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Life after death? Analyzing post-defection consumer brand equity

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ABSTRACT

The industry literature is full of the idea of winning back lapsed customers. Yet marketing practitioners and academics know very little about what happens to customers after they stop buying the brand. This research investigates the brand equity of lapsed customers of five major financial institutions. The analysis compares the propensity for positive and/or negative brand associations, overall brand evaluation, and the propensity to consider the brand in the future across the main segments of lapsed customers. The results show that the group of lapsed customers is not homogenous, but consists of distinct segments. Customers who defected for different reasons also differ in their post-defection brand equity. The paper concludes with implications for winback strategies for lapsed customers and brand equity measurement and management.

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1. Introduction

Marketing managers have a consistent goal of winning back lapsed customers (Griffin and Lowenstein, 2001). Industry consultants claim that lapsed customers, that is, customers who previously bought the brand but have defected away, are a fruitful source of customer acquisition (Reichheld, 1996; Reichheld and Sasser, 1990). The key rationale for this view is the belief that if brand management focuses on regaining lapsed customers, rather than attracting new ones, the return on investment will be higher. To date, however, very little empirical research on lapsed customers has taken place. (exceptions are Homburg et al., 2007 and Tokman et al., 2007) Whether researchers can treat lapsed customers as a homogenous group, or whether distinctive segments of lapsed customers exist, with varying propensities for future winback, is unclear.

Consumers' past experiences influence their behavior and the way they perceive and interpret new experiences (Fazio and Zanna, 1981). Therefore, one way to assess the potential winback of lapsed customers is to examine their thoughts and feelings with regard to their former brand. Such cognitive information about a brand is an aspect of customer brand equity (Keller, 1993, 2003; Keller and Lehmann, 2006).

The reasons for brand defection are a focus of many past studies (Keaveney, 1995). These studies show that customers defect from brands for a variety of reasons. Consumers might attribute some of these reasons to poor brand performance, for example, service failures or high fees. Other reasons might only partially relate to brand management's actions (e.g. when competitors attract customers), or not relate at all (e.g. when customers go out of business, leave the country, or change suppliers following a Head Office decision). The variability in the reasons for defection suggests that lapsed customers might have different judgments of their experience with their former brands. This difference might affect the lapsed customers' propensity to use their former brands in the future.

This paper investigates three research questions: (1) what are the reasons for brand defection; (2) are lapsed customers more likely to retain associations about former brand that correspond with their reasons for defection; and (3) do lapsed customers who defect for different reasons differ in their post-defection customer brand equity. In particular, the last question focuses on the difference between customers whose reasons for defection relate to failures of the brand they *switched from* (e.g. service and price reasons) compared to customers whose reasons relate to the benefits of the brands they *switch to* (e.g. receipt of a better deal from a competitor). The research compares positive and negative brand associations, overall brand evaluations and the propensity to consider the former brand for future purchase as indicators of lapsed customers' brand equity after defection. Investigation of these research questions provides important implications for segmenting (or not) lapsed customers for future winback strategies.

This paper uses a business-to-business (B2B) financial services industry context. Research into customer brand equity in B2B markets is important because people who rely on their own personal memories, associations and evaluations to make decisions about brands still make business decisions (Blombäck and Axelsson, 2007; Webster and Keller, 2004). Furthermore, effective brand management is crucial for services markets (e.g. financial services). Effective brand management instils trust and confidence in consumers when no physical differences in the product guide their choices (Berry, 2000).

This paper consists of two parts, both of which use the same data set. The first part explores the reasons why customers defect from brands, and quantifies the proportion of lapsed customers stating each reason. This part provides discussion of the relevant literature,

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followed by a brief description of the data set and a descriptive analysis of the reasons for defection. The second part examines lapsed customers post-defection customer brand equity in the form of positive and negative associations, overall evaluations and brand consideration. This part presents theoretical arguments that lead to hypotheses, research, and discussion of the results. The paper concludes with the discussion of managerial implications, the limitations of the study and implications for future research.

2. Part 1. Reasons for brand defection

Lapsed customers are those who used to buy a brand but have stopped doing so. Various authors refer to this group of (non) customers as lost customers (Hogan et al., 2003; Stauss and Friege, 1999; Thomas et al., 2004), switchers (Hogan et al., 2003), former users (Bird and Channon, 1970; Romaniuk, 2001), or defectors (Thomas et al., 2004). Exploring the reasons for brand defection greatly benefits brand managers highlighting aspects of a product or service that might potentially cause further customer loss if managers do not rectify the problem (Griffin and Lowenstein, 2001; Reichheld, 1996).

The customer defection literature uses three main categories of reasons for defection. The first category highlights the negative qualities of the brand they *switch from*. Various authors refer to this category of reasons for defection as *push-away* (Bansal et al., 2005; Stauss and Friege, 1999) or *expectation disconfirmation* (Lees et al., 2007). Common examples are service-related issues (poor core service, service encounter failure, poor mistake recovery, unethical or illegal behavior of staff members, etc.); price-related issues (dissatisfaction with fees and charges, interest rates, fees for termination, etc. of the current brand); product/service-related issues (poor quality of offering, limited amount or range of services/options); inconvenience (poor location of branches and hours of operation); or flexibility (inability of providers to meet specific requirements) (Colgate and Hedge, 2001; Gerrard and Cunningham, 2004; Keaveney, 1995; Lees et al., 2007).

The second category includes reasons that prompt people to *switch to* competitors, highlighting the positive qualities of other brands, rather than negative information about the former brand. Prior literature calls this category *pull-away* (Bansal et al., 2005; Stauss and Friege, 1999) or *utility maximization* reasons (Lees et al., 2007). These reasons include receipt of a better deal in the form of monetary gain (lower fees, better interest rates, and price discounts) or non-monetary incentives (additional services, bundling products, better quality, etc.) (Colgate and Hedge, 2001; Gerrard and Cunningham, 2004; Keaveney, 1995; Lees et al., 2007).

The final category contains reasons that usually do not relate to former or new brands, but are largely *beyond the control* of any brand management. Labels for this category include *move-away* (Stauss and Friege, 1999), *stochastic* (Lees et al., 2007) or reasons beyond the control of brand management (Bogomolova and Romaniuk, 2009). Examples include changes in personal life (moved away, got married, divorced, or died) or professional circumstances (sold business, joined a franchise network, or Head Office directed change of suppliers) (Bogomolova and Romaniuk, 2009; Gerrard and Cunningham, 2004; Keaveney, 1995; Lees et al., 2007).

The first part of this paper examines the incidence rate of various reasons for brand defection in the business-to-business financial services context, with particular focus on categories that describe reasons to *switch from* the former brand and *switch to* new brands.

3. The data

Researchers randomly select potential respondents using the electronic telephone directory (business section). The businesses in the sample represent a wide range of industries, including retail, hospitality, building, agriculture, electrical, consultancy, transport, church, real estate, and medical practitioners. More than 75% of the sample has been in business for more than 10 years. The respondents' business turnover varies evenly from less than $100 K up to $20 million, however most are small businesses with three to five employees. This profile of business customers is representative of typical business customers in this market.

Trained market research interviewers conduct 213 telephone interviews with the owners of the businesses or managers responsible for financial matters in their companies who have stopped using a brand of financial provider sometime in the past. In most cases, the respondent is the sole decision maker. This type of *simple buying center* (Johnston and Lewin, 1996) is typical for small businesses that have informal decision-making process based on the judgment, experience, associations and evaluation of the sole decision maker.

Interviewers ask respondents which brands they stopped using in the past for business banking and what were the main reasons. Interviewers then record and classify responses into one of the pre-coded categories. The full list of categories includes more than 15 options. Respondents could provide more than one response; 29% did so.

The time elapsed since defection is as follows: 8% defected in the past 12 months, 30% more than a year, but less than five years, 59% more than five years ago, and 3% could not remember. Because many contracts have terms of several years, the opportunity to change provider (or 'come back' to a former brand) might occur a number of years after the initial defection. Therefore, from this perspective, and bearing in mind the relatively low churn rate in financial services (about 5% per annum), the current distribution of time elapsed since defection is representative of all lapsed customers in the market. While such a long time lapse allows for memory loss and opinion modification (as a result of new experiences), lapsed customers use these modified perceptions when estimating their likelihood of coming back to a former brand (not the one they had right after the defection).

The analysis includes responses about the five brands with the largest market share (from 8% to 20% of the market). Only 8% of lapsed customers indicate that they have switched from more than one financial institution. These respondents evaluate the brand they most recently defected from. Due to restricted sample sizes for each of the five individual brands, the analysis uses aggregate responses from all lapsed customers in regard to their respective former brands. Individual brand-level analysis shows consistent results, but lacks statistical power due to the small sample sizes.

4. Results — reasons for brand defection

The first, most popular category cites *service issues* as the key reason for brand defection (36% of responses). This category includes reasons such as core service failure, poor mistake recovery, and unethical behavior by service provider employees. A further 28% of responses claim that *receipt of a better offer from competitors* prompted them to switch brands. Another 24% give *pricing issues* as the main reason for defection. A follow-up open-ended question *(What was it about the [insert reason] that prompted you to switch?*) verifies the validity of *switch from* vs. *switch to* classifications between price and competition reasons. Finally, 18% of responses quote reasons that are *beyond brand manager's control*, such as lack of need for the product or service; customers moving or selling a business; involuntary or corporate decision to change providers; and other personal reasons. As these reasons present no opportunities for brand managers to address customer loss, further analysis does not include this category of reasons (Table 1).

Other reasons, which attract even lower number of responses, are *inconvenience* (11%) and *inflexibility* (9%, mainly related to the inability of brand managers to adapt the product and service to the needs of small/medium businesses). Further analysis does not include these groups due to their restricted sample sizes.

In line with prior literature (Colgate and Hedge, 2001; Gerrard and Cunningham, 2004; Keaveney, 1995; Lees et al., 2007), these results

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