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Relationship marketing and consumer switching behavior

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Abstract

The authors attempt to explain the relationships among relational bonds, customer value, and customer loyalty in three different consumer groups (stayers, dissatisfied switchers, and satisfied switchers) in the retail banking industry. Data were obtained from a sample of 613 Taiwanese bank customers. The findings are threefold. First, for stayers, three types of bonds (financial, social, and structural) improve customer utilitarian and hedonic values, thus leading to enhancement of customer loyalty. Second, for dissatisfied switchers, only the structural bond has a significant impact on customer's utilitarian value, which significantly improves customer loyalty. Third, for satisfied switchers, the social bond significantly affects the hedonic value, whereas the structural bond significantly affects the utilitarian value. Furthermore, both utilitarian and hedonic values have significant effects on customer loyalty. The authors discuss the managerial implications and directions for further research.

Keywords: Relationship marketing; Relational bonds; Customer loyalty; Utilitarian value; Hedonic value; Stayers; Switchers

1. Introduction

More than ever before, managers in the financial services industry must understand their customers so that they can better meet their best customers' needs and prevent them from switching to other companies. Any approach that addresses these issues is likely to meet with a great deal of interest, and relationship marketing has proven to be one of the most successful approaches (Dibb and Meadows, 2001).

Relationship marketing, defined as marketing activities that attract, develop, maintain, and enhance customer relationships (Berry, 1983; Berry and Parasuraman, 1991; Grönroos, 1994), has changed the focus of a marketing orientation from attracting short-term, discrete transactional customers to retaining long-lasting, intimate customer relationships. Many firms have established relationship marketing (or loyalty) programs to foster customer loyalty toward their products and services (Schiffman and Kanuk, 2004). The cornerstones of relationship marketing, relationships have been described best as the formation of "bonds" between the company and the customer (e.g., Roberts et al., 2003). As existing literature suggests, businesses can build customer relationships by initiating one or several types of bonds, including financial, social, and structural bonds (e.g., Berry, 1995; Berry and Parasuraman, 1991; Lin et al., 2003; Peltier and Westfall, 2000; Williams et al., 1998). However, much remains to be learned about the relationship between such firm-initiated relational bonds and customer perceptions and behaviors (Gwinner et al., 1998).

Value represents another important element in managing long-term customer relationships (Pride and Ferrell, 2003). Because definitions of value vary according to context (Babin et al., 1994; Dodds et al., 1991; Holbrook, 2005; Holbrook and Corfman, 1985), we conceptualize value as an outcome

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of consumption experiences. In Babin et al.'s (1994) study, value is defined as a subject's relativistic preference after his or her interactions with things or events. In developing marketing activities, firms must recognize that customers receive benefits from their experiences and that a well-designed marketing mix can enhance perceptions of value (Pride and Ferrell, 2003). Therefore, customers' experiences with relational bonds may influence their value perceptions.

Several recent consumer behavior studies have focused on the perceived value of marketing activities. Various literature has evaluated shopping trips (Babin et al., 1994) and sales promotion activities (Ailawadi et al., 2001; Chandon et al., 2000) according to their utilitarian value, or the merit of the economical factors acquired, and their hedonic, or emotional, value, as generated from these activities. In this study, we propose that relational bonds, which are created through economic or emotional marketing activities, may improve customers' utilitarian or hedonic value. When consumers highly value these bonds, they are motivated to be loyal.

According to the stimulus–organism–response (S–O–R) paradigm (Woodworth, 1928) and value research (e.g., Ailawadi et al., 2001; Babin et al., 1994), relational bonding activities by a firm (stimulus) may influence customers' value perceptions (organism), which in turn may influence their purchase behaviors (response). Therefore, relational bonds correlate to the value perceptions of consumers and correspondingly enhance, or undermine, their loyalty. The fundamental question underlying this research is how consumers respond to relational bonds and how these bonds promote long-term relationships.

To provide insights into the design and implementations of effective customer retention strategies, we divide bank customers into three segments: loyal customers, dissatisfied switchers (customers who switch because of their unsatisfactory experiences), and satisfied switchers (customers who switch for reasons other than dissatisfaction) (Ganesh et al., 2000). According to the previous literature, the psychological state and behavior of one customer segment differs significantly from that of other segments (Ganesh et al., 2000; Keaveney and Parthasarathy, 2001). Therefore, customers in different segments may apply either utilitarian or hedonic value to their evaluation of a firm's marketing activities. When people are not explicitly told which value to apply, the value of their shopping experience may depend on their personal values, goals, or needs (Adaval, 2001; Babin et al., 1994; Mano and Oliver, 1993).

Specifically, the purpose of this study is to explore the influence of different relational bonds on customers' perceptions of utilitarian and hedonic values, as well as on the loyalty among different customer groups in the banking industry. We hypothesize that the value perceptions of customers mediate the relationship between relational bonds and customer loyalty. Our rationale is that relational bonds, which are composed of economic- or emotion-related marketing activities, may improve customers' utilitarian or hedonic value perceptions. When consumers perceive high value from these relational bonds, they are motivated to be loyal. Furthermore, we test the model among three customer groups to explore differences in their attitudes and behaviors. In the following sections, we review prior research on utilitarian and hedonic values, relational bonding strategies, and loyalty and then present the research methodology, including a delineation of the measurement used to test the hypotheses. Following an examination of the results, we provide some key managerial and research implications.

2. Theoretical rationale and hypotheses development

2.1. Utilitarian and hedonic values

Value is the subject's evaluation after his or her interaction experience with things or events, and it is a key outcome variable in a general model of consumption experiences (Babin et al., 1994; Holbrook and Corfman, 1985). Most researchers divide customer values into two different categories: utilitarian and hedonic (e.g., Babin et al., 1994; Chandon et al., 2000; Chaudhuri and Holbrook, 2001; Hirschman and Holbrook, 1982; Mano and Oliver, 1993; Stoel et al., 2004).

Utilitarian value results from the conscious pursuit of an intended consequence (Babin et al., 1994). It is primarily instrumental, functional, and cognitive and represents customer value as the means to an end (Chandon et al., 2000). For example, savings, convenience, and product quality can be classified as utilitarian values (Ailawadi et al., 2001; Chandon et al., 2000; Chaudhuri and Holbrook, 2001). Traditionally, marketers believed that market choices and consumer preferences were driven by utilitarian value (Arnould et al., 2004). Conversely, hedonic value is an outcome related to spontaneous responses that are more subjective and personal (Babin et al., 1994). Hedonic values, such as entertainment, exploration, and self-expression (Ailawadi et al., 2001; Chandon et al., 2000), derive more from fun and enjoyment than from task completion and are noninstrumental, experiential, and affective (Chaudhuri and Holbrook, 2001; Hirschman and Holbrook, 1982).

2.2. Relational bonding strategies

Previous relationship marketing studies have focused on three types of relational bonding strategies – financial, social, and structural – that can enhance a service provider–customer relationship (Berry, 1995; Berry and Parasuraman, 1991; Lin et al., 2003; Peltier and Westfall, 2000; Williams et al., 1998).

2.2.1. Financial bonds

Businesses can enhance customer relationships by establishing a financial bond, which Berry (1995) defines