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Brand defection in a business-to-business financial service

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ABSTRACT

This research examines the reasons for brand defection in a business-to-business financial service. Three cross-sectional studies examine customers who ceased using a brand in the previous month. The research shows that about 60% of brand defection occurs for reasons that brand managers cannot influence, such as business closure or head office decisions. Hence, retention strategies can have a maximum success rate of 40%. Furthermore, most defection within this 40% relates to dissatisfaction with fees and charges, or the attractiveness of competitors' offers. These reasons limit what brand managers can do to retain these customers other than just matching competitors' offers. On the other hand, most customers who defect because of price issues or reasons beyond management control still have a positive attitude towards their former brand and are likely to consider this brand for future purchases. Only 4% of lapsed customers defect because of service service-related issues. These customers are less positive about their former brand, compared to other lapsed customers. The research provides implications for investments in customer acquisition versus customer retention.

1. Introduction

Marketing practitioners and academics often assume that customers who terminate relationships with a brand are dissatisfied or disappointed with the brand's offering. Therefore, the literature suggests that if brand managers can identify and address the areas of concern, then an almost zero defection rate is achievable (e.g. Gould, 1995; Hawkes, 1994; Reichheld, 1993a, 1996; Reichheld and Sasser, 1990).

However, previous research into the antecedents of customer defection shows that not all of the customers who leave a brand do so because of dissatisfaction (Ganesh et al., 2000). Reichheld (1993b) reports that "on average, 65 to 85 percent of defectors say they were satisfied or very satisfied with their former supplier". Mittal and Lassar (1998) find that one third of current customers who say they are satisfied with the brand also express an intention to switch.

These claims suggest that some of the reasons for customer defection may be beyond the influence of brand managers and sometimes even the customer. Examples include moving residence, another provider opening a more conveniently located branch, or corporate head office directing a change of supplier (e.g. Colgate et al., 1996; Keaveney, 1995; Schneider, 1973; Hogan et al., 2003).

Marketing literature provides qualitative categorization of the reasons for brand switching, however only a few publications go further to describe the proportions of customers citing each reason. In order to assess the likely return on investment from customer recovery and retention strategies, managers need to know not only the reasons for defection, but also how much defection they can influence. In other words, how many customers lapse for reasons brand management can do something about (for example, improve a service), and how many customers defect for the reasons brand management cannot do anything about (for example, the customer is moving or is going out of business). The greater the proportion of brand defection beyond management control, the lower the potential return from retention strategies along with greater incentive for managers to direct resources to strategies designed for new customers acquisition to replace lapsed customers.

This research looks specifically at overall customer loss, or brand defection, when customers cease using a brand, which is different from prior research that focuses mainly on brand switching, and only examines customers who switch from one brand to another brand. Focusing solely on switching neglects the proportion of defectors who leave the category, hence providing an incomplete picture of brand defection.

This study also extends prior research conducted in consumer markets, into a business-to-business context. Business-to-business markets are usually characterized by more complex products, greater bonds between parties, and greater value accounts (Bendapudi and Leone, 2002; Coviello and Brodie, 2001). These factors might affect the reasons for defection in business-to-business relationships and make the brand-switching models designed for consumer markets less applicable.

The aim of this study is to categorize and quantify the reasons for brand defection among all business customers who cease using a

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financial service in a specified time period. The findings will establish benchmarks for the proportion of defection that is within the influence of brand management and therefore how many customers are potentially retainable/savable. A secondary objective is to link the reasons for brand defection to the possibility of brand recovery through analyzing customers' attitudes and likelihood of considering their former brand for future product needs.

2. Background

Research into why customers leave brands predominantly concentrates on the motives for switching between brands. Therefore most research confines the target group to those customers who exchange one brand for another, rather than examining all those who terminate use of a brand. This focus on switching is not useful to management because their own internal figures often do not distinguish between defectors who switch brands and those who leave the category permanently. A substantial portion of customers could abandon the category and not replace one brand with another (Tähtinen and Halinen, 2002).

Studies into reasons for switching brands mainly focus on qualitative findings (e.g. Colgate and Hedge, 2001; Colgate et al., 1996; Schneider, 1973). Only a few studies quantify the proportions of customers who defect for particular reasons. This lack of quantification prevents marketing academics and practitioners from obtaining a more complete picture of the antecedents of customer defection, which is necessary for decisions about investing in customer recovery, service improvement strategies or acquisition of new customers.

Susan Keaveney (1995) conducted the most commonly cited research into the reasons for customer switching. Keaveney's study required respondents to identify an event, interaction, or series of interactions, between a customer and a service firm that caused that customer to switch to another service provider within a six-month period. The researcher then coded all responses and a panel of experts categorized them into eight groups describing their reasons for switching. Keaveney's research provides a framework of reasons and quantitative benchmarks regarding the proportion of consumers who switch service providers for specific reasons. The study found that core service failure was the most common cause of switching, and involuntary switching was the least reported reason for switching.

Keaveney's study focuses on occasions when customers switch brands, rather than all occasions when they cease to use a brand. This limitation suggests the need for further testing to establish the generalizability of Keaveney's results and the applicability of the benchmarks generated — a need that Keaveney (1995) acknowledges.

The current study extends past research by drawing on the typology that Keaveney (1995) proposes and applying this typology to another context — a business-to-business financial service. This research also addresses a number of methodological issues relating to the sampling and questioning technique used in Keaveney's research. All business customers who ceased using a provider in the previous month are included in the research. This time frame captures responses shortly after the defection, ensuring that the activity is equally salient and memorable for all respondents. Finally, although this research examines a single product category, researchers conducted three independent cross-sectional studies over two years to verify the generalizability of the results over time. This research design provides a way to test Keaveney's typology in the new context, and to quantify the incidence of the reasons for defection and the proportion of defection that happens both within, and outside of, brand management's influence.

2.1. Possibility of customer recovery and future brand consideration

The aim of customer recovery strategies is to dissuade customers who were thinking of switching (Harris et al., 2006; Kelley and Davis, 1994; Wong, 2004). Most of these studies focus on service failure incidents and customers' evaluation of the recovery strategies undertaken. However, seemingly no research examines the future customer potential of those who actually defect. Such analysis is important for customer lifetime value (CLV) models, as these often assume that once customers defect their value becomes zero, or that return is largely stochastic in nature (Rust et al., 2004). If cohorts of lapsed customers have a higher or lower propensity to return than a mere chance, then marketers can adjust CLV models accordingly to provide more accurate estimations of lapsed customers' potential.

A first-hand experience with the brand has a significant impact on brand attitudes and the propensity to buy a brand in the future (e.g., Fazio and Zanna, 1981; Keller, 1993; Smith and Swinyard, 1983). Though, the impact of brand defection on current brand evaluation and the future propensity to buy the brand, remains unclear, the industry statistics (as reported in Griffin and Lowenstein, 2001) suggest that customers' defection can significantly damage a brand's penetration and decrease the customer base. The ongoing process of customer loss means that the total group of customers who left a brand grows in number every year and can form a substantial part of the market. Moreover, given that the total number of 'good' customers or the customers with a sufficient lifetime value in the market is limited (Griffin and Lowenstein, 2001), brand managers might not be able to afford to forget and ignore their lapsed customers, in a hope of replacing them with new ones. Knowing how lapsed customers are likely to react in response to their former brand in the future is useful for targeting and re-acquisition strategies.

Yet, only a few authors have looked at the former brand users after they have defected. Rust and Zahorik (1993) examined the level of satisfaction with the current and former financial provider. The authors suggest that respondents "did not downgrade the rejected firm on all attributes… some respondents occasionally even gave their former bank a higher mark on one of the attributes" (p.202, Rust and Zahorik, 1993). A more recent study in the consumer banking industry by Lees et al. (2007) reports that two thirds of those switching due to dissatisfaction had remove the former brand from their consideration set. In contrast, those switching for a better deal or for other as if by random reasons (like convenience) are more likely to retain their former brand in the consideration set. This study in consumer banking suggests that cohorts of lapsed customers could be a potentially fruitful source of future customers.

The second part of this study explores the impact of past brand defection (and the reasons underpinning this defection) for a business-to-business financial service, on customers' attitudes towards their former brand and also the likelihood of considering the brand for future purchase. The findings of this research provide insight into the future market potential of lapsed customers.

3. Research design and method

This study implements the following research design to overcome some of the limitations and to extend the scope of previous research. Trained interviewers interviewed business customers who had terminated their contract for an Electronic Funds Transfer at Point of Sale (EFTPOS) machine and accompanying processing services in the first week of the month following the termination. EFTPOS service is the means by which retail customers can pay using their credit and debit cards when transacting with businesses. Researchers chose this service category for analysis because EFTPOS transactions may account for up 50% of all retail transactions. Therefore this category is very important for business and is widely used.

The financial service provider supplied a list of its ceased business customers. These were mainly owners or managers of small and medium businesses located Australia wide. The profile of respondents reflected the type of retail businesses that use the service. Approximately 7% of customers listed as terminated in the provider's database claimed they were still current customers of the brand, and had only