Use of switching barriers to retain customers: Online retail stock traders in Hong Kong

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***Abstract* — Why some customers decide to stay with existing service provider after having thought of switching has apparently not been examined adequately in extant research. The purpose of this research is to identify factors relevant to building constructs to represent switching barriers in online retail stock trading industry in Hong Kong. Review of extant literature, development of a questionnaire and focus group interviews are the three principal methods used for this research. Four factors that are relevant for measuring switching barriers are identified: two positive barriers involve service recovery and trust and two negative barriers relate to higher switching costs and lack of attractive alternatives.**

Keywords - Service recovery; trust; switching costs; lack of attractive alternatives; online retail stock trading

I. INTRODUCTION

Online stock trading by retail investors has become routine in the past one decade or so. Most of the banks have developed suitable platforms to facilitate online stock trading for their customers, either to sharpen the competitive edge or because their competitors are doing so. Though some retail investors still believe in the traditional broker-client relationship, changes in technology and trade practices have resulted in many of them shifting to online stock trading. However, competition in online stock trading services has intensified hugely and banks are under increasing pressure to improve service quality. It is now well recognized in the service industry that acquiring new customers is much more expensive than keeping them [1]. As reported by Reichheld (1996), in the banking industry, a five percent increase in customer retention can yield up to eighty-five percent increase in profit [2]. Obviously, design and implementation of suitable and effective customer retention strategies have become an important issue in the banking industry [2]. Since banks are getting increasingly involved in providing online stock trading services, retaining existing customers has become more important than attracting new customers.

Customer satisfaction used to be regarded as the key to customer retention. However, in the last two decades or so switching barriers have come to be viewed as important as customer satisfaction in the context of customer retention and it is believed that to be effective a customer retention strategy should combine customer satisfaction and switching barriers [3]. Customer satisfaction certainly drives customer retention to a large extent but switching barriers also play a critical role, independently as well as in tandem with customer satisfaction [3], [4], [5]. Switching barriers often result in even dissatisfied customers choose not to switch service provider because the switching cost is perceived to be higher than the benefits of switching. Naturally, switching barriers reduce the rate of switching by customers.

The literature review has revealed the following two research gaps in extant research in the context of use of switching barriers for enhancing customer retention in the business of online retail stock trading industry.

i. Dimensions that together can constitute the constructs of switching barriers in online retail stock trading have not been identified and presented in a coherent manner.
ii. Why customers decide not to switch, despite some degree of dissatisfaction, has not been examined as thoroughly as the reasons why customers switch.

Although the number of online retail stock traders is increasing, understanding of their switching barriers is inadequate. Specifically, the present study aims to identify the underlying dimensions (factors) of switching barriers in the online retail stock trading industry.

This paper is organized as follows. Switching barriers explicated in extant literature are described on the basis of literature review. Then we describe the methodology and the final part lists the conclusions of this research.

II. LITERATURE REVIEW

Online stock trading is a process of continuous purchasing (and selling) and it is different from other services. In this still evolving stream of financial services customers are generally inclined to stick to their service providers and that makes the research even more interesting and challenging. The whole trading process is regarded as being in a continuous purchasing setting and is qualitatively distinct from discrete purchasing

DOI: 10.5176/2010-4804_4.4.401

settings in most retail sectors [3]. Banks provide online stock trading service in order to maintain their overall performance and profitability and try to satisfy the evolving needs of their customers [5], [6]. A large number of stock traders still believe the earlier way of trading through brokers meets their needs but the industry has changed radically and, therefore, many have shifted from traditional stock trading to online stock trading. Some who do not have adequate understanding of markets and do not have enough experience of buying and selling stocks prefer working with a broker but those who have experience now prefer to handle things on their own. Hong Kong Exchanges and Clearing Limited (HKEx) found in a study in 2014 that the number of online retail stock traders continued to grow in 2014 in Hong Kong (see Table 1). Nearly three-fourths (73.0%) of all stock traders were online traders in 2014 (up from 68.7% in 2011) [7].

Year	Percentage
Dec 2014	73.0
Dec 2011	68.7
Dec 2009	69.1
Dec 2007	58.8
Dec 2005	38.5
Dec 2004	35.8
Dec 2003	30.1

Table 1. Online stock traders as percentage of all stock traders
Source: HKEx (2014)

A. The challenges of online stock trading

While technological developments have resulted in the rising number of online stock traders, it has also become more difficult to retain customers in the Internet economy than it was in the traditional economy. The digital economy also means that online stock traders can easily search and compare services offered by different banks and this by itself means more intensive competition among service providers. Like consumers of other online services, online stock traders are also becoming more demanding than ever before. It has become easier to make informed decisions since details of services and fees of different banks can be obtained and compared very easily. As Shankar et al. (2003) posited, “frictionless commerce” has become a reality and banks are apprehensive about the continuously rising expectations of customers, which often results in greater dissatisfaction and possibility of customers switching service providers [8].

B. The impact of switching barriers on the relationship between satisfaction and loyalty

One reasonable definition of a switching barrier is that it is a set of factors that makes it either expensive or difficult or both for a customer to switch to a new service provider [9]. It is now an accepted fact that besides ensuring customer satisfaction service providers also have to build switching barriers that encourage existing customers to stay. This has become even more necessary because customers now assess their options continuously. In this context, Dick and Basu (1994) classified customers into the following four different groups (see Figure 1) [10].

i. “Apostles” (high satisfaction - high loyalty) are not only loyal but are also fully satisfied and recommend the product or service to others.

ii. “Hostages” (low satisfaction - high loyalty) are customers who are highly dissatisfied but have few or no alternatives.

iii. “Mercenaries” (high satisfaction - low loyalty) want to change supplier if lower prices are available, even if they are satisfied with the existing service provider.

iv. “Terrorists” (low satisfaction - low loyalty) are those who have alternatives and express dissatisfaction whenever there is an opportunity to do so.

Figure 1: Four loyalty degrees

High loyalty	Hostages	Apostles
Low loyalty	Terrorists	Mercenaries
	Low satisfaction	High satisfaction

Source: Dick and Basu (1994)

Obviously, service providers are able to find very few false loyal customers (hostages) if customer dissatisfaction results in some switching to competition. On the other hand, there are mercenary customers to reckon with, who are satisfied and yet disloyal if there are no or low switching barriers. In contrast, there may be many false loyal customers if the switching barriers are high. Even when customers are dissatisfied, switching barriers can reduce the possibility of their switching to alternatives. However, it is not likely to find many mercenaries as high switching barriers make them less likely to change providers when they are satisfied.

C. Positive and negative switching barriers

Switching barriers can be either positive or negative [11]. It is commonly believed that “having to be” and “wanting to be” in a relationship are two different situations. The former is a negative connotation while the latter is a positive reason to stay in a relationship. Jones et al. (2000) found some switching barriers more positive in nature and others as more negative [9]. From theoretical and managerial perspectives, we believe it is important to explicitly distinguish positive and negative switching barriers. Whether one stays in a relationship because the supplier provides superior services and products (a positive reason) or because leaving the supplier is too expensive, i.e. either the supplier has a monopoly or is powerful (negative reasons) should impact consumers' decision to switch [9].

Positive barriers:

When switching barriers are positive, they not only help retain customers but also strengthen relationships between customers and the service provider [12], [13]. Colgate and Danaher (2000) and Gwinner et al. (1998) showed that when service providers supply superior service and simultaneously build effective switching barriers, customers often commit themselves to relationships [14], [15]. Two examples of positive barriers are service recovery and trust [16]. Morgan and Hunt (1994) also found that service recovery and trust are two main positive switching barriers that encourage customers to stay with their retail banks [17].

i. Service recovery: Service recovery means a provider improves its service in response to a customer's dissatisfaction [18]; in such cases the factors that have caused dissatisfaction are generally relevant to a large number of customers rather than one individual customer [19]. Firms have to communicate effectively with customers and act on their complaints, generalizing the action to the extent possible, for effective service record. Effective service recovery directly improves customer satisfaction and enhances customer retention [20]. However, attempts for service recovery often fail to effectively solve customers' real complaints [21]. Levesque and McDougall (1993) found that one-half or more of unsatisfied customers continue with their existing service providers despite having unresolved issues [22].

ii. Trust: Trust means the supplier and the buyer believe in each other's reliability and integrity [17]. Extant research has presented abundant evidence of the fact that many times even satisfied customers switch service providers because of the large number of variables and a host of other reasons [23], [24]. Obviously, satisfaction by itself is often unable to retain customers and ensure long-term commitment to a single provider. Service providers need to look beyond satisfaction and address issues that strengthen retention, such as trust [25]. Thus firms have to, after satisfying their customers, work on the broader concept of trust in order to ensure mutually beneficial long-term relationships.

Negative Barriers

Negative switching barriers are barriers that prevent customers from switching. Switching costs and lack of attractive alternatives are the common negative switching barriers [26].

i. Switching costs: Switching costs are generally perceived as what customers conceive as the time required and money and effort to be spent for changing service providers [9], [27], [28], [29]. Switching costs and repurchase intentions have been juxtaposed by several researchers [5], [9], [29] [30], [31], [32], [33], leading to the conclusion that switching costs are important reasons why even dissatisfied customers remain with existing suppliers [21], [30], [34], [35].

ii. Lack of alternative attractiveness: Before a customer decided to switch service provider a viable and attractive alternative has to be identified [9]. Patterson and Smith (2003) said the availability of attractive alternative is a key factor that spurs switching [36]. In the absence of viable alternatives, the probability of terminating an existing relationship decreases [9], [33], [37]. However, when attractive alternatives are available, the probability of switching increases [9], [33], [37]. When attractive and viable alternatives are not available, or at least the customers are unaware, they are more likely to continue the relationship [36].

III. METHODOLOGY

The way an empirical research is designed affects the nature and quality of research outputs in a significant manner since the design impacts not only the validity of the results but also generalizability of the outcome to other settings. As Silverman (1994, p. 2) put it, "Like theories, methodologies cannot be true or false, only more or less useful" [38]. The design of a methodology can have biases and limitations specific to that design and that inevitably affects the results and the interpretation. Investigations for this research were carried out in three stages, in order to ensure only relevant switching barrier constructs validated in previous research were used.

Stage 1: Literature review;
Stage 2: Questionnaire development; and
Stage 3: Focus group interviews.

A. *Stage 1: Literature review*

Based on the literature review four dimensions of switching barriers were identified.

B. *Stage 2: Questionnaire development*

A review of existing measures of service recovery, trust, switching costs, and lack of attractive alternatives relevant to this research revealed that there are many constructs that had been validated in previous research can also be used in the questionnaire development in this research. In most instances, it was, therefore, possible to use the format of these measures without substantial alteration. However, since the content of the measures tended to be specific to the context in which they were developed, the development of measures of this research were concerned primarily with making the previously validated scale items applicable to the context of the online retail stock trading industry. The four switching barriers, namely, service recovery [18], trust [17], switching costs [11] and lack of attractive alternatives [21] were developed on the basis of extant research.

C. Stage 3: Focus group interviews

Thirty retail stock traders (respondents) were identified by convenience sampling method, who decided not to switch their main online stock service providers after thinking about switching. Participants were selected for this research only if they had carried out some online stock trading at least once in the preceding month, in order to ensure they had fresh memory to complete the questionnaire. They were interviewed during the focus group interviews, several of them indicated that they found switching costs to be high and that there were no attractive alternates and therefore decided not to switch to a new service provider, despite the notion of inadequate satisfaction with services being provided by the existing service provider. They thought time and effort required to switch to an alternative provider of online stock trading services would not yield any net gains. As a respondent expressed:

> *"I am not satisfied with my online stock trading service provider. However, I found that it is hard to switch to the alternate main online stock trading provider as I had made heavy use of custodial services from my existing service provider and I thought all online stock trading service providers provide the same services."*

For finalizing the questionnaire, respondents were asked to complete the questionnaire and comment on the wordings of questionnaire items as if they were the respondents. Each participant was asked to provide his or her interpretation of the questions, to ensure that the measure of each question had been understood adequately for eliciting reliable responses. When some broad problems were detected, all participants were encouraged to suggest alternatives way of addressing the identified problems. The focus group interviews resulted in identification of some problems related to comprehension and comprehensiveness of the survey questions. Finally, their recommendations were taken into consideration when finalizing the questionnaire. All the four dimensions of switching barriers were retained. Each of the four retained dimensions contains three-item, seven-point Likert-type scale with anchors "1=strongly disagree" and "7=strongly agree". Table 2 shows the items in each dimension.

IV. CONCLUSION

The challenge of customer retention in the context of the use of the Internet as a commercial medium was investigated in order to identify factors affecting switching barriers in the online retail stock trading industry. The findings of this research are expected to prompt Internet researchers to pay closer attention to how banks manage switching barriers for those who decide not to switch despite not being satisfied and after thinking about switching.

Dimensions	Items	Sources
Service recovery	My complaint was addressed by my main online stock trading service provider.	Tesfom and Birch (2011)
	I was satisfied with the way my main online stock trading service provider responded to my complaint.	
	My main online stock trading service provider made adequate efforts to resolve my problem.	
Trust	I can trust my main online stock trading service provider at times.	Morgan and Hunt (1994)
	My main online stock trading service provider meets my expectations.	
	My main online stock trading service provider has high integrity.	
Switching costs	It would cost me a lot of time or effort to switch to another main online stock trading service provider.	Julander and Solander (2003)
	It is risky to change my main online stock trading service provider as the new provider may not give good services.	
	Considering everything the cost to stop using my main online stock trading service provider and start up with a new provider would be high.	
Lack of alternative attractiveness	All online stock trading service providers are the same.	Colgate and Lang (2001)
	I am not sure what kind of services I shall get if I choose another online stock trading service provider.	
	Realistic, viable and attractive alternatives are few.	

Table 2: Switching barrier constructs and items

For developing long-term relationships, it is necessary for online stock trading service providers to identify reasons that make customers stay or leave. The kind of switching barriers that can affect customer evaluation of the service need to be constructed [45]. When a service provider knows precisely which dimensions are important to customers wanting to switch to competitors, it can design services that can help respond more specifically to customer needs, particularly after a sevice failure.

This research goes beyond the traditional information system (IS) research where the focus is mainly on factors that encourage technology adoption and increased computer usage [20], [39], [40], [41]. IS research in the past has made significant progress on adoption and system usage constructs. To ensure adoption and acceptance of technology from end users, IS researchers believe a system should be perceived to be useful and should have features that ensure ease-of-use [41], [42]. To expand usage, the system and the information must be of high quality and the user should not only feel satisfied [43] but also expect net benefit from future use [44]. Once a user has adopted a system and starts using it, the next issue to explore is how to retain users. The findings of this research urge IS researchers to extend the emphasis factors leading to effective strategies to use switching barriers to retain users.

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