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The effects of brand credibility on customer loyalty

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Abstract

Customer churn is an ever-growing issue in the relational services sector (e.g., retail banking, telecommunications), where business models ultimately depend upon long-term relationships with customers as the basis for profitability. Businesses in this sector have tended to view satisfaction and service quality as the key tools for increasing customer retention. The present study investigates the important additional role of the brand in managing the churn of current customers of relational services. Based on information economics, we propose specifically that the credibility of the brand underlies the role that the brand can play in this process. This research leads to the enhanced understanding that the brand has a significant role to play in managing long-term customer relationships, and details how the usual tools of customer relationship management, satisfaction and service quality, relate to brand credibility. Results from samples of retail bank and long distance telephone company customers indicate that brand credibility serves in a defensive role: it significantly enhances word-of-mouth and reduces switching behaviors among customers; these relationships are mediated by customer satisfaction and commitment. Implications of the study for theory and practice are discussed.

Keywords: Customer relationship management; Brand credibility; Satisfaction; Commitment; Customer loyalty; Customer behavior

1. Introduction

The management of customer churn, or turnover, is a top priority of executives in service industries such as retail banking and telecommunications. It is accepted wisdom in marketing that new customer acquisition is a far more costly undertaking than establishing a broader and deeper relationship with existing customers (see, e.g., Heskett et al., 1994; Reicheld and Sasser, 1990; Rust et al., 1995). Hence, in general the loss of a customer should be viewed with concern by banks and telecommunications firms, both being examples of longer-term relational services requiring the establishment of a formal relationship between customer and firm.

Evidence for the rising recognition of the importance of customer churn to firm profitability is easily found in these industries. For example, recent research by Teradata (2004) demonstrates that US bankers are quite aware of this problem: 79% of survey respondents (out of a total of 101 bank executives from financial institutions with assets of $25 billion or more) indicated that "preventing customer churn is the key competitive issue for American bankers in 2004." Similarly, the telecommunications industry, and wireless carriers in particular, have had to concentrate significant efforts on customer retention: Carroll (2002) quotes a Yankee Group report stating that from about 20–80% of annualized wireless subscribers churned in 2001, depending upon the carrier; more recent numbers for the US telecommunications industry show that only about a quarter of customers want to continue their current telecom relationship (Myron, 2004). Indeed, the difficulty in predicting customer churn is well known (Carroll, 2002; Teradata, 2004; Dropping, 2005).

Examination of the academic literature also supports the significance of examining churn or retention in these industries (e.g., Bell et al., 2005; Evans, 2002; Gustafsson et al., 2005; Lee and Cunningham, 2001). While extant studies recognize a degree of inertia in the telecommunications and retail finance sectors, due to switching costs (e.g., Bell et al., 2005), there is also significant interest in

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examining factors that enhance customer retention or reduce customer churn in these industries (e.g., Gustafsson et al., 2005).

In this paper we take a broader, more strategic look at customer franchise management in a retail service context. Specifically, we wish to examine the role that the brand can play in customer retention, as well as in promoting certain behaviors by customers that lead to long-term benefits for the firm. The reason we believe that such a view is inherently strategic lies in the observation that brands embody the long-term experience that a customer has with a service provider; in effect, the brand is a ''summary statistic'' characterizing the cumulative temporal relationship between two parties, the customer and the service provider (Erdem and Swait, 1998). In this perspective, the brand comes to embody the credibility of the firm (Erdem and Swait, 1998, 2004), which can only be built and solidified over time through repeated customer/firm interactions, but can quickly be lost if trust is violated by the firm; this makes brand credibility a firm-wide responsibility that must concern all functions at all times. Building the credibility of a brand is recognized by consumers to be a long-term and continuing investment by the firm; hence, they behave towards the firm as if it were posting a bond that is forfeited when its promises are not kept (Erdem and Swait, 1998; Wernerfelt, 1988).

No studies to our knowledge have examined the role of brand credibility (rather than brand reputation or brand image) on retention of current customers.[1] Earlier studies (e.g., Selnes, 1993) have related brand reputation (defined as a perception of quality associated with the brand) to satisfaction and loyalty. This very specific definition of reputation (contrasted, e.g., with Ganesan, 1994) is quite different from the brand credibility construct at the heart of this research. Furthermore, none have studied the effect of brand credibility on commitment and satisfaction, which play an important role in customer retention (Gustafsson et al., 2005).

Credibility has been noted as playing a key role in customer perceptions of the retailing environment, particularly in the context of pricing tactics, advertising, salesperson interactions and online catalogs (e.g., Bobinski et al., 1996; O'Shaughnessy, 1971–1972; The Wall Street Journal, 2000; Yang et al., 2003). In the present study we examine the role of brand credibility among current customers of the retail service brand.

2. Literature review and formulation of hypotheses

2.1. The role of brand in services

As explained above, in the information economics perspective, the brand constitutes a strategic, long-term asset for the retail firm, which may be called upon to help with customer relationship issues like customer retention and customer beneficial behaviors (e.g., recommendations). Within the scope of our research we include long-term, formalized service relationships that are entered into by customers, as exemplified by those with retail banking and telecommunications. Such relationships tend to last years (though less often today than in the past), but are interestingly characterized by relatively low interaction levels between firm and customer.

We propose that the brand is an important relational tool in the firm's customer relationship management (CRM) arsenal, as suggested by research from Erdem and Swait (1998). That stream of research builds on the information economics paradigm (Stigler, 1961; Stiglitz, 1987) applied to the product case, to propose that brands are valuable to consumers because (1) they reduce perceived risk of consumption and (2) they economize decision-making costs. The basis for these assertions is that the brand is an efficient market signal that the firm deploys to address market information asymmetries (i.e. consumers know less about a firm's product or service than does the firm, hence they are at a disadvantage, in the end leading to consumer uncertainty about the product).

While the same reasoning is not directly applicable to the case of services, it is nonetheless the case that information asymmetries are likely to also exist among customers of services. Consider that customers have a limited number of interactions with their bank or telecom company, and these often occur following service problems (long queues, slow tellers, confusion concerning procedures) or even failures (broken ATMs, dropped calls, billing errors). Such events may serve to remind customers that their current impressions about the firm might be incorrect; essentially, they introduce a degree of uncertainty about (1) the promises the firm has made, and its willingness and ability to keep them; and (2) the benefit to the consumer of maintaining a long-term relationship with the provider. Alternatively put, this uncertainty concerns the perceived stability of the brand, and arises, just as in the product case, from the information asymmetry under which the customer operates.

This asymmetry places the customer at a disadvantage in the relationship with the firm. The firm thus has an incentive to compensate for the resulting uncertainty by signaling their willingness to deliver on the service promises they have made to the customer. Brands are good signaling devices because existing customers recognize that acts compromising the brand (e.g., repeated and persistent service failures, a history of billing errors) can be punished by cashing in the ''bond'' implicitly posted by the firm (Wernerfelt, 1988). What ''bond'' is this? It is made up of

[1]We view brand credibility as different to reputation and brand image. Reputation is more concerned with perceptions of fairness, honesty and perceptions of the other party's behavior (Ganesan, 1994), while the latter concerns the strength, favorability and uniqueness of various brand associations held in memory (Keller, 1993). An alternative view of reputation is presented in Selnes, who views reputation as ''a perception of quality associated with the name'' (Selnes, 1993, p. 20). Not only is this different from more common views about that construct (e.g., Ganesan, 1994), it is fundamentally different from the brand credibility construct on which we base the present work.