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Lost customers: determinants and process of relationship dissolution

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Abstract

Relationship dynamics and relationship ending have received increased attention by marketing researchers over the last years. The success of businesses depends not only on the acquisition and retention of customers, but also on avoiding their defection. Furthermore, there is a lack of research in the services literature focusing on the decline and ending of customer relationships. By knowing more about the nature, elements, stages and factors involved in the dissolution process it will be easier to prevent churn or regain lost customers.

This research presents a literature review about what contributes to and influences this process (switching determinants) suggesting the most and less relevant determinants, according to ample and updated research. This review also provides some preliminary ideas about the process of relationship dissolution that is proposed on the end of the paper.

Keywords: Relationship Dissolution, Switching, Ending, Relationship Dynamics, Customer Relationships, Relationship Marketing, Services Marketing.

Track: Relationship Marketing.

1. Introduction

The threat of "churn"¹ is a growing concern of consumer-oriented businesses. A competitive environment, price and tariffs wars, increasingly educated consumers and, in many situations, the progressive deterioration of customer service explains why national and international organizations are dealing with customers who are increasingly more difficult and "promiscuous", i.e. willing to switch providers. Furthermore, research has shown there is a negative correlation between the number of "lost customers" and business income (Reichheld & Sasser, 1990), which calls for the study of this phenomenon. It is understood that by deepening our understanding of terminated customer relationships, we will improve our chances of solving the puzzle of how to achieve continuity (Tähtinen & Havila, 2004). Customers who remain with a business, whether through retention or by defection and subsequent reactivation are potentially interesting when, in addition to contributing to revenue contribute to reduced costs by being less expensive (Ganesh, Arnold, and Reynolds, 2000), reduce the costs of attracting new customers through positive word of mouth referrals (Keaveney & Parthasarathy, 2001) and decrease the uncertainty of exchange through the experience accumulated during the relationship (Heide & Weiss, 1995). We need more evidence on the sequence of events behind customer switching, in order to know better where and how to influence this process (East, Wright, and Vanhuele, 2008). In this investigation it is believed that in consumer markets there are different factors and processes considering the reference model, built on assumptions of industrial relationships, of Halinen and Tähtinen (2002). It is considered that there will be substantial variations in some dimensions (complexity, speed, cost, strength of the reaction...) as happens in buying processes where decisions are more rational in B2B and more emotional in B2C (Barnes, 1997; Price, Arnold, and Tierney, 1995).

This research focuses on situations where relationship end is unplanned and unexpected and is initiated by the customer. The research questions are: Why do customers relationships come to an end? How does the process of dissolution develop in B2C services? Thus, we endeavor to contribute to the knowledge of business-consumer relationships from a dyadic, processual and change perspective.

This study follows the suggestion of Tähtinen and Halinen (2002) and use the general term of "ending". We also use the term "switching" as it is currently used in services marketing and refers to endings where the supplier (or the customer) is substituted for another alternative, stressing one actor's decisions and actions related to relationship ending as well as the actor's formation (or strengthening) of another relationship and considering the consumer's voluntary switching behavior. "Dissolution" appears to refer to the ending process irrespective of whether an ending decision has been made. "Is a stay-or-exit decision process of one customer regarding an existing business relationship" (Michalski, 2002: 4). On this research, relationship dissolution is the process that tends to end or extinguish an existing relationship between a customer and a service provider.

This paper is organized in four main sections. Introduction briefly presented this research problem and setting. Section 2 includes the literature review on switching determinants. Section 3 presents a preliminary relationship dissolution process. The paper ends with a number of suggestions for further research.

¹ Churn rate or defection rate measures, on percentage, the customer's proportion that defects the firm relatively to the total number of customers.

2. Switching determinants in customer relationships

Understanding the reasons for customer switching is crucial. RM theory proposes that relational factors are the most important antecedents to positive outcomes (Morgan & Hunt, 1994) and many practitioners and scholars of this area have identified trust, commitment, satisfaction and other dimensions as essential ingredients for the development of quality relationships between buyers and sellers, especially in business-to-business relationships (Bejou & Palmer, 1998; Garbarino & Johnson, 1999) as well as important predictors of relationship ending (Hocutt, 1998; Michalski, 2004; Rusbult, Zembroke, and Gunn, 1983). Hirschman's "exit, voice and loyalty" (EVL) framework provided a rich source of ideas regarding the analysis of factors influencing the ending process (Hirschman, 1974). Exit or voice are the result of dissatisfied customers, but if voice is the option, the likelihood of relationship ending falls. Six factors contribute for the decision of exit or voice, namely: decline in quality, attractiveness and availability of alternatives, likelihood of success in the case of voice, switching costs, perceived value of the product/services and customer loyalty. Helm (1998, cited by Michalski, 2002) point some significant dissolution attributes, namely: directly or indirectly articulated dissatisfaction of the customer with a firm's products/services, very strong emotions, complaints, efforts at holding a dialog or negative worth-of-mouth communication with third parties. Susan Keaveney (1995) conducted a large-scale study across a range of services and found several key reasons why customers switch to another provider. Among those are, in order of importance, core service failures, dissatisfactory service encounters, price, inconvenience in terms of time, location or delays, poor response to service failure, competition, ethical problems and involuntary switching. Many respondents described a decision to switch as resulting from interrelated incidents, such as service failure followed by an unsatisfactory service recovery. Lovelock and Wirtz (2007) refer that in addition to these generic drivers, there are often industry-specific drivers as well. For example, some specific reasons for switching in banking and financial services are customer relocation, small branch network, automatic salary payment in a new bank (Athanasopoulos, 2000), loan conditions and negotiations, location of branches and money transfer time (Roos, Edvardsson, and Gustafsson, 2004). In telecommunications are price, customer support, change in product use and system failure (Roos, et al., 2004) and in supermarkets are personnel, price, range of goods, location, habit, queuing, variation, design, atmosphere and policy (Roos, 1999).

Table 1 includes a review of factors, antecedents or reasons, here called determinants, of relationship ending in several service settings. Based on the research focus frequency, we may suggest that the most relevant switching determinants are Price perceptions (12 studies), Quality (11 studies), Alternatives/competition (11 studies), Service failure and recovery (9 studies), Inconvenience (8 studies), Satisfaction (7 studies), Trust (7 studies), Commitment (5 studies), Involuntary switching (5 studies), Switching costs (4 studies) and Service policy and personnel (4 studies). Other determinants as Value (3), Subjective norms (3), Variety seeking and history (3), Attitude towards switching (2), WOM (1) and Communication Strategies (1) are suggested to be less relevant.

3. Customer relationships dissolution process

Considering dynamics present in any relationship, this research recognizes and highlights the relationship nature (or existing state) as an influencing driver of the process and strategies to be used (Giller & Matear, 2001). The nature of the relationship (Halinen & Tähtinen, 2002) or its initial stage (Roos, 1999) is considered a temporal construct, as it is embedded in time,

Table 1- Switching determinants influencing relationship dissolution (B2C and B2B)

Authors	Qual	Sat	Value	Trust	Com	Price perceptions	Alternatives (competition)	Service failure and recovery	Attitude towards switching	Subjective normes	Switching costs	Variety seeking and pass	Inconv (local)	SPP	Wom	IS	Com. Strat
Athanassopoulos, 2000						SB		SB					SB			SB	
Bansal & Taylor, 1999	SI	SI	SI				SI		SI	SI	SI						
Bansal, Irving, & Taylor, 2004					SI												
Bansal, Taylor, & James, 2005	SI/SB	SI/SB	SI/SB	SI/SB	SI/SB	SI/SB	SI/SB		SI/SB	SI/SB	SI/SB	SI/SB					
Bejou & Palmer, 1998								Com/trust									
Bolton, Kannan, & Bramlett, 2000											RB						
Capraro, Broniarczyk, & Srivastava, 2003		SI					SI										
Chakravarty, Feinberg, & Widdows, 1997						SB		SB					SB	SB			
Colgate & Hedge, 2001						SB											
Colgate & Lang, 2001							RB				RB						
Coulter & Ligas, 2000				SB	SB	SB	SB	SB		SB			SB				
East, Grandcolas, & Riley, 2007						SB	SB	SB					SB			SB	
Ganesh, et al., 2000												BI					
Garbarino & Johnson, 1999		BI		BI	BI												
Gerrard & Cunningham, 2004	SB					SB	SB	SB					SB		SB	SB	
Hocutt, 1998		Com/trust					Com/trust										
Hennig-Thurau, Gwinner, & Gremler, 2002		BI			BI												
Keaveney, 1995(Keaveney, 1995)	SB					SB	SB	SB					SB	SB		SB	
Mittal & Lassar, 1998	Sat	SI															
Roos, 1999	SB					SB						SB	SB	SB			
Roos et al., 2004	SB					SB		SB					SB	SB			
Sirdeshmukh, Singh, & Sabol, 2002			BI	Val/BI													
Stauss & Friege, 1999	RM					RM	RM	RM								RM	
Stauss & Seidel, 2008	SB					SB											
Stewart, 1998	SB						SB				SB						SB
Zeithaml, Berry, & Parasuraman, 1996	SI																

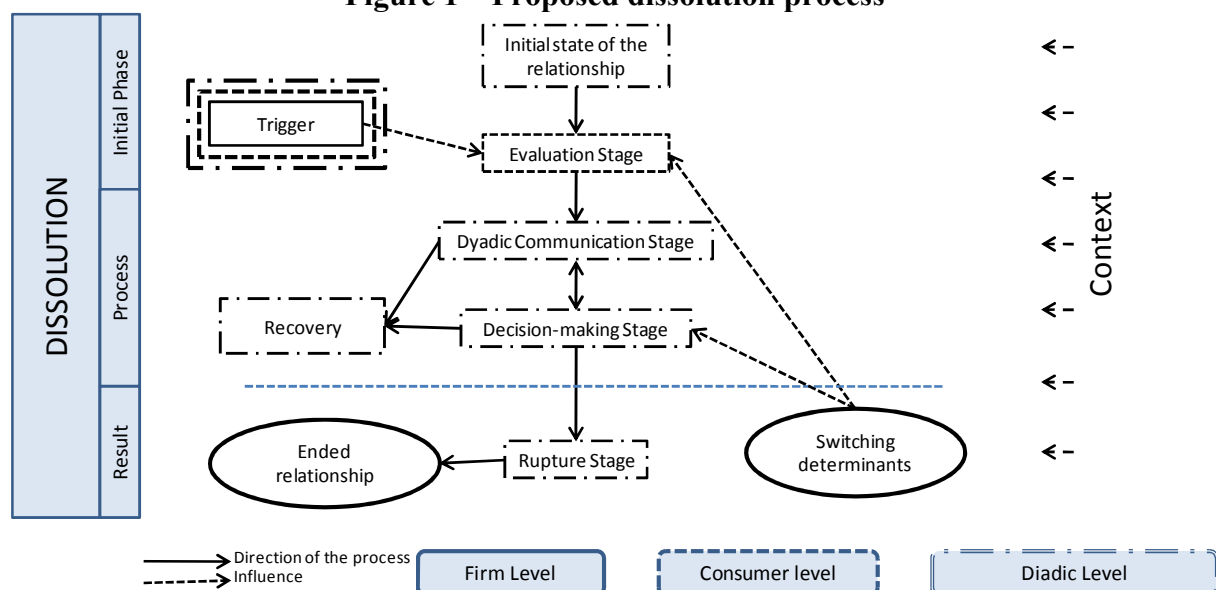
Notes: In each cell is presented the research focus and/or the dependent variable. Include the following: SB= switching behavior; BI= behavior intentions; RI= repurchase intention; RB= repatronage behavior; SI= switching intention; RM= regain management; com= commitment; sat= satisfaction; qual= quality; inconv.= inconvenience (localization); SPP=service policy and personnel; Wom= word-of-mouth; IS= involuntary switching. Source: Adapted from Bansal et al. (2005)

and is suggested to influence why relationships end (Tähtinen, Matear, and Gray, 2000). It is also considered that the relationship state, as the ties strength among actors, and the relational infrastructure moderate the effects of switching determinants on the potential of rupture (Halinen, 1997; Halinen & Tähtinen, 2002).

Literature holds that the conditions under which a customer-provider relationship is developed are likely to play an important role in the maintenance of long-term relationships (Ganesan, 1994), influencing those relationships duration and the subsequent customers switching decisions in a decisive way (Reinartz & Kumar, 2003). Relationships can end abruptly as a consequence of a negative incident (Keaveney, 1995). Research on dissolution suggests that a stimulus or specific factors may initiate the dissolution process (Coulter & Ligas, 2000), injecting energy and direction into the relationship. The ending decision begins with the interaction between a trigger event or scenario and the existing state of the relationship (Giller & Matear, 2001). Once the switching process is started, its subsequent path can be better described in terms of process attributes, phases and types (Michalski, 2002). There are two alternative outcomes: a customer either ends or continues his relationship with the service provider. A final decision depends on the essential nature of the relationship, and on its evolution over time. Rupture designates the end of the switching process. At this point exchange starts to decline and resource ties begin to weaken, still interaction may temporarily intensify to adjust the terms of decline in exchange activities (Halinen & Tähtinen, 2002). On this stage, by some authors called pos-dissolution, the customer reflects on the return possibility, sometimes in the future (Coulter & Ligas, 2000). After rupture happens, one can distinguish between customer relationships that can or cannot be reactivate – meaning that the implementation of customer recovery strategies is in some cases feasible (Michalski, 2002; Stauss & Friege, 1999).

A relationship dissolution model explains how change in the development of a relationship happens, how a relationship comes to an end and what influences this process (Halinen & Tähtinen, 2002). Process is used as the nature, sequence and order of activities and events, describing how relationships change over time (Halinen, 1997; Van de Ven, 1992). Activities and events include all the actions taken by parties within the relationship and the decisions made concerning the future of this relationship (Halinen & Tähtinen, 2002). In sum, we propose a process that enables de merging of static (trigger and determinants) and dynamic elements (phases and stages) and has three general phases: initial, process and result. Figure 1 presents other specific activities and events here called stages.

Figure 1 – Proposed dissolution process



4. Further research

The research strategy is an emerged strategy and thus can be better described as an abductive one, where researchers go back and forth between theory and empirical data. Further research shall use qualitative and quantitative data collected from firms and customers. The qualitative study include in dept-interviews with key informants (responsible for customer departments and “save teams”) and with customers with the purpose of knowing the influencing determinants and the complexity of the ending process. The quantitative study shall be a customers’ survey used to emphasize the relative importance of switching determinants.

To sum up, this paper aimed broadly at describing our research-in-progress, and positioning it in related conceptual and research areas. Since there is so little work on the field of consumer services that simultaneous refers the determinants and process of dissolution of customer relationships, our study holds the potential to produce new and interesting contributions to the knowledge built until now.

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