Is Customer Retention Beneficial for Customers: A Conceptual Background

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Abstract- Is it healthy for customers to be enrolled in long-term relationships with service organisations? To find a proper answer for such question, this study has been planned. Customer retention is still a dilemma for many organisations these days for a variety of reasons support this idea such as having high competition status, increasing existing customers switching rate and increasing the cost of allocating, classifying and attracting new customers. Thus, a need has been raised to look at different CR issues again from different views such as is CR happening or not supported by providing a proper classification for customer-supplier relationship. Additional themes were discussed such as the relationship strength, longevity, continuity, relational cost and benefits

Keywords- Customer Retention; Relationship benefits; Relationship Cost; Relationship Classification; Customer Retention Definition.

1. INTRODUCTION
Retaining customers in highly competitive business environments is critical for any company’s survival because a lost customer represents more than the loss of the next sale. The company might lose all future sales and profits from that customer’s lifetime of purchases. Also, keeping customers satisfied and happy makes the cost of selling to existing customers lower than the cost of selling to new customers (Aydin and Ozer, 2005; Alshurideh et al., 2012). Therefore, acquisition should be secondary to retaining customers and enhancing relationships with them (McCarthy, 1997)[59] That is because, according to Levy (2008), new customers are more difficult to find and reach, they buy 10% less than existing customers, and they are less engaged in the buying process and relationship with retailers in general. Meanwhile, according to Eiben et al., (1998)[28], existing customers tend to buy more, which in turn generates more profit through more cash flow. In addition, repeat customers were tested and shown to be less price-sensitive, they provide positive word of mouth, and they generate a fall in transaction costs, all of which increases firms’ sales and profits, which leads to sales referrals (Stahl et al., 2003)[78]. Also, firms can gain a number of additional, indirect, relational economic benefits. For example, Farquhar (2004)[34] explained the profitability of cross-selling to existing individual customers. Farquhar recommended that firms offer the best supply environment to increase the possibility of selling different types of products and services to existing customers, such as downloadable songs, videos, and ring-tones via the mobile handset.

This paper has been written initially to give more spotlights on different customer retention issues such as defining what CR means and how it can be classified, is it happening in real practice, and customer-supplier relational costs and benefits. The main core in this study is to discuss if it is healthy for customers to be enrolled in long-term relationships or not. Keep in mind that the organisations’ benefits of having long-term relationships with customers have been widely discussed from scholars. However, relational customer benefits are rarely discussed (Alshurideh, 2010)[2].

2. CUSTOMER RETENTION DEFINITION
Morgan and Hunt (1994)[61] provide a broad definition of RM as “all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges” (p.22). This highlights the need to change existing attitudes toward marketing from a series of independent transactions to a dynamic process of establishing, maintaining and enhancing relationships in the long term (Selnes, 1998) It indicates that the relationship between consumer and firm is built upon two parties engaged in a continuous process of exchange whereby both will benefit in the long term. While such relationships are sometimes available, they are not necessarily always long-term (Karantinou, 2005)[50]. Thus, the primary relational goal is the long-term continuity of exchange between two parties. Therefore, the “customer retention” trend has emerged in order to increase organizations’ profits and minimize both costs and customer switching in the long run. This view is confirmed by Farquhar (2003) who explained that, in order to be able to build long-term relationships with
customers, institutions must first be able to retain existing customers. This is confirmed by Christopher et al. (1991) who assert that the function of RM is “getting and keeping customers” which will be the challenge of survival in volatile markets. Accordingly, customer retention is that part of relationship marketing knowledge concerned mainly with maintaining existing customers by manipulating the relationship in a way that enables parties, the firm and the customer, to benefit through long-term, repeat business (Fanjoy and bureau, 1994[32]; Leong-Yow and Qing, 2006[54]; Chang and Chen, 2007)[17].

How is customer retention defined? No single definition of customer retention has gained the majority of marketers’ and scholars’ agreement. However, there is general agreement that customer retention implies a long-term relationship. Customer retention has been defined by Oliver (1997) as “Deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behaviour” (p. 392).

Another definition has been given by Ranaweera and Prabhu (2003)[69] and repeated by Kassim and Soudien (2007) [51]: “the future propensity of the customers to stay with their service provider” (p.219). Buchanan and Gillies (1990)[15] described customer retention rate as “the percentage of customers at the beginning of the year that still remains at the end of the year” (p.523). Another definition is provided by Motiwala (2008)[62]: “maintaining the existing customer base by establishing good relations with all who buy the company's product” (p.46). For the purposes of this study, the researcher defines customer retention in the following way: “all marketing plans and actions that seek to retain both existing and new customers by establishing, maintaining, and maximizing mutual long-term benefits that strengthen and extend the joint relationship between two parties”. This definition coincides with the main flow of researchers’ interests that explains customer retention-related concepts such as relationship strength, which is based on prolonging mutual benefits (Storbacka et al., 1994; Zineldin, 1996; Bove and Johnson, 2001). Basically, customer retention implies a long-term relationship but it has many concepts which may exist between the lines. Some researchers such as Zeithaml et al. (1996) used the term “future behaviour intention” to describe “customer retention”. This is in line with Cronin et al. (2000) who used “customer retention” and “behavioural intention” as synonymous concepts. Also, customer retention has a strong link with loyalty which supports the idea of retaining customers who exhibit both a high degree of attitudinal and behavioural loyalty (Rauyruen and Miller, 2007)[70].

3. RELATIONSHIP CLASSIFICATION

Mutual relationship classification has been perceived differently within the relationship literature, ranging from discrete transactions, through repeated purchase transactions, to long-term relationship, and full partners as explained by Goffin et al. (2006), according to other scholars’ illustrations (Mohr and Nevin, 1990; Webster, 1992)[84]. Mainly, scholars have classified relationship types based on specific factors such as transactions, closeness, and longevity (Barnes, 1997; Bove and Johnson, 2001). Some scholars have relied heavily on employing different relationship time dimensions and have used different related concepts such as relationship longevity or duration (Bolton, 1998; Reinartz and Kumar, 2003; Fink et al., 2008). However, according to Goffin (2006), it is useful to employ time dimensions in relationship classification but, in most cases, classifying relationships as long- or short-term based on time dimensions is insufficient and useless while a long-term relationship may consist of just a single, small transaction such as the placing of an order and its delivery. The important point is to consider how relationship classification from different perspectives, especially temporal ones, can be employed and used to classify relationship types among partners in a way that serves the study purposes. Lambert et al. (1996), for example, differentiated between three types of mutual relationship or partnership, seen as ‘short-term’, ‘long-term’, and ‘long-term with no end’. For this study’s purposes, a relationship is classified into contractual ones (mutual contracts which needs to be signed by customers and suppliers) which continued for at least 12 months (e.g. 12-month mobile contract service subscription), and non-contractual ones (no contracts need to be signed by customers and suppliers) which may continue for more or less than 12 months (e.g. Pay-as-you-go service subscription). Both firms and individuals normally use long-term contractual agreements for many purposes, such as reducing uncertainty, supporting investments, and making suitable use of different, sufficient, financial mentoring techniques such as predetermined and cost-targeting (Zirpoli and Caputo, 2002; Goffin et al., 2006).

4. IS CUSTOMER RETENTION HAPPENING?

The majority of organizations have specific management units which tackle the main retention strategies and activities duties (e.g. customer retention department) (Blattberg et al., 2002) and turn their attention and resources towards increasing the retention rate of customers and users (Wirtz and Lihotzky, 2003). However, Pruden (1995, p.15)[68] stated that “we are not entering the era of relationship marketing yet and retention marketing has yet to progress beyond a topic for articles and speeches, with little real action”. This is supported by Clapp (2005) who contends that the majority of institutions value new customers over existing ones in
order to develop their enterprise and replace lost business. Weinstein (2002)[85] has provided evidence that shows acquiring new customers and chasing new business still takes up most companies’ time, energy, and resources. He reported that around 80% of marketing budgets are often invested in obtaining new business. For example, despite the interest of UK banks in retention, new customers often receive more favourable business conditions, such as lower prices and/or more flexible contracts and payment terms, than existing customers (Reichheld and Sasser, 1990; Abrams and Kleiner, 2003; Farquhar and Panther, 2007)[35]. In contrast, Aspinall et al. (2001) found that 54% of companies reported that customer retention was more important than customer acquisition, while Payne and Frow (1999) found that only 23% of marketing budgets in UK organizations is spent on customer retention. Moreover, it has been illustrated that customer retention is practised by many organizations because it enables them to gain a competitive advantage in the market, which is essential for business and firms’ survival (Flambard-Ruada, 2005)[38]. Therefore, organizations should make more effort to enhance customer retention rates, especially in highly changeable markets such as the mobile phone sector which reached high levels of market penetration within a short period of time (Yang, 2006)[87].

5. THE IMPORTANCE OF STUDYING THE CUSTOMER RETENTION PHENOMENON

Based on high churn rate (customer attrition) in some business sectors, customer retention has attracted significant interest from scholars and practitioners in the field of relationship marketing over the last two decades (Parvatiyar and Sheth, 2001) [64]. For example, in the mobile phone sector, it has been estimated that about 27% of a given cellular supplier’s subscribers are lost each year, which is estimated to be around 2.2% every month (Vandenbosch and Dawar, 2002). The authors claimed that the cost of acquiring each new mobile subscriber was estimated at between $600.00 and $800.00, which encompasses many costs such as advertising, marketing, sales, and commissions. According to the Organization for Corporate and Development study, the average annual revenue from each mobile user is $439.00 (based on 30 leading countries) (Wales, 2009).

Frequently, the main theme of customer retention studies has focused on studying the supplier sides and how they maintain relationships with customers (Khalifa, 2004; Buttle, 2008). Even from the supplier side, the bulk of previous customer retention literature has focused on the economic aspects of retaining customers and how firms develop strategies to improve customer retention and maximize returns through the customers’ life cycles (Clarke et al., 2002). Scholars and practitioners’ interest in the economic aspects of retaining customers has increased since Dawkins and Reichheld (1990) reported that a 5% increase in customer retention generated an increase in customer net present value of between 25% and 95% in a wide range of business sectors. Also, according to Hanks (2007), a mere 5% improvement in customer retention can lead to a 75% increase in profitability. However, establishing and maintaining strong relationships with all customers may not be the primary aim of some organizations because not all customers and their relationships are similar or profitable (Hausman, 2001; Chen and Popovich, 2003; Alshurideh, 2016). Moreover, it has been explained by Reichheld and Kenny (1990) that the majority of firms focus on customers’ current period revenues and costs and pay no attention to potential cash flows over customers’ lifetimes.

6. RELATIONSHIP COSTS

Liu (2006) provides an analysis of monetary and non-monetary costs incorporated in searching for and finding a new service provider. The salient costs incurred by customers involved financial expense as well as time and effort involved in establishing and maintaining a new service relationship (Zeithaml, 1988). This coincides with Gupta et al.’s (2004)[45] results which indicated that a 1% increase in customer retention had almost five times more impact on firm value than a 1% change in discount rate or cost of capital. In addition to, Reichheld (1996) identified six economic benefits, to organizations, of retaining customers that can be achieved in the long term: First, savings on customers’ acquisition or replacement costs; second, guaranteed base profits as existing customers are likely to have a minimum spend per period; third, growth in per-customer revenue as, over a period of time, existing customers are likely to earn more, have more varied needs, and spend more; fourth, a reduction in relative operating costs as the firms can spread the cost over many more customers and over a longer period; fifth, free-of-charge referrals of new customers by existing customers which would otherwise be costly in terms of commissions or introductory fees; and sixth, price premiums as existing customers do not usually wait for promotions or price reductions before deciding to purchase, in particular with new models or versions of existing products. What is more, Gumnessson (2004)[44] studied the ‘return on relationships’ concept (ROR) and highlighted the following critical points: First, marketing costs go down when customer retention goes up, and firms do not have to recruit new customers as before; second, competitors have a tougher time when retention and loyalty increase, (they are not getting new customers served up on a plate); third, both customers and suppliers can get benefits through cost reductions and joint development of products, services, and systems when they collaborate with competitors on one level.
7. RELATIONSHIP BENEFITS

Apart from the economic benefits that a firm can gain from customer retention, there are many indirect benefits which may outweigh direct profits. Hanks (2007) discussed the importance of soliciting customer feedback to improve business operations, customer retention and profits. Also, Eisengirich and Bell (2007)[29] studied the maintenance of customer relationships in high credence services. The main finding highlighted that customers’ willingness to recommend the firm to relatives or friends is the key component of customer commitment to the organization; perceived excellence in quality of service and trust in the organization will lead to repurchase intentions. In addition, word-of-mouth, for example, represents an opportunity for firms because it has a powerful influence on consumers’ attitudes and behaviours (Mazzarol et al., 2007). Moreover, Christensen (2006)[19] highlighted the importance of measuring consumer reactions towards organizations based upon emotional and attitudinal responses. Transferring positive information about the organization, its products (Riley, 2006), image (Pope and Voges, 2000), and brand (Grau et al., 2007; Alshurideh et al., 2015) are all considered examples of a firm’s goals while customers usually promote them for free.

From the customer’s perspective, many benefits can be gained through involvement in a long-term relationship, such as enhanced confidence, developing social relationships with others, special treatment benefits, reduction of risk, economic advantages, social benefits and adaptability, and the simplicity and efficiency of the decision-making process (Gwinner et al., 1998; Marzo-Navarro et al., 2004; Dubelaar et al., 2005)[26]. Some scholars such as Dwyer et al. (1987) categorised customer relational benefits from suppliers into either functional or social benefits. Functional benefits include convenience, time-saving, and making the best purchase decision (Reynolds and Beatty, 1999)[75], while social benefits include how comfortable and pleasant the relationship is, enjoying a relationship with the suppliers’ employees, and having good friends or a good time (Goodwin, 1994). At the same time, relationship benefits have been categorised to include functional, social, and psychological benefits, according to Sweeney and Webb (2007). It has been illustrated that psychological benefits include empathy, understanding between the relationship parties, and customer-perceived value which has many elements (e.g. perception of reliability, solidarity, trust, responsiveness) (Bitner et al., 1998; Sweeney and Webb, 2007).

A customer may demonstrate his/her retention propensity in many ways: by expressing preference for a company over others, by continuing to buy from it or by increasing its business in the future (Zeithaml et al., 1996). Meanwhile, Enne and Binks (1996)[31] differentiated between two dimensions of retention: the continuance of a particular relationship (e.g. contract renewal) and the retention of the customer, which gives firms the opportunity to sell a variety of products and services. This study has adapted Ennew and Hartly’s view to study the customer retention issue from a behavioural perspective designed to produce repeat business. They contend that the centre of the relationship marketing paradigm is the continuation of the interaction between any two parties.

The continuation process is aimed at making the most of existing clients, which is essential for long-term profitability. That is because the customer retention process begins with the first repeat purchase and continues until one of the parties terminates the mutual relationship (Thomas, 2001)[81]. This idea is upheld by Dwyer et al. (1987) and by Alshurideh (2014)[3] who viewed relationship marketing as being based on repeat purchase behaviour rather than a discrete transaction. Within the same theme, Grönroos (1990, p.5) declared that “If close and long-term relationships can be achieved, the possibility is high that this will lead to continuing exchanges requiring lower marketing cost per customer”.

8. IS IT HEALTHY FOR CUSTOMERS TO BE INVOLVED IN RELATIONSHIPS WITH SUPPLIERS?

Being in a relationship with the same service provider is not a healthy situation in some cases; some customers prefer not to be engaged with relationships because not all long-term relationships bring welfare and benefits to them (Bloom and Perry, 2001). Therefore, it is appropriate to conclude by highlighting the disadvantages of being locked into a relationship with a specific supplier, especially through a contract. This area of research is still new and additional research is needed. Hakansson and Snehota (1995) explained five negative factors or disadvantages that result from being in a relationship: First, loss of control - developing a relationship sometimes means giving up or minimizing control of many things such as resources, activities and even intentions; second, indeterminateness - while such a relationship is not constant, its future is uncertain and is determined by its history, current events and the parties’ expectations of future events; third, resource demanding - it takes great effort to build and maintain a relationship, which can be viewed as an investment and maintenance cost; fourth, preclusion from other opportunities - a variety of resources are required to build and maintain a relationship, and many conflicts may arise between the parties when such opportunities are attractive to invest in; fifth, unexpected demand - all parties in a relationship are linked to many other relationships which may passively link into a network of relationships. Petersen et al. (2005)[66] mentioned other disadvantages that are a consequence of being locked into mobile phone service subscriptions: poor value-for-money mobile offers, poor network, a handset using unique data and software, long-term contract (e.g. 2-year contract), poor customer service operators, joint venture cooperation between mobile service supplier (O2) and a mobile retailer (Tesco...
Mobile), specific geographical area coverage, limited number of mobile services, offering specific types of mobile tools and accessories, and mobile contract’s conditions.

9. THE SUMMARY

The goal of customer retention is aimed at benefiting both relationship parties to facilitate exchanges, make relationship exchanges more possible, reduce transaction costs, and maximize the relationship’s economic and non-economic benefits in order to repeat the exchange processes in the future. To establish this, firms try to affect consumers’ behaviour by providing different types of utilities to retain their existing and potential customers. Accordingly, it can be confirmed that relationship benefits are essential prerequisites for relationship establishment, exchange and mainly continuation. Thus, it is important to investigate customers’ view of retention with respect to different behaviour related issues, such as the effect of post-purchase utility consequences signalled by pre-behaviour antecedent stimuli on consumers’ purchase and retention choice; this has received little attention from scholars, especially in some business sectors (e.g., mobile phone sector).

10. REFERENCES


