CHAPTER-1
INTRODUCTION

1.1 Introduction

In the 21st century, the new economy is becoming increasingly customer centric. Customer retention is considered one of the main relationship marketing concepts concerned with developing and maintaining a long-term customer-firm relationship. The importance of customer retention has increased since a majority of firms started to suffer a noticeable loss of customers, along with the complexity and high costs of acquiring new customers (Bird, 2005; Goyles and Gokey, 2005; Voss and Voss, 2008). Thus, the model of competition has shifted from acquiring new customers to retaining existing customers and luring customers away from rival companies.

Service sector is the fastest growing segment as compared to the other sectors of the Indian economy. A major stimulus in this shift is the movement to information age spurred by invention of computer and advancements in telecommunications. As countries continue to shift from agricultural base to service orientation, the demand for service further holds huge potential. Additional factors contributing to the growth of service sector are higher per capita income, increased time pressures, advances in product technology, spiralling competition, rise of industrialisation, technological advances, globalization, competition, greater life expectancy, cost effectiveness drivers, growth of service chains networks and service quality movements. Thus, tremendous growth of service sector implies the role of marketing in terms of vast opportunities and implications, marketing opportunities arising from new technology, in franchising from fewer regulations and professional restrictions, in servicing physical goods and international markets.

The rapid change and reform of the market has increased the types of service offered on a subscription basis in different service sectors such as the mobile telecom service market, in which the customer retention issue is critical. As technology and mobile network penetration have both increased, attracting rival’s subscribers and maximizing customer retention have become urgent and timely concerns for mobile service providers in India.

Previous research in this area has mainly focused on studying the determinants of acquiring more subscribers rather than studying the determinants of retaining existing customers (Ahn et al., 2006). Also, the existing literature does not sufficiently explore
the factors motivating individuals to be loyal subscribers; further investigation is required into why a customer repurchases from the same service provider. Therefore, this study aims to follow this route to understand how retention drivers affect repurchase behaviour, which may provide a clear indication of how the service firm in general and telecom service provider in particular should manage in order to stimulate, attract, and reinforce customers to buy and continue buying in the long term. Especially in the field of marketing strategies for telecommunication services, it is frequently pointed out that once customers have been acquired and connected to the telecommunications network of a particular operator, their long term links with the focal operator are of greater importance to the success of the company in competitive markets than they are in any other industry sector.

As mentioned above, customer retention has been advocated as an easier and more reliable source of superior performance, competitive advantage and a success factor for surviving in the emerging competitive market of telecommunications. To improve customer retention, firms initiate a variety of activities and surveys. By keeping this in mind, customer retention is critical in the mobile phone market, since operator lose about 30 per cent or more of their subscribers every year and have large customer acquisition expenditure. Needless to say, it is important for mobile operators to develop well-designed strategies to increase customer retention.

1.2 Customer Retention-Conceptual Background

Morgan and Hunt (1994) provide a broad definition of RM as “all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges. 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. 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). 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. Christopher et al. (1991) also 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.

Customer retention can be seen as the mirror image of customer defection, where a high retention rate has the same significance as a low defection rate. Customer retention management can be problematic if it is not defined precisely in a way appropriate to the firm’s business. Should retention be defined in terms of absolute numbers of customers or their relative purchases? Should purchases be measured in terms of value or volume? For a firm which sells standardized products or services that have a predictable and uniform pattern of usage or consumption and large numbers of users, such as domestic electricity, a retrospective segmentation approach may be a suitable method. In this approach, customers can be divided into cohorts that share similar expected switching behaviour, spending levels and customer profiles. This approach has been used by an electricity firm and was reported on by Payne and Frow (1999). The same form of measure is not appropriate for a firm which sells products or services tailored to the needs of its customers, such as financial services and insurance or firms which sell products having few users, such as speciality chemicals. Defining customer retention in terms of percentage share of customer savings, borrowing, spends or purchasing may be more useful instead of in terms of the absolute number of customers. A bank customer may have several accounts with the same bank and may decide to close one of them. In the insurance industry, a policyholder may have several policies and may decide to cancel or replace a policy with another. An insurance company tends to regard an insurance policy as a customer and, hence, when a policy is cancelled for non-payment and later renewed, the new policy is taken to mean a new customer. It is misleading to treat either case as a defection. Alternatively, a customer may still keep an account but transfer substantial amount of money to an account in another bank or buy additional insurance coverage from another company. In these cases, the customer’s existing bank and insurance company are, unknowingly, experiencing a defection. The use of aggregate figures and averages in calculating retention rates can be problematic and as misleading as treating bank accounts or
insurance policies as customers. This is because, between them, customers may have significantly different spending power and buying behaviours. It is not unusual for a small proportion of customers to account for large proportion of company revenue. In a study of retail banks’ segmentation by profitability, Storbacka (1997) found that 20% of their customer base accounted for 90% of their total customer base profitability. Hence, customers from the remaining 80% of the customer base were either unprofitable or contributed to an insignificant amount of profit. Moreover, defection rates tend to be much higher for new customers than long tenure customers (Reichheld, 1996). This means that a high proportion of new customers could bring down the rate of retention and vice versa. In some cases, suppliers are unable to detect hidden defections of their customers. Hidden defections occur when firms fail to recognize a slower growth in sales to a particular retained customer relative to the growth of the market. As an illustration, dealers in office equipment buy different brands of comparable or substitute laser printers from a number of suppliers. A high retention rate of dealers, in terms of the absolute number of dealers, in this circumstance is misleading as hidden defections are not considered. In order to help overcome the problem of hidden defections, a supplier could monitor sales penetration of their customers or their share of customers’ purchases over and above the average level of sales. An issue related to the definition of customer retention is therefore measurement of customer retention.

1.3 Defining Customer Retention

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):

“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”.

Another definition has been given by Ranaweera and Prabhu (2003) and repeated by Kassim and Souiden (2007): “the future propensity of the customers to stay with their service provider”. Buchanan and Gillies (1990) described customer retention rate as “the percentage of customers at the beginning of the year that still remains at the end
of the year”. Another definition is provided by Motiwala (2008) “maintaining the existing customer base by establishing good relations with all who buy the company's product”. For the purposes of this study, the researcher has taken the definition of 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 researcher’s interests that explains customer retention-related concepts such as relationship strength, which is based on prolonging mutual benefits. 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).

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) 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) 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. 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. Therefore, business organizations should put in more efforts to enhance customer retention rates, especially in highly changeable markets such as the telecom sector which reached high levels of market penetration within a short period of time.

1.4 Importance of Customer Retention

It is appropriate in this context to mention the main reason for highlighting 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). For example, in the telecom 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. 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. 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). 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.

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 customer involved financial expense as well as time and effort involved in establishing and maintaining a new service relationship. This coincides with Gupta et al. (2004) 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. Gummesson (2004) 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.

Retaining customers in highly competitive business environment is critical for any company’s survival because a lost customer represents more than the loss of the next sale. The company loses the future profits from that customers’ lifetime of purchases. Also,
keeping customers makes the cost of selling to existing customers lower than the cost of selling to new customers (Aydin and Ozer, 2005). Therefore, acquisition should be secondary to retaining customers and enhancing relationships with them (McCarthy, 1997). 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), 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 increase firms’ sales and profits, leading to sales referrals. Also, firms can gain a number of additional, indirect, relational economic benefits. For example, Farquhar (2004) 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.

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, Eisingerich and Bell (2007) studied the maintenance of customer relationships in high credence services. The main finding highlighted that customer’s 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) 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) 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. 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, 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. Meanwhile, Ennew and Binks (1996) 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). This idea is upheld by Dwyer et al. (1987) who viewed relationship marketing as being based on repeat purchase behaviour rather than a discrete transaction. Within the same theme, Gronroos (1990) 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”.

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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 (2006), according to other scholar’s illustrations (Mohr and Nevin, 1990; Webster, 1992). 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’.

Is it healthy in all cases 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. Hankansson 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 ink into a network of relationships.

In summary, the goal of customer retention is aimed at benefiting both relationship parties to facilitate exchanges, make relationship exchanges more viable, 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 customers. Accordingly, many scholars such as Cronin et al.(2000) and as Hanzae (2008) have claimed that relationship benefits are essential prerequisites for relationship exchange and continuation. Thus, it is important to investigate customers’ view of retention with respect to different behaviour-related issues, such as the effect of post-behaviour utility consequences signalled by pre-behaviour antecedent stimuli on consumers’ retention choice; this has received little attention from scholars, especially in the mobile phone sector.

1.5 Scope of Customer Retention Problem in the Mobile Telecom Sector

This study is carried out in one of today’s most rapidly growing and competitive sectors, the cellular phone industry. The cellular phone industry accounts for nearly £1.1 trillion globally by providing a variety of businesses such as mobile services, handsets, content delivery, and infrastructure manufacture/installations (Eccho, 2009). The importance of the mobile business has increased since it has now entered all aspects of life, including education, health, business, and entertainment. Mobile phones are described as “those telephones that are fully portable and not attached to a base unit operating on dedicated mobile phone networks, where revenue is generated by all voice and data transmissions originating from such mobile phones”(Mintel Report, 1998, cited in Turnbull and Leek, 2000, p.148).

Over the last decade, the mobile telecom industry has passed through a wave of critically rapid changes in its structure, competition, strategies, techniques, and technological environment. These changes came as a result of globalization, liberalisation, deregulation,
and technological developments which are the primary factors affecting economies in general and the mobile phone sector in particular. As a result, these challenges undermine the ability of businesses to retain their customers (Kalakota et al., 1996). The wireless communication sector is not excluded from this phenomenon, being one of the fastest-growing service segments in telecommunications (Kim and Yoon, 2004), and has both “high customer turnover and high customer acquisition cost” (Bolton, 1998).

Recently, the wireless telecommunication sector has experienced an unprecedented increase in competition, highlighting the importance of retaining existing users (Seo et al., 2008). According to Andic (2006), in Great Britain, mobile phone operators are losing more than a third of their young subscribers to other rivals’ networks every year, which costs them over $1.8bn (equal to £949m) in revenue. There are many critical issues that explain the reasons for choosing to study customer retention in the mobile phone sector. These issues are divided into two parts to represent both customer and supplier perspectives. This study will focus on investigating customer retention from the customer’s as well as supplier’s perspective.

Previous research has suggested many reasons for focus on investigating customer retention in the mobile phone sector from a consumer as well as suppliers’ perspective. Recently, mobile penetration or usage rate has become very high in different countries. For example, the penetration rate has reached almost 100% in Germany (Dewenter et al., 2007), 103% in Western Europe and 124.6% in Italy (Ahonen, 2006). According to the same sources, the penetration rate in the UK was estimated at 114.8%. Roughly 27% of UK mobile users have two mobile handsets while 87% have only one. Thus, it is more difficult and expensive to acquire new customers than to focus on current customers, especially in a mature market such as the UK and US wireless communication market (Buttle and Bok, 1996; Seo et al., 2008). Also, according to Gronroos (1995), the cost of encouraging satisfied customers to buy more products/services is lower than the cost incurred in finding new customers and making them buy firms’ offerings. Therefore, suppliers would be better advised to concentrate on satisfying the needs of existing customers by providing clear contractual and non-contractual relational mobile offers. In addition, customers have become very familiar with mobile telecommunication since it was
introduced in 1996. Thus, they have acquired a relatively good knowledge of mobile phone suppliers’ characteristics and the offers that affect their decision-making; making a suitable choice will encourage them to become involved in a long-term relationship. Also, mobile users are familiar with the different services provided by operators, such as roaming and multimedia messaging service (MMS), and supplier’s product offerings such as Universal Serial Bus (USB), and personal mobile handsets (Jansen and Scarfone, 2008). However, consumers can experience confusion in the mobile marketplace when choosing the best relationship and contractual option offered by operators (Leek and Kun, 2006). Customer confusion occurs as a result of a variety of mobile phone plans introduced and advertised similarly in the marketplace. This can make the process of comparing contract alternatives, benefits and costs a relatively difficult issue for some customers. In addition, choosing to analyse and investigate the mobile contract will produce valuable benefits for both relationship parties, especially for customers in the long term. Also, a choice of mobile contract should be based on the purchasing habits and predictability of usage in the consumer’s previous experience. That is because the contract purchasing behaviour becomes a repetitive choice behaviour taking place as a continuous process, the predictors and determinants of which need to be explained.

Choosing to study customer retention from the supplier side also, has been justified in many aspects. The main challenges that mobile operators face in today’s competitive business are how to acquire new subscribers and retain existing ones, especially young subscribers. This view is confirmed by Bolton (1998) who illustrated that the cellular industry’s churn rate is currently 2.7% each month (e.g. roughly 30% per year); the typical firm experiences the equivalent of complete customer turnover every three years. In France, for example, operators lose about 30% or more of their subscribers every year in spite of having large customer acquisition expenditures (Lee et al., 2001). Also, it has been claimed by Barnes (2001) that attracting new customers is significantly more costly than retaining existing ones. Along the same lines, it has been claimed that the cost of attracting and recruiting a new customer is five times more than the cost of keeping a current customer. This view has been confirmed by Halliday (2004) who claimed that, in 1998, automobile executives estimated that it costs about $200 to keep a customer compared with $800 to attract one. By comparison, in the mobile industry, Bolton (1998) contended that the average cost
of acquisition for a new subscriber is about $600. Based on the previous explanation, one might ask why, while mobile operators are facing major loss of existing customers every year, do they do good business and generate good cash flow or profits.

The rational explanation to this issue is that mobile operators should focus more on satisfying current customers to prevent them from switching or being attracted by other operators for two main reasons. First, it costs operators a huge amount of money, time, and efforts to attract customers; for example, to advertise mobile offerings to target customers and stimulate them to be involved in a relationship with the mobile operator. Thus, caring for current customers will help to minimize both operation and marketing costs attached to acquiring new customers to cover the lost ones.

Based on the previous explanation, mobile suppliers are in an escalating race to attract new customers and retain their existing ones by providing new wireless utilities through new mobile products, accessories, data, and technology and services continuously. Thus, keeping customers is an issue that needs continuous monitoring from operators because keeping customers means more cash flow and less operational and marketing costs. In addition, providing different types of contractual mobile services with suitable levels of mobile technology are considered the greatest challenges for operators. That is because serving customers in the long term means delivering high-quality services, which is seen as an essential approach for success and survival in today’s competitive business environment.

To summarise, a large number of wireless telecommunication and relationship marketing studies indicate that a majority of companies are still losing customers at a notable rate, especially mobile service providers (Lee et al., 2009; Wirtz and Lihotzky, 2010). Thus, the importance of customer retention in mobile telecom as a field of study in this thesis is highlighted by many factors: increase in competition, increased customer-switching rate, unreliability of traditional marketing tools, evolving consumer buying patterns, more demanding and sophisticated customers, changing business themes, rapid scale of innovation, increase in quality expectations, mobile phone suppliers mergers and acquisitions, and increased partnership.
1.6 Measuring Customer Retention

Dawkins and Reichheld’s (1990) seminal paper on customer retention implied that a relatively small percentage increase in the retention rate can lead to a large increase in the net present value of customers. This suggests that customer retention may be measured in terms of absolute number of those staying as a percentage of the original number over a specific period, for example one year. DeSouza (1992) referred to this form of measure as a crude rate. However, this method poses a further question. How do we determine a period? Some products, such as cars, clearly have longer purchasing cycles than others, for example tyre.

The appropriate interval, at which a retention rate should be measured, therefore, need not necessarily be one year but, as Stewart (1996) argued, it depends on the nature of the business and, more specifically, on the repurchase cycle appropriate in the industry. It would be misleading to suggest that ‘A’ has defected if ‘A’ has not purchased a new car in year 2 when the usual repurchase cycle of a new car is 3 years. It is therefore more meaningful for car dealers to measure customer retention every 3 years instead of every 12 months. A much more complex computation arises when (1) customers have multiple suppliers, (2) a few customers have a disproportionate spend relative to other customers and (3) individual customers have several accounts with a single supplier. A building contractor may buy bricks from several different sources depending on their proximity to its building sites. A newsprint paper company, which needs to import pulp, may buy 70% from a main supplier and the remaining 30% from three separate suppliers. A bank customer may have several accounts with a single bank. In the first two scenarios, it is essential for a supplier to recognize the relative importance of a particular customer vis-à-vis other customers. DeSouza (1992) suggested a measure of a weighted retention rate rather than a crude retention rate. A weighted retention rate refers to the rate that recognizes the relative importance of the buyers in terms of the volume of sales. If a defected customer had unit purchases that were double the average of all customers, his/her weighted retention rate should also be doubled or counted as equivalent to two customers. In addition, suppliers may also have to account for customers’ relative importance in terms of potential growth in their demand. This may be measured in terms of the growth in their demand relative to the growth in the market. In the third scenario, capturing a targeted proportion of the total spend of an individual customer is a much more useful measure than merely ensuring
that accounts are not closed. Using the same illustration, the bank may aim to capture the largest proportion of its customer’s ‘lifetime value’ (LTV) in terms of needs for banking products and services. The LTV of a customer refers to the customer’s net present value to a seller. If the cost of attracting a customer is considered as a ‘sunk cost’, the focus can be directed at achieving a surplus of revenue on the costs of selling and servicing the customer. If the period of relationship and future revenues and costs can be projected then the net value can be calculated and discounted at a chosen discount rate (usually a rate that takes into account the company’s cost of capital and risk) in order to arrive at the LTV of a particular customer. Several authors have recognized the importance of the concept of LTV. According to Dwyer (1989), customer LTV is an important construct in designing and planning a customer acquisition programme. Many researchers have studied its managerial implications in direct marketing (Dwyer, 1989; Wang and Splegel, 1994; Keane and Wang, 1995) and broader managerial applications (Wayland and Cole, 1997, Berger and Nasr, 1998). Wayland and Cole (1997) discussed a general application based on their consulting experience. Although in theory LTV is a useful form of measure, in practice it is difficult to implement. The first difficulty lies in the lifetime construct. How do we determine the span of lifetime? For a consumer, should it be his/her nominal age or working life? For a firm, would the expected life of the products it sells be a suitable measure of customer lifetime? Clearly, the important consideration that a supplier should examine is the ability of a particular customer to continue to purchase or consume its products or use its services. The second difficulty lies in the process of building value information (Magson, 1998). Over what time period, in the past or in the future, the data on value should be captured and calculated? Historical data give actual values but may be of limited use. Historical data on costs or spend become useful for the future only if we can regard past purchasing behaviours as reliable indications of future purchasing behaviours. Estimated future data, on the other hand, gives predicted value, which the firm may or may not be able to realize. There is also a problem in estimating purchase probabilities, particularly for new products. A combination of both historical and estimated data, when possible, is probably the most sensible method. The next problem in collecting data pertains to determining the level of customers to be analysed? Doing it at an individual level would be tedious and may not be worthwhile, although it would give a clear indication of the profitability of every customer. Doing it at a segment or campaign level is more convenient but it
assumes an aggregation of buying behaviours. Finally, how should a firm determine the appropriate discount rate? What is the cost of capital to a particular firm and how do firms assess their risk? We have thus far dealt with the quantitative measure of customer retention. How do we account for the qualitative elements? Customer defection is the other side of the same coin but suppliers do not always have control over the reasons for all defections. Individuals die and companies are declared bankrupt, cease to operate or change their activities. Keaveney (1995) identified ethical problems and involuntary factors as two causes of customer switching behaviour which providers of service are not able to control. A bank customer who does not approve of the use of interest in calculating and charging loans or rewarding savings may thus switch to another bank that offers an alternative way of charging for borrowing. The reasons for defecting or staying vary from one customer to another. A substantial number of satisfied restaurant patrons switch to other restaurants regularly, perhaps because they like to try different foods or atmospheres. Domestic electricity consumers stay with a particular electricity company because they do not have an alternative supplier. However, these electricity customers may minimize their use of electricity in preference for gas whilst waiting for the opportunity to switch to another supplier as soon as one becomes available. Hence, to suggest that an electricity company has a high retention rate is as misleading as to say that a restaurant has a high defection rate. Nevertheless, quantitative measure of retention and defection rates can be a good starting point in the process of understanding customer retention. However, this will become more complex when a firm offers a wide range of products to many different customers. The optimal measure of customer retention would be one that is able to measure not only the absolute, crude or relative retention rate but, also and more importantly, it would be one that contributes to increases in the suppliers’ present and future profitability. In using customer retention as a marketing strategy, firms have to establish continuous seller & buyer associations that can be connected to their profitability.

1.7 Maintaining Consumer Retention

How firms maintain their relationships with current customers is still a critical issue, especially since most firms have the intention to do so but miss the opportunity sometimes. That is because the majority of previous studies have concentrated on how to manage and investigate customer retention for the benefit of suppliers, with little
attention given to consumer retention behaviour (addressing only one side of a dyadic relationship) (Reinartz et al., 2004; Davis and Mentzer, 2006). Most organizations focus their efforts on building, developing, and maintaining different kinds of relationships with a variety of partners in different markets. Some long-term relationships are between manufacturers and distributors or between the manufacturer and representatives. Retailers seek to have a long-term and committed relationship with suppliers while firms are looking for a lasting relationship with their employees. In addition, service providers focus their efforts on building and maintaining relationships with their customers (Harrison-Walker and Coppett, 2003). However, the majority of service delivery systems have failed to retain potential customers (Anderson, 1988). Egan (2001) explained that firms must identify and establish, maintain and enhance, and, when necessary, terminate relationships with customers and even with other stakeholders. This notion is supported by many authors who tried to predict how the customer-firm relationship is established and developed over time (Narayandas and Rangan, 2004; Salo, 2006; Ulaga and Eggert, 2006). Thus, some scholars have tried to design a theoretical relational life cycle (stages) in a way that helps to provide special care for customers to move them from one stage to another until they have become loyal (Dwyer et al., 1987; Landeros and Reck, 1995; Wilson, 1995; Leonidou et al., 2006; Palmatier et al., 2007). In regard to what an organization does to maintain its relationships with customers, the main goal of maintaining a mutual relationship is explained by Zeithaml et al. (2001), who described how customer profitability can be increased and managed. Highly profitable customers can be pampered appropriately and customers of average profitability can be cultivated to yield higher profitability. Moreover, unprofitable customers can either be made more profitable or weeded out. Dwyer et al. (1987) provided a hypothesized theoretical lifecycle model of buyer-seller relationship stages in which a relationship develops through many different phases: meeting (awareness), dating (exploration), courting (expansion), marriage (commitment), and possibly divorce (dissolution of relationship). This model suggested that a relationship begins to develop significantly in the exploration stage when it is characterized by the attempts of the seller to attract the attention of the other party. The exploration stage includes attempts by each party to bargain and to understand the nature of the power, norms and expectations. The commitment phase implies some degree of exclusivity between the parties and results in an information search for alternatives. Finally, the dissolution stage depicts
whether any procedures or practices, direct or indirect, are declared in order to leave the shared relationship.

Landeros and Reck (1995) provided a model for developing and maintaining buyer-supplier partnerships. Their model contains the stages: buyer’s expectations, seller’s perceptions, mutual understanding and commitment, performance activity, and corrective action. These stages provide some techniques within different approaches to mitigate the performance problems and bring stability to the relationship. In addition, Kranton and Minehart (2001) provide a new model of exchange based on networks rather than markets of buyers and sellers. The authors proposed that the link begins with the empirically motivated premise that a buyer and seller must have within a relationship in order to exchange goods. Accordingly, both buyers and sellers should act strategically in their own self-interests to form the network structures that maximize overall relational welfare.

Some scholars argue for the importance of building different types of bonds with intended customers to maintain their relationship (Young and Denize, 1995; Rokkan et al., 2003; Spark, 2005; Szmigin et al., 2005; Tellefsen and Thomas, 2005; Aaserud, 2006). Establishing closer bonds enhances the development of cooperation, communication, and credibility among prospects. For example, Berry and Parasuraman (1991) contend that an organization can use one of three levels depending on the type and the number of bonds that firms use to foster loyalty: First, financial bonds (e.g. price) which are mainly used to develop and enhance customer loyalty; second, social bonds which are used to identify customers’ needs and wants through personal and group levels of analysis to try to satisfy them properly; third, structural bonds which are intended to provide different services to customers using a variety of technology-based methods with a view to enhancing firms’ efficiency and effectiveness. Other authors have focused their studies on establishing other types of bonds with customers, such as emotional bonds (Jain and Jain, 2005), personal bonds (Walker, 2005; Aaserud, 2006), and public bonds (Arikawa and Miyajima, 2005). These take into consideration the notion of establishing bonds and bridging strategies with salespersons because, when they leave to work for competitors, customers may follow (Barnes et al., 2005).

Some scholars have used ‘loyalty’, in terms of expressed behaviour, as a parallel concept to mean retained customers; the firm’s aim was to keep customers satisfied in the long term (Keiningham et al., 2005). Service firms have recognised that customer
loyalty is the end goal, and they must continue their businesses on the basis of sustainable long-lasting relationships with customers. Eisingerich and Bell (2007) defined loyalty as customers’ commitment to increase the depth and breadth of their relationship with the firm which can be expressed in many ways such as using the firm’s services for all their investment needs and being willing to speak positively of the service firm (Bettencourt, 1997). Meanwhile, Liljander and Strandvik (1993) have defined loyalty as “repeat purchase behaviour within a relationship”. Seth et al. (2005) mentioned that, in the past, the terms ‘customer loyalty’ and ‘customer retention’ have been used to describe the same phenomenon, while Gerpott et al. (2001) claimed that customer retention and loyalty are distinct constructs. The key to success in service businesses now lies in concentrating on and retaining existing customers to keep them in the long term. That is because a small number of brands attract a high level of loyalty (Jarvis and Goodman, 2005). Diller (2000) claimed that loyalty may exist only because of certain incentives provided by firms to their customers. For this reason, considerable attention has been paid to investigating the effect of customer loyalty on firms since it has a positive effect on repeat purchasing. Thus, RM recognizes that it is not enough to attract buyers. The goal of RM is to convert buyers from one step to another on the loyalty ladder, from prospects to buyers, from customers to clients, and from supporters to advocates (Christopher et al., 1991).

Loyalty may appear in behavioural terms by the frequency of purchases for specific products or brands and in attitudinal terms by emerging consumer attitudes and preferences. Therefore, loyalty programs are closely studied by scholars and practitioners nowadays because they have positive effects on repeat purchasing from the same service firms (Bolton et al., 2000; Kivetz and Strahilevitz, 2001; Gómez et al., 2006; Craft, 2007). This is because loyalty programs enable firms to build stronger relationships, enhance customer retention, encourage customers’ recommendations, and increase the number of products and services sold to their clients (Steers, 2007).

1.8 Key Determinants of Customer Retention

In order to retain customers more effectively, companies must understand its clients, as well as forces driving them to stay with the current provider and not to switch. Several studies have considered the impact of customer relationship management tools and metrics on retention rates, varying from measuring satisfaction levels to returns on loyalty programs) (e.g. Bolton et al., 2000; Verhoef, 2003). The construct of
customer retention focuses on repeat patronage. It is different from, while still closely related to, purchasing behaviour and brand loyalty. In retention the marketers is seen as having the more active role in the relationship. The trigger is some element in the relationship between the provider and the purchaser, causing customer retention. This extends beyond satisfaction, quality, and other constructs. There are a variety of motivators of customer retention such as customer satisfaction and switching costs (Seo, Ranganathan, & Babad, 2008), CRM (Verhoef, 2003), marketing strategies (Larry & John, 1993), and customer acquisition (Thomas, 2001). The key determinants of customer retention are explained below one by one:

1.8.1 Satisfaction and Customer Retention

Businesses in the relationship marketing sector have tended to view any future sales opportunities as depending primarily on relationship quality and satisfaction (Crosby et al., 1990); these are the key tools for increasing customer retention (Sweeney and Swait, 2008).

Satisfaction is defined by Engel et al. (1995) as “a post-consumption evaluation that a chosen alternative at least meets or exceeds expectations”, while Ranaweera and Prabhu (2003) defined it as “an evaluation of an emotion, reflecting the degree to which the customer believes the service provider evokes positive feelings”. Therefore, satisfaction occurs with the enhancement of a customer’s feelings when he or she compares his/her perception of the performance of products and services in relation to his/her desires and expectations (Spreng et al., 1996). Caro and Jose (2007) studied the cognitive-affective model of consumer satisfaction and their results showed that the key affective factor that determines satisfaction is “arousal”, as opposed to “pleasure”, which has a non-significant effect. The cognitive element is also important for determining satisfaction and future behaviour intentions.

The relationship between customer satisfaction and customer retention has received growing attention in the relationship marketing literature. Therefore, many studies have investigated the effects of the former on the latter (Gupta and Stewart, 1996; Murgulets et al., 2001; Hennig-Thurau, 2004; Patterson, 2004; Tsai et al., 2006; Timothy et al., 2007; White and Yanamandram, 2007). Many authors have attempted to draw a clear model that depicts the link between satisfaction and customer retention (Hennig-Thurau and Klee, 1997; Bolton, 1998; Bolton and Lemon, 1999; Smith et al.,
1999; Mittal and Kamakura, 2001; Bansal et al., 2004). For example, Sim et al. (2006) designed a model to assess the antecedent and consequential factors that affect customer satisfaction. The results illustrated that the latent construct of customer retention was directly dependent on the latent construct of customer satisfaction. Added value was found to have positive effects on customer satisfaction and customer retention. Also, Yu (2007) examined how customer satisfaction impacts customer revenue, customer costs, and customer profitability. The results indicated that several dimensions of customer satisfaction are positively associated with individual customers’ repurchase intentions.

Ndubisi (2006) mentioned that overall customer satisfaction is a key determinant of relationship quality. The author found that service quality, communication, trust, commitment, and conflict handling are considered customer satisfaction indicator that support repurchase behaviour resulting from enhancement of the relationship quality. Meanwhile, Geyskens et al. (1996) distinguished between two kinds of satisfaction that are required to provide insight into the role of satisfaction in the development and maintenance of a long-term relationship: economic satisfaction, which is described as a member's evaluation of the economic outcomes that flow from a relationship with its partner such as sales volume, margins, and discounts and social satisfaction, which is described as a member’s evaluation of the psychological aspects of its relationship, in interaction with the exchange partner [which] are fulfilling, gratifying, and facile. Furthermore, satisfaction is considered to be central for successful relationship marketing and customer retention, and involves behavioural, attitudinal, affective, and calculative components (Rauyruen and Miller, 2007). Moreover, an article by Wong et al. (2004) investigated the relationship between emotional satisfaction and the key concepts of service quality, customer loyalty, and relationship quality, and clarified the role of emotional satisfaction in predicting customer loyalty and relationship quality. Results showed that service quality is positively associated with emotional satisfaction, which is positively associated with both customer loyalty and relationship quality, while feelings of happiness serve as the best predictor of relationship quality.

The relationship between customer satisfaction and economic returns has received growing attention in the customer satisfaction literature according to its effects on contract renewal, especially in the mobile phone sector (Gerpott et al., 2001). For example, Yu (2007) examined how individual customer satisfaction impacts customer
revenue, customer cost, and customer profitability. The results indicated that several dimensions of customer satisfaction are positively associated with individual customers' repurchasing intentions which positively affect the purchasing behaviour. Anderson et al. (1994) pointed out a critical question that needs investigating: Do the improvements in customer satisfaction lead to improvements in the economic performance of firms? This question was considered by Wetzels and De Ruyter (1998) who reported that committed customers have a much stronger intention to stay in a relationship with a service provider, which, in turn, affects a subscriber’s intention to terminate/extend the contractual relationship with his/her mobile phone supplier (Gerpott et al., 2001).

Some researchers have previously claimed that customer satisfaction is the core element of long-term consumer behaviour. Thus, ongoing satisfaction is required over time in order to keep the existing customer (Oliver, 1980). According to Bruhn and Homburg (1998), satisfaction comes as an initial stage in causal links. Conceptually, customer satisfaction comes as a result of accumulative, interaction-based evaluations according to subscriber’s levels of satisfaction when his/her expectations of services and products are fulfilled. Also, satisfaction comes as an assessment of the functionality of all direct and indirect utilities of any object purchased and consumed. If the level of fulfilment exceeds the level of expectations, the probability of repeat purchases and contract renewal is high. Accordingly, the opposite expectations occur when there is no customer satisfaction. That is because satisfaction increases the level of confidence in future purchase behaviour. The level of confidence in operators and services offered is a relative matter and differs from one subscriber to the other according to their experience and length of time with both a specific operator and a specific contract. For example, when a subscriber starts thinking about renewing his or her mobile contract, he/she usually relies on satisfaction and assessment levels to differentiate between alternative operators, i.e. current or previous mobile operators (Dick and Basu, 1994).

On reviewing some previous satisfaction and customer retention studies, such as Gremler et al. (2001), it was found that satisfaction may affect retention behaviour and post-purchase behaviour with the service firm. However, satisfaction alone does not ensure continued customer patronage (Jones et al., 1995). Therefore, a consumer may be dissatisfied with the consumer-service provider relationship, but will still remain in
that contractual relationship because there are no other suitable choices, or the switching cost may be high compared to the desired benefits. This view is supported by Kennedy and Thirkell (1988) who claimed that customers may be able to absorb some unfavourable evaluations before expressing them in terms of dissatisfaction. This is in line with Grønhaug and Gilly’s (1991) contention that high switching costs render some dissatisfied customers loyal.

Briefly, in the context of relationship marketing, customer satisfaction with a firm’s products or services is often seen as the key to the firm’s success. It brings long-term competitiveness and is viewed as a central determinant of customer retention (Hennig-Thurau and Klee, 1997). Kotler (2000) mentioned that the key to customer retention is customer satisfaction. He noted that satisfied customers stay loyal longer, pay less attention to the competitors, talk favourably about the organization, offer service ideas to the organization, are less price-sensitive, and cost less to serve than new customers. However, Reichheld (1993) explained that customer satisfaction does not have a direct positive effect on customer retention since satisfied customers sometimes switch their suppliers while dissatisfied customers do not always leave their suppliers. Reichheld (1996, cited in Noordhoff et al., 2004) claimed that many firms have fallen into a “satisfaction trap” and Gale (1997, cited in Bolton, 1998,) claimed that “satisfaction is not enough”. Viewing satisfaction as one of the cognitive approaches to explain customer retention is not feasible (Kristensen et al., 1999; Tikkanen and Alajoutsijarvi, 2002). Based on the previous discussion, there remains a need to understand the actual consumer retention behaviour, while satisfaction alone cannot explain actual purchase repetition and contract renewal behaviour of mobile users. Some scholars combine the concepts of satisfaction and trust to study customer retention. It has been illustrated that satisfaction is an essential element when decisions need to be taken about extending a relationship’s duration (continuity), whereas trust is the key element when decisions need to be taken about expanding the scope of a relationship (Selnes, 1998). Thus, the next part will discuss the link between customer trust and customer retention.

1.8.2 Trust and Customer Retention

Trust has many definitions in the relationship marketing literature. Moorman et al. (1993) defined trust as “a willingness to rely on an exchange partner in whom one has
confidence”. Also, Morgan and Hunt (1994) have described trust as “the perception of confidence in the exchange partner's reliability and integrity”. Evans et al. (2006) presented a number of concepts that are employed to explain and describe successful relationships; one of these concepts is trust. The author argues that trust is the basis for relationship exchange and the glue that holds a relationship together. Furthermore, Scott (2002 cited in Evans et al., 2006), describes trust as follows:

“Think of trust as natural resources, like water. It oils the machinery of human interaction in everything from marriage and friendship to business and international relations. There are reserves of trust, in a perpetual state of replenishment or depletion. And in this parched and suddenly sweltering spring, it is not just water supplies that are looking ominously low” (p.281).

Many research models have been developed to explain the effect of trust on customer retention (Crosby et al., 1990; Teichert and Rost, 2003; Wirtz and Lihotzky, 2003; Kjaernes, 2006; Liu and Louvieris, 2006). One of the study examples that investigated the relationship between trust and customer retention was conducted by Teichert and Rost (2003). The authors measured the effects of trust and involvement on customer retention, assuming general customer satisfaction. They found that trust serves as a strong trigger for enhancing customer retention, and involvement is revealed to play a prominent role in explaining both trust creation and customer retention. They also concluded that trust is a major constituent element of relational customer retention, supported in different measure by affective and cognitive involvements. Kingshott and Pecotich’s (2007) study investigated the impact of psychological contracts on trust and commitment in relationship marketing and highlighted the significance of social exchange theory in helping to explain the relational paradigm; the results showed that trust increased the commitment level in a relationship.

Aydin and Ozer (2005) pointed out that, in order to gain a subscriber’s loyalty in the mobile sector, the service operator needs to increase subscriber satisfaction by raising the level of service quality, ensure subscriber’s trust in the firm, and establish a cost penalty for changing to another service provider, making it a comparatively unattractive option. The authors also mentioned that corporate image, perceived service quality, trust and customer switching costs are the major antecedents of customer loyalty. On the same theme, Ling and Wang (2005) commented that perceived value and trust are found to have a significant positive impact on customer loyalty.
Trust is considered to be one of the main cognitive terms used heavily by many scholars, such as Chiung-Ju and Wen-Hung (2006), to study customer retention, especially when customers enter a long-term contractual relationship such as buying mobile contracts to use Internet broadband mobile services. Trust is seen to be a deep-rooted belief in a partner’s altruism and is significantly associated with an individual's behavioural intention to continue to use the same service (Gounaris, 2005; Li et al., 2006). Trust has been described by Bhattacherjee (2002) as attitude, belief, intention, and behaviour. Mayer et al. (1995) viewed trust as an intention to accept and take risk. Trust relies on a subscriber’s (Truster) perception of a supplier’s (Trustee) attributes and the characteristics of its offerings that affect the levels and types of subscriber behaviour (Stewart, 2003). Trust usually precedes intentions, which encompass both affective and cognitive elements that are controlled by accumulated knowledge of uncertainty and personal judgements of other relationship partners in the contractual setting.

To conclude, trust is shown to have a positive influence on key relational outcomes (e.g. repeat purchase behaviour), customer loyalty, and share of purchases. However, Sang-Lin et al. (1993) claimed that there are many characteristics of a good relationship; among these, mutual trust in the relationship helps the customer to become involved in satisfactory exchanges. Thus, the concept of trust is used to describe a successful relationship (seen as one of the relationship outcomes or post-behaviour evaluation terms) between two parties; however, trust alone cannot maintain the continuation of the relationship or explain retention behaviour. Also, it cannot be used to study the actual repeat purchase behaviour or how the contractual relationship with a subscriber can be extended on the basis of trust in an operator and elimination of the effects of other factors such as pre-behaviour stimuli and post-behaviour incentives.

Hess and Story (2005) found that satisfaction is antecedent to trust but primarily contributes to functional supplier-customer connections. However, personal connections stem from trust. Accordingly, the relative strengths of personal and functional connections determine the nature and the outcomes of relationship commitment. Also, the level of trust is not stable enough to be used to predict retention. Byoungho and Jin Yong (2006) found that the source of consumer trust changes as the consumer’s purchase experience increases, whereas the source of consumer satisfaction remains the same regardless of consumer purchase experience. Some scholars have linked customer satisfaction, trust, and commitment when studying
customer retention (Rosenbaum et al., 2006).

1.8.3 Commitment and Customer Retention

Commitment is considered one of the major elements of successful relationship marketing. Consequently, there is no successful relationship without commitment from both parties, especially if the relationship requirements and conditions have been agreed and written between them. This view is validated by many scholars (Too et al., 2001; Bansal et al., 2004; Sanchez and Iniesta, 2004; Hess and Story, 2005) who have examined the effect of commitment on customer retention. Commitment in the relationship marketing research field is defined by Dwyer et al. (1987) as “an implicit or explicit pledge of relational continuity between exchange partners”. Likewise, Moorman et al. (1992), argue that commitment is essential to customer retention and describe it as an “an enduring desire to maintain a valued relationship” (p.316). Morgan and Hunt (1994), consider this phrase to be a relational commandment and define commitment as:

“an exchange partner believing that ongoing relationship with another is so important as to warrant maximum effort at maintaining it; that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely”.

Evans et al. (2006 cited in Geyskens et al., 1996) differentiate between four types of commitments which are seen as essential elements when proposing to use commitment as a means of studying how to extend the buyer-seller relationship: First, behavioural commitment, which represents the actual behaviour of parties in a relationship such as the efforts and choices they make; second, attitudinal commitment, which relates to implicit and/or explicit pledges of relational continuity between partners; third, affective commitment which represents the positive feelings towards the firm and guides consumers’ desires to seek alternatives or to engage in exchange; and fourth, calculative commitment, which reflects the outcome of a perceived lack of alternatives or evaluations of how switching costs might outweigh benefits. Stanko et al. (2007) depicted that the strength of buyer-seller attachments, or relational bonding, is vital for understanding the formation of commitment. The authors conceptualized four dimensions of attachment strength and examined their effects on the buyer firm’s commitment to the selling firm, as well as the impact of commitment on favourable buyer behaviour. The results revealed that three of the four identified properties of strong relational bonding (reciprocal services, mutual confiding and emotional intensity) are positively related to buyer commitment to the selling
organization and the strongest relationship was between emotional intensity and commitment.

In different business organizations, the main goal of marketing activities can be viewed as maintaining and developing relationships with customers to encourage repeat business. Thus, the role of marketing is not just to win new customers but also to strengthen and extend relationships with existing customers; relationship continuation (loyalty) should be supported by predetermined marketing management strategies aimed at managing customers’ profitability. Clark and Maher (2007) explored the relationship between organizationally related factors and consumers’ attitudinal loyalty. The results indicated that trust, commitment, satisfaction, past behaviour, and value predict 60% of the variance in attitudinal loyalty. Also, Evanschitzky et al. (2006) explored the impacts of affective and continuance commitment on attitudinal and behavioural loyalty in a service context. The authors claimed that a continual commitment was the result of the perceived economic and psychological benefits of being in a relationship. Results suggested that emotional bonds with customers provide a more enduring source of loyalty when compared to economic incentives and switching costs. Therefore, commitment is considered an important antecedent to customer retention. However, a study by Bigné et al. (2001, cited in Morgan et al., 2000) showed that two kinds of limitations may affect the application and measurement of such concepts (e.g. commitment) on relationship marketing: First, loyalty does not mean that the consumer will follow the same or previous behavioural performance; second, the consumer might lack traditional rational characteristics and may commonly exercise greater choice in purchase evaluation. Commitment is considered an important ingredient of customer retention. This is supported by White and Yanamandram (2007) who propose five major factors that deter customers from switching to an alternative service provider: switching costs, interpersonal relationships, attractiveness of alternatives, service recovery, and inertia. These factors are mediated by dependence and calculative commitment. Thus, commitment is central to successful relationship marketing, and the level of trust influences it because it has been conceptualized that trust “exists” when one party has confidence in an exchange partner’s reliability and integrity. Moreover, commitment is one of the factors that mediates the level of long-term relationship maintenance and increases the level of loyalty (Sanchez and Iniesta, 2004). This, in turn, reduces the costs of acquiring new customers and servicing existing ones. Accordingly, Sanchez and
Iniesta (2004) proposed five characteristics of commitment that need to be taken into consideration when studying customer retention: an affective element which is defined by a customer’s goals and values, a cognitive element which is defined by a customer’s beliefs and perceptions, a reciprocal element which relies on the perception of the other partner’s commitment, an intentional element which defines a customer’s desire or willingness to act, and a behavioural element which is defined as customer actions. Thus, commitment is seen as one of the most heavily used concepts in the study of retention behaviour and is directly connected to cognitive roots as a mental process to explain a variety of consumer issues (Lachman et al., 1979). Czaban et al. (2003) expressed the magnitude of the supplier-customer relationship which reflects the level of satisfaction in committed contractual promises provided by a supplier and received by a satisfied customer. The level of magnitude is measured by the level of expectation absorbed and exceeded by the types and levels of benefits provided by an operator and consumed by specific customers. The level of commitment is relatively connected to the level of fulfilment of mobile service options provided by current or previous mobile offers. Accordingly, fulfilled services affect satisfaction which affects, in order, commitment, loyalty, and purchasing behaviour in the long term (Davis-Sramek et al., 2008).

Morgan and Hunt (1994) studied “the commitment-trust theory of relationship marketing” and claimed that commitment and trust are important dimensions in maintaining a desired valued relationship. They noted that relationship commitment and trust are the main intermediate variables in relationship marketing. However, commitment cannot be used to study actual retention behaviour because it is still considered one of the cognitive terms that describe successful relationships between two parties (Evans et al., 2006). Storbacka et al. (1994) mentioned that loyalty can occur within three different types of commitment: positive, negative or no commitment. A negatively committed customer might repeat his purchase from the same provider because of attachments (e.g. legal, economic, technological, geographical and temporal bonds) that sometimes work as effective exit barriers for the customer (Liljander et al., 1995). A committed partner in a mobile contract is essential to contract renewal when each party has delivered the promised benefits and penalties to the other party.
1.8.4 Service Quality and Customer Retention

Service quality has gained a great deal of attention from researchers, managers, and practitioners during the past few decades. Many scholars have studied the effect of service quality on customer retention (Oliver, 1980; Lehtinen and Lehtinen, 1982; Ennew and Binks, 1996; Ranaweera and Neely, 2003; Venelis and Ghauri, 2004). Their findings reveal that there is a direct correlation between service quality and customer behavioural intentions and retention. Service has many dimensions, definitions, and techniques which may affect its way of production, consumption, and delivery. Kotler and Armstrong (1997), defined service as “any activity or benefit that one party can offer to another that is essentially intangible and doesn’t result in the ownership of anything”. In order to facilitate service quality evaluation, Van Riel et al. (2001) divided service into five components: the core services, facilitating services, supporting services, complementary services, and the user interface, through which the customer accesses the services. Also, there is no unified definition of quality and researchers are continuing to study a variety of quality dimensions in the service context. Gronroos (1984,) defines service quality as:

“A perceived judgment, resulting from an evaluation process where customers compare their expectation with the service they have received”

The popular service quality definition is obtained by differentiating between the expectation and perception of service quality of the service perceived (Lewis and Booms, 1983; Grönroos, 1984; Parasuraman et al., 1988). Early researchers attempted to define service quality in the service sector on the basis of tangible elements of products, such as technical specifications and physical appearance. Bebko (2000) mentioned that, because of intangible differences between product and service, marketers are unable to define the exact nature of the problem of purchasing and producing services that enable the creation of a standard set of guidelines and instructions on the delivery of service quality. The author divided the outcomes of tangibility into four categories: a purely intangible service outcome, an intangible service outcome which is bundled with a product, a tangible service outcome, and a tangible service outcome bundled with a product. Consumers usually consider these tangible elements to assess quality, which is easy to do with products or tangible parts of the service (Harvey, 1996).

Venelis and Ghauri (2004) studied the link between relationship marketing and service quality and the effect of this link on customer retention. The authors developed
a model to capture the relationship between the two concepts and found that service quality indeed contributes to the extension of long-term relationships. Accordingly, several researchers have highlighted the importance of managing service quality; a firm could thus differentiate its service offerings to deliver better quality than its competitors (Maclaran and McGowan, 1999; Mazzarol and Soutar, 1999; Chow-Chua and Komaran, 2002). This would give firms competitive advantages leading to more sales and profits by motivating existing customers to repeat or extend purchases in order to achieve long-term success.

To summarise, many researchers agree on the importance of the correlation between service quality and customer retention (Turnbull et al., 2000; Holtz, 2003; Seth et al., 2005; Bolton et al., 2006; Kassim, 2006; Austin, 2007; Iyengar et al., 2007; Kassim and Souiden, 2007). So, the process of managing service quality starts with understanding customers’ expectations, because service quality is a perception related concept. This means that firms need to measure how they offer a quality service that meets and exceeds customers’ expectations by asking them directly. Storbacka et al. (1994) said that the dominant perspective within service quality assumes that it has a positive correlation with satisfaction and leads to repeat purchase and increased loyalty. Therefore, many published academic studies focus on the link between service quality and satisfaction, and few take into account its effect on behaviour. Some authors found that service quality perception affects customers’ satisfaction, trust, and commitment, and it is seen as a driver of customer retention (Ranaweera and Neely, 2003; Seo et al., 2008). However, service quality still appears as a cognitive evaluation based on mental perception which cannot give a suitable explanation of repurchase behaviour or behaviour consequences, although it might be used to study behaviour intention (Boulding et al., 1993; Alexandris et al., 2001). Also,

1.9 Economics of Customer Retention

The customer lifecycle is made up of three core customer management processes: customer acquisition, customer retention and customer development. The processes of customer retention and development are the focus of this study. The major strategic purpose of CRM is to manage, for profit, a company’s relationships with customers through three stages of the customer lifecycle: customer acquisition, customer retention and customer development. A customer retention strategy aims to keep a high
proportion of valuable customers by reducing customer defections (churn), and a
customer development strategy aims to increase the value of those retained customers to
the company. Just as customer acquisition is focused on particular prospects, retention
and development also focus on particular customers. Focus is necessary because not all
customers are worth retaining and not all customers have potential for development.
There is a strong economic argument in favour of customer retention and the argument
goes as follows:

1. **Increasing purchases as tenure grows**: Over the time, customers come to know
their suppliers. Providing the relationship is satisfactory, trust grows while risk and
uncertainty are reduced. Therefore, customers commit more of their spending to those
suppliers with whom they have a proven and satisfactory relationship. Also, because
suppliers develop deeper customer intimacy over time, they can enjoy better yields
from their cross-selling efforts.

2. **Lower customer management costs over time**: The relationship start-up costs that
are incurred when a customer is acquired can be quite high. It may take several years
for enough profit to be earned from the relationship to recover those acquisition costs.
For example, it can take six years to recover the costs of winning a new retail bank
customer. In the B2B context in particular, ongoing relationship maintenance costs
such as selling and service costs can be low relative to the costs of winning the
account. Therefore, there is a high probability that the account will become more
profitable on a period-by-period basis as tenure lengthens. These relationship
maintenance costs may eventually be significantly reduced or even eliminated as the
parties become closer over time. In the B2B context, once automated processes are in
place, transaction costs are effectively eliminated. Portals largely transfer account
service costs to the customer. In the B2C context, especially in retailing, the
assertion that acquisition costs generally exceed retention costs is hard to prove. This
is in part because it is very difficult to isolate and measure customer acquisition
costs.

3. **Customer referrals**: customers who willingly commit more of their purchases to a
preferred supplier are generally more satisfied than customers who do not. They are
therefore more likely to utter positive word-of-mouth and influence the beliefs, feelings
and behaviours of others. Research shows that customers who are frequent buyers are
heavier referrers. For example, online clothing customers who have bought once refer
three other people; after ten purchases they will have referred seven. In consumer electronics, the one-time customer refers four; the ten times customer refers. The referred customers spend about 50 to 75 per cent of the referrer’s spending over the first three years of their relationship. However, it is also likely that newly acquired customers, freshly enthused by their experience, would be powerful word-of-mouth advocates, perhaps more than longer-term customers who are more habituated.

4. **Premium prices:** customers who are satisfied in their relationship may reward their suppliers by paying higher prices. This is because they get their sense of value from more than price alone. Customers in an established relationship are also likely to be less responsive to price appeals offered by competitors. These conditions mean that retained customers are generally more profitable than newly acquired customers. Drawing from their consulting experience, Dawkins and Reichheld report that a 5 per cent increase in customer retention rate leads to an increase in the net present value of customers by between 25 and 95 per cent across a wide range of industries, including credit cards, insurance brokerage, automobile services and office building management. In short, customer retention drives up customer lifetime value.

### 1.10 Strategies for Customer Retention

An important distinction can be made between strategies that lock the customer in by penalizing their exit from a relationship, and strategies that reward a customer for remaining in a relationship. The former are generally considered negative, and the latter positive, customer retention strategies. Negative customer retention strategies impose high switching costs on customers, discouraging their defection.

In a B2C context, mortgage companies have commonly recruited new customers with attractive discounted interest rates. When the honeymoon period is over, these customers may want to switch to another provider, only to discover that they will be hit with early redemption and exit penalties. Customers wishing to switch retail banks find that it is less simple than anticipated: direct debits and standing orders have to be reorganized. In a B2B context, a customer may have agreed a deal to purchase a given volume of raw material at a quoted price. Some way through the contract a lower cost supplier makes a better offer. The customer wants to switch, but finds that there are penalty clauses in the contract. The new supplier is unwilling to buy the customer out of the contract by paying the penalties.
Some customers find these switching costs are so high that they remain customers, though unwillingly. The danger for CRM practitioners is that negative customer retention strategies produce customers who feel trapped. They are likely to agitate to be freed from their obligations, taking up much management time. Also, they may utter negative word-of-mouth. They are unlikely to do further business with that supplier. Companies that pursue these strategies argue that customers need to be aware of what they are buying and the contracts they sign.

When presented with dissatisfied customers complaining about high relationship exit (switching) costs, companies have a choice. They can either enforce the terms and conditions, or not. The latter path is more attractive when the customer is strategically significant, particularly if the company can make an offer that matches that of the prospective new supplier.

Below are number of positive customer retention strategies, including creating customer delight, adding customer-perceived value, creating social and structural bonds and building customer engagement.

1.10.1 Customer Delight

It is very difficult to build long-term relationships with customers if their needs and expectations are not understood and well met. It is a fundamental precept of modern customer management that companies should understand customers, and then acquire and deploy resources to ensure their satisfaction and retention. This is why CRM is grounded on detailed customer-related knowledge. Customers that you are not able to serve well may be better served by your competitors.

Delighting customers, or exceeding customer expectations, means going beyond what would normally satisfy the customer. This does not necessarily mean being world-class or best-in-class. It does mean being aware of what it usually takes to satisfy the customer and what it might take to delight or pleasantly surprise the customer. You cannot really strategize to delight the customer if you do not understand the customer’s fundamental expectations. You may stumble onto attributes of your performance that do delight the customer, but you cannot consistently expect to do so unless you have deep customer insight. Consistent efforts to delight customers show your commitment to the relationship. Commitment builds trust. Trust begets relationship longevity. Customer delight occurs when the customer’s perception of their experience of doing business with you exceeds their expectation.
In formulaic terms:

\[ CD = P > E \]

Where, \( CD \) = customer delight, \( P \) = perception and \( E \) = expectation.

This formula implies that customer delight can be influenced in two ways: by managing expectations or by managing performance. In most commercial contexts, customer expectations exceed customer perceptions of performance. In other words, customers can generally find cause for dissatisfaction. You might think that this would encourage companies to attempt to manage customer expectations down to levels that can be delivered. However, competitors may well be improving their performance in an attempt to meet customer expectations. If your strategy is to manage expectations down, you may well lose customers to the better performing company. This is particularly likely if you fail to meet customer expectations on important attributes.

Customers have expectations of many attributes, for example product quality, service responsiveness, price stability and the physical appearance of your people and vehicles. These are unlikely to be equally important. It is critical to meet customer expectations on attributes that are important to the customer. Online customers, for example, look for rapid and accurate order fulfilment, good price, high levels of customer service and website functionality. Online retailers must meet these basic requirements.

**1.10.1.1 Kano’s customer delight model**

Noriaki Kano has developed a product quality model that distinguishes between three forms of quality. Basic qualities are those that the customer routinely expects in the product. These expectations are often unexpressed until the product fails. For example, a car’s engine should start first time every time, and the sunroof should not leak. The second form is linear quality. These are attributes of which the customer wants more or less; for example, better comfort, better fuel economy and reduced noise levels. Marketing research can usually identify these requirements. Better performance on these attributes generates better customer satisfaction. The third form is attractive quality. These are attributes that surprise, delight and excite customers. They are answers to latent, unarticulated, needs and are often difficult to identify in marketing research. As shown in Figure 1.1, Kano’s analysis suggests that customers can be delighted in two ways: by enhancing linear qualities beyond expectations and by
creating innovative attractive qualities. Exceeding expectations need not be costly. For example, a sales representative could do a number of simple things such as:

- volunteer to collect and replace a faulty product from a customer rather than issuing a credit note and waiting for the normal call cycle to schedule a call on the customer
- offer better, lower cost solutions to the customer, even though that might reduce profit margin
- provide information about the customer’s served market. A packaging company, for example, might alert a fast-moving consumer goods manufacturer customer to competitive initiatives in their served markets.

![Figure: 1.1 Customer Delight through Product Quality](image)

Some efforts to delight customers can go wrong. For example, sooner is not necessarily better: if a retail store customer has requested delivery between 1 pm and 3 pm, and the driver arrives an hour early, the truck may clog up goods inwards and interfere with a carefully scheduled unload plan. Many contact centres play music while callers are waiting online. This is to divert the caller’s attention and to create the illusion of faster passage of time. However, the cycle time of the selected music must not be too fast, otherwise callers will be exposed to the same songs repeatedly. Also, the music needs to be appropriate to the context.

Source: Kano 1995
A number of companies have adopted ‘Customer Delight’ as their mission, including Cisco, American Express and Kwik Fit, the auto service chain. Others pay homage to the goal but do not organize to achieve it. In the service industries, customer delight requires frontline employees to be trained, empowered and rewarded for doing what it takes to delight customers. It is in the interaction with customers that contact employees have the opportunity to understand and exceed their expectations. The service quality attributes of empathy and responsiveness are on show when employees successfully delight customers. Companies sometimes complain that investing in customer delight is unproductive. As noted earlier, expectations generally increase as competitors strive to offer better value to customers. Over time, as customers experience delight, their expectations change. What was exceptional becomes the norm. In Kano’s terms, what used to be an attractive attribute becomes a linear or basic attribute. It no longer delights. Delight decays into normal expectation, and companies have to look for new ways to pleasantly surprise customers. In a competitive environment, it seems to make little sense to resist the quest for customer delight because competitors will simply drive up expectations anyway.

1.10.2 Add Customer-Perceived Value

The second major positive customer retention strategy is to add customer-perceived value. Companies can explore ways to create additional value for customers. The idea is to add value for customers without creating additional costs for the company. If costs are incurred then the value-adds may be expected to recover those costs. For example, a customer club may be expected to generate a revenue stream from its membership. There are three common forms of value-adding programme: loyalty schemes, customer clubs and sales promotions.

1.10.3 Loyalty Schemes

Loyalty schemes reward customers for their patronage. Loyalty schemes or programmes can be defined as follows:

‘A loyalty programme is a scheme that offers delayed or immediate incremental rewards to customers for their cumulative patronage’.

The more a customer spends, the higher the reward. Loyalty schemes have a long history. In 1844, in the UK, the Rochdale Pioneers developed a cooperative retailing operation that distributed surpluses back to members in the form of a dividend. The
surpluses were proportionate to customer spend. S&H Pink Stamps and Green Shield stamps were collected in the 1950s and 1960s, and redeemed for gifts selected from catalogues. In the 1970s, Southwest Airlines ran a ‘Sweetheart Stamps’ programme that enabled travellers to collect proofs of purchase and surrender them for a free flight for their partner.

Today’s CRM-enabled loyalty schemes owe their structure to the frequent flier programmes (FFP) that started with American Airlines’ Advantage programme in 1981. The airline made a strategic decision to use its spare capacity as a resource to generate customer loyalty. Airlines are high fixed-cost businesses. Costs do not change much, regardless of whether the load factor is 25 per cent or 95 per cent. American knew that filling the empty seats would have little impact on costs, but could impact significantly on future demand. The airline searched its reservation system, SABRE, for details of frequent fliers in order to offer them the reward of free flights.

This basic model has migrated from airlines into many other B2C sectors: hotels, restaurants, retail, car hire, gas stations and bookstores, for example. It has also transferred into B2B contexts with many suppliers offering loyalty rewards to long-term customers.

The mechanics of these schemes have changed over time. Initially, stamps were collected. The first card-based schemes were anonymous, i.e. they carried no personal data, not even the name of the participant. Then magnetic stripe cards were introduced, followed by chip-embedded cards that carried a lot of personal and transactional data. Innovators developed their own individual schemes. Eventually, these transformed into linked schemes, in which, for example, it was possible to collect air miles from various participating companies such as gas stations, credit cards and food retailers. Current schemes are massively different from the early programmes.

1.10.4 Customer Clubs

Customer clubs have been established by many organizations. A customer club can be defined as follows:

A customer club is a company-run membership organization that offers a range of value-adding benefits exclusively to members. The initial costs of establishing a club can be quite high, but thereafter most clubs are expected to cover their operating expenses and, preferably, return a profit. Research suggests that customer clubs are
successful at promoting customer retention.
To become a member and obtain benefits, clubs require customers to register. With these personal details, the company is able to begin interaction with customers, learn more about them, and develop offers and services for them. Clubs can only succeed if members experience benefits they value. Club managers can assemble and offer a range of value-adding services and products that, given the availability of customer data, can be personalized to segment or individual level. Among the more common benefits of club membership are access to member-only products and services, alerts about upcoming new and improved products, discounts, magazines and special offers. For example, IKEA FAMILY, the home furnishing retailer’s club, offers members discounts on selected IKEA products, a free home furnishing magazine quarterly, news updates via e-mail and discounts on exclusive IKEA FAMILY products. There are a huge number of customer clubs. One report estimates that there are ‘several hundred’ in Germany alone

1.10.5 Sales Promotions
Whereas loyalty schemes and clubs are relatively durable, sales promotions offer only temporary enhancements to customer value. Sales promotions, Retention-oriented sales promotions encourage the customer to repeat purchase, so the form they take is different. Here are some examples:

- In-pack or on-pack voucher: customers buy the product and receive a voucher entitling them to a discount off one or more additional purchases.

- Rebate or cash back: rebates are refunds that the customer receives after purchase. The value of the rebate can be adjusted in line with the quantity purchased, in order to reward customers who meet high volume targets.

- Patronage awards: customers collect proofs of purchase, such as store receipts or barcodes from packaging, which are surrendered for cash or gifts. The greater the volume purchased the bigger the award.

- Free premium for continuous purchase: the customer collects several proofs of purchase and mails them in, or surrenders them at retail outlets to obtain a free gift. Sometimes the gift might be part of a collectable series. For example, a manufacturer of preserves and jams developed a range of collectable enamel badges. Customers collected proofs of purchase and mailed them in to receive a badge. There were 20
different badges in the series. This promotion was so popular that a secondary market was established so that collectors could trade and swap badges to obtain the full set.

- Collection schemes: these are long-running schemes where the customer collects items with every purchase. Kellogg’s ran a promotion in which they inserted picture cards of carefully chosen sports stars into packets of cereals. Customers didn’t know which card they had until they bought and opened the pack. These became collectable items.
- Self-liquidating premium: a self-liquidating promotion is one that recovers its own direct costs. Typically, consumers are invited to collect proofs of purchase, and mail them in with a personal cheque or money order. This entitles the customer to buy a product at a discounted premium, such as a camera or gardening equipment. The promoter will have reached a deal with the suppliers of the products to buy in bulk at a highly discounted rate, perhaps on a sale or return basis. Margins earned from the sale of product, plus the value of the cheque or money order cover the costs of running the promotion which, as a consequence, becomes self-liquidating.

1.10.6 Bonding

The next customer retention strategy is customer bonding. B2B researchers have identified many different forms of bond between customers and suppliers. These include interpersonal bonds, technology bonds (as in EDI), legal bonds and process bonds. These different forms can be split into two major categories: social and structural.

1.10.6.1 Social Bonds

Social bonds are found in positive interpersonal relationships between people on both sides of the customer-supplier dyad. Positive interpersonal relationships are characterized by high levels of trust and commitment. Successful interpersonal relationships may take time to evolve, as uncertainty and distance are reduced. As the number of episodes linking customer and supplier grow, there is greater opportunity for social bonds to develop. Suppliers should understand that if they act opportunistically or fail to align themselves to customer preferences, trust and confidence will be eroded.

1.10.6.2 Structural Bonds

Structural bonds are established when companies and customers commit resources to a relationship. Generally, these resources yield mutual benefits for the participants.
For example, a joint customer-supplier quality team can work improving quality compliance, benefiting both companies. Resources committed to a relationship may or may not be recoverable if the relationship breaks down. For example, investments made in training a customer’s operatives are non-returnable. On the other hand, a chilled products manufacturer that has installed refrigerated space at a distributor’s warehouse may be able to dismantle and retrieve it if the relationship dissolves.

A key feature of structural bonding is investment in adaptations to suit the other party. Suppliers can adapt any element of the offer - product, process, price and inventory levels, for example - to suit the customer. Customers, on the other hand, also make adaptations. For example, they can adapt their manufacturing processes to accommodate a supplier’s product or technology.

Power imbalances in relationships can produce asymmetric adaptations. A major multiple retailers might force adaptations from small suppliers, while making no concessions itself. For example, it could insist on a reduction in product costs, co-branding of point-of-sale material, or even attempt to coerce the supplier not to supply competitors.

Different types of structural bond can be identified. All are characterized by an investment of one or both parties in the other:

- **Equity:** where both parties invest in order to develop an offer for customers. For example, the owners of airports invest in the shells of the duty-free retail outlets. The retailer invests in the internal fixtures and fittings.

- **Knowledge-based:** when each party grows to know and understand the other’s processes and structures, strengths and weaknesses.

- **Technological:** when the technologies of the relational partners are aligned, for example, with EDI, just-in-time logistics and manufacturing.

- **Process:** when processes of the two organizations are aligned. For example, the quality assurance programme on the supplier side and the quality inspection programme on the customer side. Some suppliers manage inventory levels for their customers, ensuring inventory levels are optimized. This is known as vendor managed inventory (VMI). The chemicals company, Solvay Interox, uses telemetry systems to perform VMI for its customers.

- **Values-based:** some companies are renowned for their strong values. Co-operative Bank is known for its pro-environment, ethical stance. It bonds closely with other
companies, such as investment houses, that adopt the same position. It refuses to invest in companies that have poor environmental records.

- **Geographic:** these bonds exist when companies in a trading area (street, city region or country) create a buyer-seller-referral network that supports all members of their group. In the UK, retailers in downtown Leamington Spa have combatted out of town developments by creating a loyalty programme in which customers can collect and redeem loyalty credits at any member store.

- **Project:** when the partners are engaged in some special activity outside of their normal commercial arrangements, for example, a new product development project. There may be an exchange of resources to enable the desired outcome to be achieved, for example, an exchange of engineers and technologists between the companies.

- **Multi-product:** when a customer buys several products from a supplier, the bond is more difficult to break. There are economies for customers when they deal with fewer suppliers. When a relationship with a supplier of several products is dissolved, the customer may incur significant money, search and psychic costs in identifying one or more replacements. Further, the level of perceived risk attached to a new relationship may become uncomfortable.

Social bonds are generally easier to break than structural bonds. Structural bonds link organizations. Social bonds link people. If the account manager and procurement officer do not grow to trust each other, they may fall out, but this is unlikely to bring down a joint venture.

**1.10.7 Build Customer Engagement**

The final positive strategy for building customer retention is to build customer engagement. Various studies have indicated that customer satisfaction is not enough to ensure customer longevity. For example, Reichheld reports that 65 to 85 per cent of recently defected customers claimed to be satisfied with their previous suppliers. Another study reports that one in ten customers who said they were completely satisfied, scoring ten out of ten on a customer satisfaction scale, defected to a rival brand the following year. Having satisfied customers is, increasingly, no more than a basic requirement of being in the game. Highly engaged customers have levels of emotional or rational attachment or commitment to a brand, experience or organization that are so strong that they are highly resistant to competitive influence.