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RELATIONSHIP MARKETING PRACTICES FOR RETENTION OF CORPORATE CUSTOMERS IN HOSPITALITY CONTRACT CATERING

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Abstract: Customer retention is specific to the context of each firm, and this is rarely recognized in models for customer retention. This paper studies how customer retention in hospitality business-to-business contract catering depends on the relationship substance built up due to interaction between the parties. Relationship substance may be of a more or less embedded kind, which is explored here in the form of relationship satisfaction and organizational change in the buying firm. A conceptual model is developed and tested on a sample of business relationships in business-to-business contract catering. The results support the fundamental effect that relationship satisfaction improves customer retention. The research also finds that the purchase development of contract catering customers increases retention, in particular if the customer who purchases more is also satisfied. However, when the contract caterer has achieved change in the customer firm, customer is reduced. Evidently, these customers consider that they are done with the seller and move to other sellers, or reduce their purchases altogether.

Key words: relationship marketing, business-to-business retention, purchasing behavior, contract catering.

INTRODUCTION

The retention of customers is an essential strategic issue in developing business relationships. Several researchers focused on customer retention and its benefits to an organization; Grönroos (1990) suggested that customer retention leads to reduced promotion costs compared to selling to new customers. Reichheld (1996) argued that customer retention is linked to a firm's long term profitability and success. An additional reason for retaining customers is the prospective of becoming partners in the business development within relationships.

The above generic arguments advocate that contract catering firms could also profit from understanding how customer retention works. It appears tempting to try to uncover the mechanisms behind customer retention by studying retained customers. Already retained customers may provide insights about why they keep coming back (Johns & Tyas, 1996). However, a critical question has to be asked: When is a customer retained? Does customer retention occur when the customer comes back to buy from the supplier again? How much and how often should such a customer be expected to buy? However, customer retention is relative to the firm's specific context. Generic characteristics of the products or services offered in the contract catering industry may assume a certain buying occurrence. Further, the customer's level of

uncertainty or ambiguity in relation to the need of the products and services may be heterogeneous (Halinen, 1994; Bowen & Shoemaker, 1998). Therefore, customer retention has to be examined in relation to the particular situation in which a firm is embedded.

Past research has confirmed that quite a complex core relationship or substance may be developed as a result of interaction between two parties in a business relationship (Grönroos, 1997). This complexity is often evident when different layers of links, ties, bonds and partnerships between the two parties are analysed (Håkansson & Snehota, 1995). Relationship substance may have to do with the players' view of each other (player bonds), or with allied activities performed by the parties (activity links) and ties between resources used by the parties (resource ties). The present paper seeks to explore the effects of certain kinds of relationship substance on customer retention in the business-to-business contract catering market.

A relevant model was conceptually developed and empirically tested on a sample of new business relationships in business-to-business contract catering services, initiated in 2001-2. The relationships have been studied up to the end of 2003. The present paper is structured so that a discussion on the key concepts included in the purpose leads up to a set of hypotheses, which are then tested in a structural model.

1. BACKGROUND LITERATURE AND FORMULATION OF HYPOTHESES

Long-term business relationships have been found to embrace continuous exchanges between parties with a significant degree of devotion to do future business (Anderson & Weitz, 1992; Holm, Eriksson & Johanson, 1999), and significant adaptations in the cross-firm cooperation (Hallén, Johanson & Seyed-Mohammed, 1991; Alter & Hage, 1993). These findings have been the groundwork for a dynamic view of business-to-business relationship development where longer term aspects of a relationship are assumed to affect and be affected by each incident of contact (Haywood, 1988; Ford, 1990; Zeithaml & Bitner, 1996).

The process of relationship development was described by Anderson and Weitz (1992) as parties making pledges of commitment as they feel each other out for new or additional business exchanges. When organizations invest by doing business together, they learn more about each other, and each other's needs. The research findings of Anderson and Weitz (1992) indicate that those investments that are unique and exclusive to a relationship are effective motivators of relationship development. Particular investments often involve adaptations and adjustments in production, product development (R&D), logistic support and administrative routines (Hallén, Johanson & Seyed-Mohammed, 1991). The occurrence of such investment is often brought forward as the key to success, exemplified by just-in-time delivery (Frazier, Spekman & O'Neal, 1998), joint new product development (Lundvall, 1995) and total quality management (Hackman & Wageman, 2001). Other researchers have demonstrated that enhancing of relationship development increases long-term

profitability among the interacting organizations (Manohar & Narayandes, 1995; Holm, Eriksson & Johanson, 1999).

Business-to-business relationships do not exist in a vacuum. Past research has proven that firms have a number of interdependent business relationships (Håkansson & Snehota, 1995; Lindgreen, 2001) and that coordination in business-to-business relationships take place within the setting of a business network (Holm, Eriksson & Johanson, 1999). But the network is not only a structure in which relationships develop, it is also actively influenced by firms as they coordinate their respective business network relationships to fit in with their cooperation (Browning, Beyer & Shetler, 1998). The position of a firm in relation to other parties is a result of previous actions and activities. It defines promises but also constraints to future actions, because of the relationships being associated with other relationships (Cook & Emerson, 2002). This provides the grounds to carry out the study of individual business-to-business relationships within their context of other business relationships. According to the network approach, relationship substance is defined in terms of links, ties and bonds that extend outside organizational boundaries. For example, adaptations made within one business-to-business relationship may have effects on other relationships, either because of existing links between activities used within the two relationships, or because of ties between certain resources invested within the relationships.

Relationship development has been observed as a process whereby gradual adaptations transform a series of discrete transactions into a business relationship with a deep level of coordination between the parties (Anderson & Weitz, 1992; Szmigin, Canning & Reppel, 2005). Similar distinctions between different degrees of embeddedness have been made in Relationship Marketing by distinguishing between satisfied customers and customers that are involved in the production of services (Grönroos, 1990; Gilbert & Powell-Perry, 2003). It is surprising that no studies have yet linked the embeddedness of substance to customer retention. The present study contributes to existing research by studying how relationship satisfaction and organizational change affect customer retention. This paper seeks to extend current understanding of retention by studying how it depends on substance resulting from relationship interaction. If the business relationship and the surrounding business network provides the customer firm with a satisfactory position in the network, so that the customer can profit from the interdependent activity and resource structures, then this customer is likely to be retained. Therefore, it is hypothesized that:

H1: The higher the customer's relationship satisfaction in contract catering, the higher the customer retention.

The truly embedded customer firm has changed its organization and management to fit the coordination with the contract catering supplier and their respective networks. But networks are evolving structures, where customers gain more knowledge about the supplier's context and network ties (Fyall & Callod, 2003). This often leads to the customer overstepping the supplier, to do business with the supplier's suppliers or other supplementary suppliers. Researchers have identified establishment chains, where a customer outgrows his use, and is overstepped by the supplier (Johanson, 1995; Jansen, Weert, Beulens, & Huirne, 2001). If the customer has already

committed so much to the relationship that the management and organization has been changed, then it can be expected that they are about to reduce their commitment to developing business further, and instead turn to other suppliers, offering more potential gains in business relationship coordination (Leong & Kim, 2002; Dean et al., 2002). More specifically, we may expect that, in the case of contract catering services as in the present data, we may find less inclination in the client firm to commit to future development some time after a successful implementation of organizational change. Therefore, one may find both generic and more specific reasons in this case as to why organizational change can be expected to have a negative effect on retention. Thus, it can be hypothesized that:

H2: The higher the organizational change in the customer firm, the lower the customer retention.

Relationship satisfaction and organizational change were earlier described as two different levels of embeddedness of substance, the former being a representation of less embeddedness than the latter (Kim, Han & Lee, 2001). According to relationship development models, it is expected that in contract catering relationships develop from low levels of coordination and adaptation, through idiosyncratic investments, to interdependent systems of activities, resources and actors (Sigala, 2001; Ismail & Mills, 2001). We can thus expect a positive effect from relationship satisfaction to organizational change. Therefore, it can be hypothesized that:

H3: The higher the relationship satisfaction in contract catering, the higher the organizational change.

The above hypotheses form a model of the effect of relationship satisfaction and organizational change on customer retention. This is a perceptual model that is likely to be dependent on the actual purchases made in the contract catering relationship (Mcintosh, 2002; Christou, 2003). However, the absolute level of purchases does not alone give information about the level of commitment to develop the relationship (Kim, Lee & Yoo, 2006). It can be expected that customers that are retained have increased their purchases over time. If they intend to stay in the relationship, they probably do so with the explicit purpose to capitalize on the interdependent activity, resource and actor structures in the business relationship and surrounding network (Geddie, DeFranco & Geddie, 2005). The customer will probably be retained, satisfied and change organization to facilitate better adaptation and coordination with the supplier.

The effect of relationship satisfaction and organizational change on customer retention is most likely in some way dependent on a firm's previous purchases (Sui & Baloglu, 2007). It seems likely that a firm's purchase development influences the coordination between the parties, and thus the level of embeddedness of the substance, even if we may imagine ongoing transactions between firms without much substance development (Kim & Cha, 2002; Kandampully & Suhartanto, 2003; Christou & Kassianidis, 2002). An increase in the purchase of goods is likely to increase the substance in the customer firm (Bowden, 2009). The purpose of this study is to investigate the effect of relationship satisfaction and organizational change on customer

retention, and the effect of purchase development on relationship satisfaction, organizational change, and customer retention. Hence, it can also be hypothesized that:

H4: The more the actual purchases increase, the higher the customer retention in contract catering.

H5: The more the actual purchases increase, the higher the relationship satisfaction in contract catering.

H6: The more the actual purchases increase, the more organizational change.

2. RESEARCH METHODOLOGY

80 customers of four different contract catering firms have been explored over time. They all started as new business relationships, at least with the potential to develop into relationships with significant substance. All first purchases were initiated sometime during 2006 to 2007. In 2007 and 2008, quantitative surveys were run with decision makers in the 80 customer firms and with consultants in the four contract catering firms. Thirteen customer firms in the sample were also interviewed about the relationship. The conceptual model developed (according to the above hypotheses) was tested on a sample of business relationships in contract catering services. The data was analyzed by the LISREL method, which traces structural relations in a data set, by using correlations and the covariances of error terms as two independent sources of information.

The validity of LISREL models is assessed in a two-step procedure that corresponds to the main components of the model. The first step is the creation of latent variables, which are variables at the construct level, an intermediate level between theory and data. These variables are referred to as constructs, and the constituent observed variables are labeled indicators. Construct validation is done by studying whether the constructs are separate from each other (discriminant validity), and whether they are homogenous within the construct (convergent validity). Discriminant validity is assessed by studying if constructs load only on their designated indicators, and also by forming an approximate confidence interval with the standard error of the correlation between constructs (Jöreskog & Sörbom, 1993). The loading of indicators is assessed by factor loadings, t-values, and R²-values, which measure the linearity of the relationship and should preferably exceed 0.20 (Bollen & Scott, 1993). Convergent validity is assessed solely from the loading of constructs on indicators.

The second step in validation of LISREL models concerns the entire model. A model is usually quite a complex web of causal relationships between constructs. It takes account of both direct and indirect causal relations, which means one causal relation may be reinforced or counteracted by another. It is important to note that the validation of the model refers to one particular web of interrelated causalities. A construct may be valid in one model, but not in another. The validity of the model is assessed by chi-square and degrees of freedom, which measure the difference between data and model, and a probability estimate, which is a test of a non-significant distance between data and model (Jöreskog & Sörbom, 1993). There is an ongoing debate on what measures to choose for assessment of nomological validity (Bollen & Scott,

1993), but as Jöreskog and Sörbom (1993) point out, the other measures proposed are all functions of the chi-square. Since the validity of constructs may differ with the context of a structural model, it is recommended that the validity of constructs is tested not only in the structural model, but also in a measurement model without causal relations between constructs

In this survey, the discriminant validity was supported in a measurement model. The analysis of convergent validity is based on estimates and measures from the structural model; the figures are not very different. The validity of constructs used as building blocks is high. Table 1 shows key statistics for assessment of validity. Two of the constructs are single item, meaning that the convergent validity is not relevant, but that discriminant validity is. Customer retention equals to a question of whether the respondent has a long term view of the cooperation with the supplier. This captures the will of the respondent to stay in the business relationship.

Table 1: The Constructs and their Indicators

Indicator	<i>Abbreviation in Figure 1</i>	<i>Factor Loading</i>	<i>T- value</i>	<i>R2- value</i>
<i>Retention</i>				
Customer has a long-term view of future co-operation	LONGTERM	1.00		1.00
<i>Relationship Satisfaction</i>				
High satisfaction with the co-operation with the contract caterer	SATISF	0.80	6.45	0.64
Working with the contract caterer gave higher profits	PROFIT	0.51	4.88	0.26
<i>Organizational Change</i>				
Effects of co-operation on other areas than sales	INFAREA	1.00		1.00
<i>Purchase Development</i>				
Actual purchases 2002 compared to average purchases 2002	BUYACT	0.82	7.77	0.66
Customer bought more 2001-2002 compared to before 2001	BUYMORE	0.74	7.19	0.55

Relationship satisfaction captures two indicators that concern the satisfaction and profitability resulting from the relationship with the supplying firm (Reinartz, Krafft & Hoyer, 2005). Of these two indicators, satisfaction seems to be closest to the construct. Organizational change is a single item construct where the effect of cooperation on other areas than sales in the customer firm is captured. The effect on areas other than those primarily in focus by the supplier can be considered a representation of the organization having changed on a more significant level, and more throughout the company than a single company function. It may also indicate that the customer changes in order to better fit the key service sold by the supplier. Examples of organizational change in the case of the customers of the contract caterer from the written comments in the questionnaires are the way marketing, sales management and sales development is carried out, the structure and roles redefined in the organization, and the way production and purchasing is planned. Purchase

development captures both a subjective and an objective measurement. The objective is based on average purchases from the contract caterer, whereas the subjective measure asks if the customer buys more now. Together, these indicators capture relationship development well.

3. RESULTS AND DISCUSSION

This paper focuses on how customers in a business-to-business catering environment can be retained. The results (Figure 1) show that relationship satisfaction increases customer retention greatly (0.71), suggesting that satisfied customers stay with the seller. This finding is one of the tenets of relationship marketing; lasting and deep relationships is the result of the parties involved being satisfied with the outcome of their work.

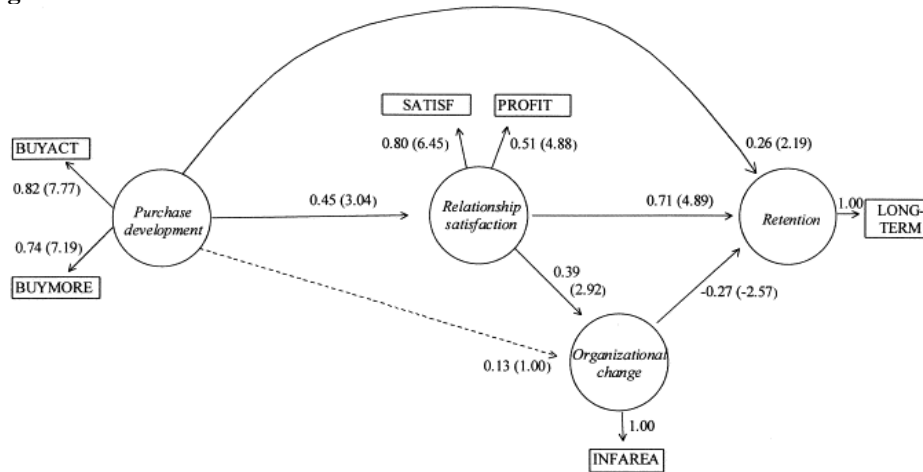
The present research sheds new light on the relationship between relationship satisfaction and customer retention by studying the effect of purchase development on these. The model shows that the purchase development has an effect on the customer retention (0.26 in Figure 1). The direct effect from purchase development is supplemented by two indirect effects through relationship satisfaction and organizational change; the total effect is 0.50, with a t-value of 4.95, which is almost twice the direct effect. This suggests that relationship satisfaction and organizational change mediate the effect of purchase development on customer retention. However, the direct effect of purchase development on organizational change is insignificant, suggesting that organizational change has a weak role in the intermediation (0.13). The rather obvious hypothesis that increased purchase leads to higher customer retention can thus be complemented. It does so primarily, by increased relationship satisfaction.

The indirect effect of purchase development, funneled through relationship satisfaction, to organizational change is 0.30 and significant at the 5% level. This means that purchase development increases organizational change, but only if customers first become more satisfied. This means that relationship satisfaction is a prerequisite for more deeply embedded relationship coordination. Organizational change, on the other hand, has a negative effect on customer retention (-0.27). Hence, a customer firm where a lot has come to be changed and influenced is in fact less inclined to look long term at future cooperation with this contract catering firm. Some of this is most likely to be explained by the nature of contract catering services and the pattern of buying those. When a successful change has been managed in the cooperation, the relationship may still be strong but the long term view is now less pronounced.

Even though relationship satisfaction increases customer retention, it also increases organizational change, which, in its turn, decreases customer retention. So, there is a slight negative indirect effect of relationship satisfaction on customer retention. When the satisfied customer is not seeing, or being suggested, any room for improvement of its operations in new areas, the customer is likely to be satisfied and content that the services bought have had their effect, without a need to buy more. This

leads to a need for the seller to develop a relationship with the customer, so that they continually find new areas for business development.

Figure 1: The Structural Model



Note: Model Chi-square with 5 degrees of freedom is 7.80, $P = 0.17$. RMSEA = 0.071. GFI = 0.98.

All in all, it appears that there is certainly a link between buying more and developing more relationship substance. Certain substance helps to give the customer a more long term view of the relationship; positive experiences have this effect on the views of the customer. Other substance, though, seems to have opposite effects. When much change and influence has been achieved in the customer firm, the customer turns to look less long term on the relationship, being more or less done with the contract caterer for the time being (and maybe looking at bringing in other kinds of contract caterers or another supplier of the service next time, to have another go at implementing a new change).

CONCLUSIONS AND IMPLICATIONS

Most firms assume that there is a need to retain customers. It is also often assumed that satisfaction in the relationship with the customers is the key to retention. In other words, there is a belief that satisfied customers will stay in a relationship with the supplier. This study supports this belief, since the results confirm that customer retention is achieved when increased business is accompanied by more satisfaction. But to this established understanding of customer retention, this study adds some new insights.

First, it was found that not all retained customers are satisfied. Perhaps some customers stay with a supplier because they find no alternative, or because they have not achieved a depth in the interaction with the supplier that may be necessary for relationship satisfaction to occur. One may speculate on the reasons firms stay in

relationships, but apparently some do stay without being satisfied. There is a possibility that there are customers who are not yet satisfied, meaning that they are waiting for their investment to pay off and until they know it did, it is unlikely that they look for further opportunities for cooperation with the supplier. Second, it was found that customer retention decreases in relationships where the customer and supplier are satisfied, and at the same time, have achieved change in the customer's business. This means that a customer, where large organizational change has taken place, is not inclined to look long term at future cooperation. Organizational change is here defined as a change in a broader (and deeper) portion of the customer firm than just the one where the purchased service was originally intended. This may be a desired outcome or an unforeseen consequence of the cooperation itself. The change may also be a measure taken by the parties to facilitate cooperation and adapt to each other. The result of the present study highlights the project nature of many contract catering services, where suppliers are hired for one or many singular tasks in their area of expertise. A different outcome could be achieved with more focus on process catering, where the supplier is more deeply involved with the customer over longer time periods. A caterer deeply involved in the customer businesses could probably find new situations where his personnel could further develop these customer businesses, thus extending the horizon of the relationship beyond the tasks defined at the outset of the relationship.

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