From Loyalty To Switching: Exploring The Determinants In The Transition

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Abstract

This study investigates determinants that cause mobile phone customers to transit from being loyal to switching. By examining what keeps customers loyal, and then examining what provokes or entices the same customers to switch, the findings suggest that the transition from loyalty to switching may be due to changes in the underlying determinants as well as new determinants. The study concludes that mobile telecommunications is a commodity and offers several applied implications for mobile service providers and suggestions for future research.

Keywords: Switching, loyalty, mobile telecommunications

Introduction

Managerial and academic literature extols the benefits of preventing customers from switching service providers (Ganesh, Arnold and Reynolds, 2000; Keaveney and Parthasarathy, 2001; Reichheld, 1996). These studies share a common and threatening theme – switching reduces revenue and profit. Showing that reducing customer defections by 5% increased profit by 75% for credit card companies, Reichheld and Sasser (1990, p. 105) conclude that defections have a stronger impact on profitability than "scale, market share, unit costs, and many other factors usually associated with competitive advantages."

For continuous utilities such as mobile telecommunications, switching is particularly telling. As these firms spread high fixed costs over an installed customer base, departing customers lower future revenue streams, but not fixed costs. Furthermore, it costs more to acquire new customers than to prevent them from defecting (Fornell and Wernerfelt, 1987; B. Mittal and Lassar, 1998; Zeithaml, Berry and Parasuraman, 1996).

Research in switching identifies different determinants and often conflicts on how the determinants behave. For example, Yavas, Benkenstein, & Stuhldreier (2004) assert that poor service quality is the root cause of bank switching, whereas Gerrard and Cunningham (2004) maintain that price is more influential than service quality when switching banks. Similarly, some studies suggest that customer satisfaction is an important antecedent of loyalty (Bowen and Chen, 2001; B. Mittal and Lassar, 1998), whereas others oppose this sanguine view (Gerpott, Rams and Schindler, 2001; Mazursky, LaBarbera and Aiello, 1987).

Studies of loyalty and switching determinants typically hypothesise the effects of determinants on intentions or behaviour, and then confirm the hypotheses empirically (e.g., see Morgan and Hunt, 1994). Yet to the authors’ knowledge, no studies have explored what keeps customers with a service provider, and then examined – with the same respondents – what provokes or entices them to switch. By investigating the factors and changes in factor behaviour in the transition from loyalty to switching intentions, this exploratory study helps guide strategic marketing and future research in switching.
Determinants of Loyalty and Switching

Many factors cause consumers to stay with their existing provider or switch to competitors. Most studies, as well as conventional wisdom, suggest that improving service quality satisfies customers and thus retains their loyalty (Keaveney, 2001; Zeithaml, Berry and Parasuraman, 1996). Conversely, customers with negative service experiences switch or consider switching to another service provider (Jones and Sasser, 1995; Lewis and Bingham, 1991). Determinants, however, go beyond service quality and customer satisfaction.

Price stands out as another overwhelming reason for switching, for example, in insurance (Roos, Edvardsson and Gustafsson, 2004) and banking (Gerrard and Cunningham, 2004). Brand trust leads to commitment, which then attenuates customers’ propensity to switch (Moorman, Zaltman and Deshpandé, 1992; Morgan and Hunt, 1994). Yet consumers may switch brands or service providers for behavioural reasons such as variety seeking (Givon, 1984), impulse (Stern, 1962), and situational context (Skoglan and Siguaw, 2004).

Switching costs are also important switching determinants (Jones, Mothersbaugh and Beatty, 2000; Sharma and Patterson, 2000). For example, Burnham, Frels and Mahajan’s (2003) cross-industry findings indicate that switching costs, such as monetary loss and uncertainties with the new service provider, deter switching despite dissatisfaction. In addition to being an attractive feature, loyalty programs are a switching cost due to the potential loss of accumulated benefits such as loyalty points (Burnham, Frels and Mahajan, 2003; Yi and Jeon, 2003).

Finally, reference group influence, which pressures consumers to conform to others’ expectations or norms, affects broad values and behaviour. For example, Childers and Rao (1992) demonstrate the effects of peer pressure on individuals to conform to brand choice.

Transiting from Loyalty to Switching

Loyalty differs in repertoire and subscription markets (Sharp, Wright and Goodhardt, 2002). In repertoire markets (e.g., consumer goods), purchases spread over a repertoire of brands and consumers regularly switch brands. Loyalty is polygamous and often operationalised as share of category (e.g., Cunningham, 1956; East, Harris and Lomax, 2000). In contrast, customers in subscription markets (e.g., telecommunications and utilities) typically exhibit sole-loyalty to one brand and often over long period. Switching thus entails stopping using a brand totally and allocating purchases entirely to a new brand (e.g., Sharp, Wright and Goodhardt, 2002).

This study assumes a subscription market; consumers subscribe to mobile services with no initial intention to switch. Arguably, they remain solely loyal until triggers change them from being loyal to switching or intending to switch service provider. As numerous determinants relate to loyalty and switching, this transition from loyalty to switching may be due to changes in underlying determinants, new determinants coming into play, or both factors.

Based on the assimilation-contrast theory (Sherif and Hovland, 1961), consumers have a ‘zone of indifference’ and tolerate substandard performance provided actual performance meets a minimum threshold (Anderson, 1973; Grönroos, 1990; Liljander and Strandvik, 1993). Thus, changes in the determinants may cause switching once they breach this zone.
Furthermore, new determinants may trigger loyalty-switching transitions. Studies show that factors that predict positive relationships may differ from those that predict negative relationships (Keaveney, 1995; LaBarbera and Mazursky, 1983). For instance, Lewis and Bingham (1991) find that convenience and services offered are main reasons influencing bank choice among UK youth. Upon using the banks’ services, however, dissatisfaction with customer service is the main factor for switching. Similarly, Mazursky, LaBarbera and Aiello (1987) demonstrate that switching may occur even when loyalty determinants are satisfied.

Research Methodology

Divided into 10 groups of four to six members, this study involved almost 50 part-time Singapore university students. Participants were 20 to 30 years old, and about three of five were female. Each owned a mobile phone, and 15 had switched service providers – a figure comparable with Singapore’s churn rate of 20% to 30% per annum (Chorleywood, 2004). Defining loyalty as sole-loyalty with a service provider (Sharp and Wright, 2000), the study gathered qualitative data in two steps. Firstly, a brainstorming exercise generated factors that might induce switching. Next, a facilitator conducted interactive interviews (Patton, 1990) whereby the 10 groups rank ordered five factors that a) keep participants loyal to their current service providers and b) induce participants to transit from being loyal to intending to switch due to changes in the loyalty factors (e.g., degradation of service quality) or introduction of new factors.

Results and Discussions

The first step, brainstorming, identified 10 common factors.
• Price is the perceived attractiveness of competitors’ offers in monetary value, including items such as a handset subsidy, fees waived, and monthly subscription fees.
• Technical service quality relates to the physical service elements (e.g., extent of coverage).
• Functional service quality relates to using the technical services (e.g., service encounters).
• Switching costs are barriers that deter or prevent the customers from switching (e.g., termination penalties and change in phone number).
• Loyalty programs are an attraction when the competitors’ loyalty schemes entice, and a switching barrier when customers lose accrued loyalty benefits such as loyalty points.
• Reference group influence refers to outside entities such as family, friends, and symbols (e.g., pop idols) influencing the switching decisions.
• Brand trust is the expectation that the firm will deliver expected benefits for the long run.
• Behavioural factors include impulse buying, variety seeking, and persuasive salespersons or advertising.
• Handset upgrade occurs when consumers switch service providers because a particular handset is exclusive to or more attractively priced with a competitor.
• Technology relates to consumers wanting a new or superior technology from a competitor (e.g., 3G and email services).

The second research phase yielded the results in Table 1. Low responses eliminated handset upgrade and technology from the rankings. As foreshadowed in the Introduction, the findings suggest that changes in the underlying determinants and a new determinant coming into consideration cause the transition from loyalty to intending to switch. Particularly, changes in
perceived price and service quality are the most influential in causing the transition, whereas changes in brand trust and reference group influence have less impact. Furthermore, behavioural factors, a determinant not identified in loyalty, evoke switching intentions.

Table 1: Results of rank ordering the determinants of loyalty and switching intentions

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<tr>
<th>Determinants of loyalty with current service provider</th>
<th>Rank</th>
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<tr>
<td>Switching Costs</td>
<td>Loyalty Programs</td>
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<tr>
<td>Costs</td>
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<tr>
<th>Determinants of intentions to switch from current service provider</th>
<th>Rank</th>
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<tr>
<td>Price</td>
<td>Service quality</td>
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<tr>
<td>Technical</td>
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Switching costs, particularly penalties for terminating contracts prematurely, was the most critical loyalty factor. This may indicate that mobile telecommunications is a commodity and switching costs create ‘spurious’ rather than ‘true’ loyalty (Dick and Basu, 1994). Similar to other studies, switching costs are more effective than customer satisfaction, service quality, and price in retaining customers (Burnham, Frels and Mahajan, 2003; Jones, Mothersbaugh and Beatty, 2000).

Yet, switching costs may cause adverse ‘entrapment’ feelings (Jones, Mothersbaugh and Beatty, 2000) and cognitive dissonance (Burnham, Frels and Mahajan, 2003) – thus evoking switching intentions. Switching costs, however, failed to rank as a main determinant of switching intentions. Customers do not intend to switch because they feel disgruntled with current switching costs or attracted to competitors’ services with no or lower switching costs.

Loyalty programs are determinants of switching and loyalty; customers view loyalty programs both as an attraction to switch and as a switching deterrent (e.g., Yi and Jeon, 2003). Therefore, firms should invest in enticing loyalty programs because of their two-prong benefits in luring customers from competitors and keeping them with the firms.

Price is the top switching determinant and more important than service quality and loyalty programs. That is, changes in price perceptions may cause the loyalty-switching transition. Similar to switching costs, this finding reflects the commodity nature of mobile services. Thus, a provider can use price to dislodge seemingly satisfied and loyal customers from their providers (e.g., Mazursky, LaBarbera and Aiello, 1987). The importance of price as a loyalty determinant further implies that after switching over customers, mobile firms must continue to offer value to these customers or risk losing them to competitors.

Service quality is critical in switching, but has a lower priority in loyalty. That is, perceived degradation in service quality may trigger loyalty-switching transition, but satisfaction with service quality may not yield loyalty. Customers may regard service quality as a ‘hygienic’ factor; they expect good service and will not tolerate poor service. This result contrasts with literature arguing that service quality builds loyalty (Bitner, 1990; Fornell, 1992; V. Mittal and Kamakura, 2001).

Similarly, technical and functional qualities feature differently in loyalty and switching. Technical quality (e.g., coverage area) is more important than functional quality in driving
switching, whereas functional quality (e.g., customer service) is more crucial to keeping customers. This observation aligns with research showing that good service recovery and complaint handling can mitigate the effects of service faults and hence dissuade switching (Kelley, Hoffman and Davis, 1993; Singh and Widing, 1991).

Behavioural factors such as impulse buying and variety seeking illustrate the effects of new determinants on the loyalty-switching transition. For managers, this is a disturbing finding as it implies that efforts, except for switching costs such as contractual obligations, to develop loyalty in some customers may be futile.

Brand trust is particularly important in services because consumers buy a service – intangible and difficult to evaluate – before they experience it (Berry, 1991; Liljander and Strandvik, 1995). Yet in this study brand trust is low in importance for both loyalty and switching. Consumers may perceive little differentiation among Singapore’s three mobile service brands. This result questions if brand and brand trust foster loyalty, especially in mature, commodity markets. For managers, it questions substantial spending on brand building – is their spending to create a competitive advantage through brand differentiation or merely to ‘keep up with the Jones’ and prevent brand awareness erosion?

Similarly, reference group influence ranks low for loyalty and switching, although ample evidence suggests its influence on consumers (Bearden and Etzel, 1982; Witt and Bruce, 1972). Singapore’s high penetration rate may have relegated mobile phone service to a commodity and no longer a conspicuous luxury susceptible to reference group norms (e.g., Bearden and Etzel, 1982). Mobile service providers should question their marketing spend on ‘star’ endorsements – a common practice among Singapore’s mobile service providers.

Lastly, the non-rankings of handset upgrade and technology seem logical. In Singapore, service providers rarely have long-term exclusivity with handsets. Fierce competition minimises price differences among handset offers, while the technologically advanced market results in little technology differentiation.

**Limitations and Future Research**

The exploratory nature of this study results in several limitations that future studies can address. Firstly, future research should draw upon a random and larger sample of mobile phone users to provide more generalisable results. As loyalty and switching determinants are industry-specific, using the same methodology of loyalty-switching transition, studies can explore the behaviour of determinants in other industries.

Secondly, these findings emerge by subjecting participants to hypothetical situations (e.g., what if competitors’ price becomes attractive?) and gauging their switching intentions. Future longitudinal research that addresses actual intentions and behaviours may shed more light on the underlying psychological process during the transition.

Lastly, this study did not explore interactions among the determinants and their combined influence on switching. For example, to what extent do consumers tolerate negative experiences when price is low and thereby enlarge the zone of indifference?
Bibliography


