimensions can prove to be advantageous for two reasons. As suggested by Jones et al. (2002), distinct dimensions of switching costs bring out distinguished outcomes which have significant theoretical as well practical implications. They further suggested that in order to manage the different dimensions of switching costs, differentiated strategies are required as a part of overall retention program.

Further, switching costs greatly influence the success of a company's customer retention program since they play the role of neutralizer in the event of dissatisfaction and discomfort on customer's part. Due to switching costs, customers may ignore the shortfall in quality or other aspects of services which would have made them leave the company otherwise. Thus, switching costs affect the link between customer satisfaction and retention. Anderson and Sullivan (1993) found that t-values for the satisfaction-repurchase intention relationship vary between 1.1 and 13.1. Such variability implies that additional factors such as switching barriers affect retention as well as its relationship with satisfaction.

Scope for Future Studies

The present study poses a number of opportunities for research in this area. The dimensionality of switching costs needs to be examined in different industries and cultures to establish a model of switching costs which can be used universally. Further research is needed to test the impact of switching costs on repurchase intentions. Switching cost has a two-way impact on repurchase intentions. It not only exerts a direct influence but also plays moderating role in customer satisfaction customer retention link. Future studies may explore this link further and establish the moderating effect of switching cost, if any.

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