Consumer Switching Behavior in E-Services: Organizational and Technological antecedents through relational paradigm

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Abstract

A dominant paradigm in academics prescribed customer satisfaction as a primary precursor to customer loyalty. But changes in business regulations across the globe and rapid technological advancement have lowered the switching barriers and thus fueling propensity to switch despite being satisfied with an existing service provider. Recent researches empirically confirm the changing reality of markets by empirically highlighting the inability of customer satisfaction as a construct to fully explain consumer switching behavior, particularly in the context of E-services wherein switching barriers are perceived to be even lower. The lack of any comprehensive study to explain the consumer switching intention in the context of E-services has been the primary motivation behind this study. The main aim of this study is to examine the role of consumer switching barrier in consumer switching behavior. Since acquiring new customers is much more difficult than retaining new one, marketers has widely deployed Customer Relationship Management (CRM) tools to operationalize their intent. Our research indicates that besides satisfaction from core service offering, organizational antecedents such as service bundling, subscriber lock-in, asset specificity, and network value can lead to consumer switching barriers that in turn reduce switching intention in E-Services.

Keywords
Consumer Switching, E-Services, Customer Relationship Management, Network Effect, Relational Capital

I. INTRODUCTION

Retaining current customers is a less costly, more efficient marketing strategy than acquiring new customers (Levin 1993). 'Zero defections' has been considered to be a critical business success factor. Retaining 5% boosts profits to almost 100% (Reichheld and Sasser, 1990). As Over long term, consumer become less sensitive to price, and hence there is increase in Revenue and profit. Customer retention has been a preferred strategic choice among marketers owing to the higher cost of customer acquisition. As a consequence, marketers have widely deployed Customer Relationship Management (CRM) tools to operationalize their intent and the subject has drawn significant academic attention. A dominant paradigm in academics prescribed customer satisfaction as a primary precursor to customer loyalty. But changes in business regulations across the globe and rapid technological advancement have lowered the switching barriers and thus fueling propensity to switch despite being satisfied with an existing service provider. In modern times Consumer's awareness has power-shifted in their favor and there is an ease with which they can switch to superior option at the click of a button. It has become even more frequent and convenient with advancement in technology.

Technology is fueling Consumer Switching and hence Switching Barriers are coming down. With Easy Availability and access of Information Switching Cost is reducing further. Use "intelligent agents" to locate the best prices, bid on various marketing offerings, by-pass distribution outlets and middlemen. Browsing thousands of options at a click 24X7, and with More Options there is High Tendency to switch. Shifting of Product or Service offering to Online Channels has tremendously changed the way consumer shop. Known example of this are Insurance and Education.

II LITERATURE REVIEW

A. Consumer Switching Behavior

CSB is the way customers shift from one supplier/service provider to another. In the other words, it can be defined the level of propensity of customers to switch from one product or service provider to another in a given industry or purchase situation.

Earliest attempt were done by Keaveney (1990) through his model to explain CSB using Service experience, Competition and other explicit variables. Later Bansal & Taylor (1997, 1999, and 2005) employed 'Theory of Planned behavior' with consumer characteristics like satisfaction, perception and commitment to explain CSB in field of services.

B. Barriers of Consumer Switching

A Switching Barrier is critical determinant of customer switching apart from Dissatisfaction and Loyalty. It can be defined as "Any factor, which makes it more difficult or costly for consumers to change providers" (Jones et al. 2000). It goes on explaining as to why customers may remain with service providers despite lower levels of satisfaction. The effect of core-service satisfaction on repurchase intentions was found to be reduced when customers perceived high switching barriers. Colgate & Lang (2001) discussed switching barriers as one of the main reasons of customer staying, with switching barriers having a significant positive effect on customer. Ranaweera & Prabhu (2003), examined the link between relationship marketing paradigms and switching intentions, and concluded that switching costs and barriers are negatively related with customers' switching intentions. Kaur et al (2011) claimed relationship to be as one of the critical barriers to consumer switching. Maymand et al (2013), switching costs and barriers effecting customers' switching intentions negatively.

Literature discusses three Main Barriers of Consumer Switching (Caruana 2003; Jones et al., 2000) of *Perceived switching costs*, *Attractiveness of available alternatives* and *Quality of the firm-customer relationship or Interpersonal Relationship.* Wherein, the Switching Cost is defined as the perception of the magnitude of the additional costs (i.e., time, money, and effort) that would be required to terminate an existing relationship and begin a new one (Engel, 1980). Switching is further classified into Procedural, Financial and Relational (Burnham, 2003).

In our research we focus on Relational Switching Cost using classified relational bond explained in following section this paper.

C. Relationship bonds

In relationship marketing, practitioners and theorists have contrasted the acquisition of new customers versus the retention of current customers as alternative strategies for suppliers. Relationship investment has received increasing attention from both academics and practitioners due to potential benefits for both firms and customers.

Switching barriers as relationship bonds tend to serve as constraints that keep customers from switching because they “have to”. There can be strategies for the firms which encourage the customers to remain in the relationship because they “want to”. Such a strategy was developed by Berry and Parasuraman, (2016) which suggested that relationship marketing can occur in different forms. They are classified into Financial, Social and Structural Bonds.

With Financial or Value bond, the customers are mainly tied to the firm through financial benefits and incentives, like Volume and Frequency Rewards. Service Bundling is one such strategy that depends on financial rewards directed towards bundling (attaching services of the same firm). The other factor influencing Value bond considered in our study is network effect, explained above in this work.

Social Bonds, is a stronger bond than value bond. It builds a long term relationship through social and interpersonal bonds. Social bond is critical, this bond encourages the customers to stay in a relationship. The two factors of consumer switching in our study that are being considered to affect this bond are Ease of return policy and service recovery.

Structural Bonds, is the highest level of relationship bond, and also the most difficult to imitate. Structural bonds are created by providing value added services to the customers that are frequently designed right into the service design system for that customer. Frequently, structural bonds are created by providing customized services to the customers that are technology based in a suitable infrastructure and make the customer more productive. Subscribe lock-in and asset specificity are considered to be two factors influencing this bond in our study.

D. E-services

E-Services can be defined as “Activity or series of activities that take place during the interaction between a provider and a customer through an electronic channel.” (Wilson, 1998). It can be any Web Services delivered through Internet. (Zeithaml & Bitner, 2003). In other words “A Deeds, efforts or performances whose delivery is mediated by information technology. Including the service element of e-tailing, customer support, and service delivery” can be categorized in E-services (Rowley, 2006). In an even simpler way any service employing electronic medium as mode of delivery can be termed as an E-service. Practical Examples of this are E-Commerce, CRM, Virtual Agents, and Live Chat etc.

III. CONCEPTUAL FRAMEWORK

In our literature review it was observed that Consumer switching has been so far studied using four parameters, all of which can be classified under Consumer Characteristics, Firm’s Marketing Strategy, Service Experience and Consumer Perception more or less. There seems to be a gap in terms of Variables which are in direct control of the Firm. The relational Switching cost as an important paradigm for Switching Intentions of a consumer, from an organizational tool’s perspective seems unexplored. In our research we identified Variables like Service Bundling, Subscriber Lock-in, Asset Specificity, Network Effects, Service Recovery and Ease of Return Policy, which are in direct control of firm as antecedents of Consumer Switching. These are studied using relational bond as mediator with respect to Technology Facilitated Services (TFS) i.e. E-Services.

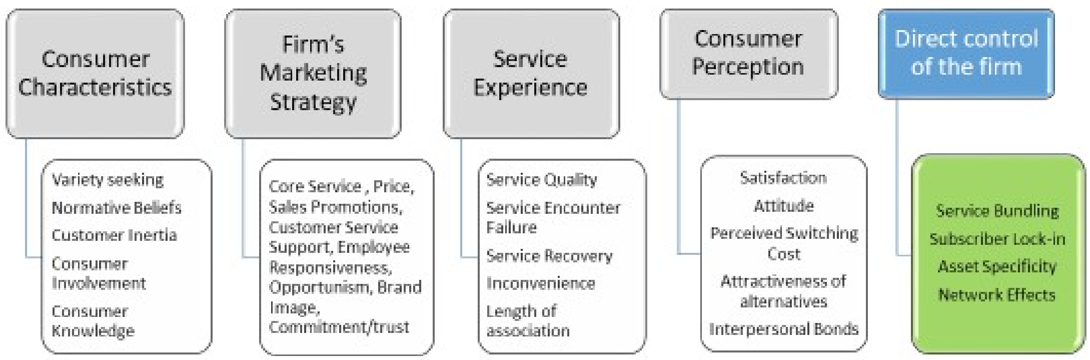

Figure1: Factors influencing and shaping CSB categorized based on previous research leading to unexplored research gap

Based on above reasoning we propose a conceptual framework of our research through a model depicting the relationship these variables with Switching Intentions of Consumer using Relationship Bond as mediator. This model is unique and comprehensive for the following reasons:

- Explanation through an integrated framework on customer switching intentions
- Investigates the role of variables specific to e-services context
- Highlights the important mediating role of relational bonds.
- Direction for firm's marketing programs in e-services context

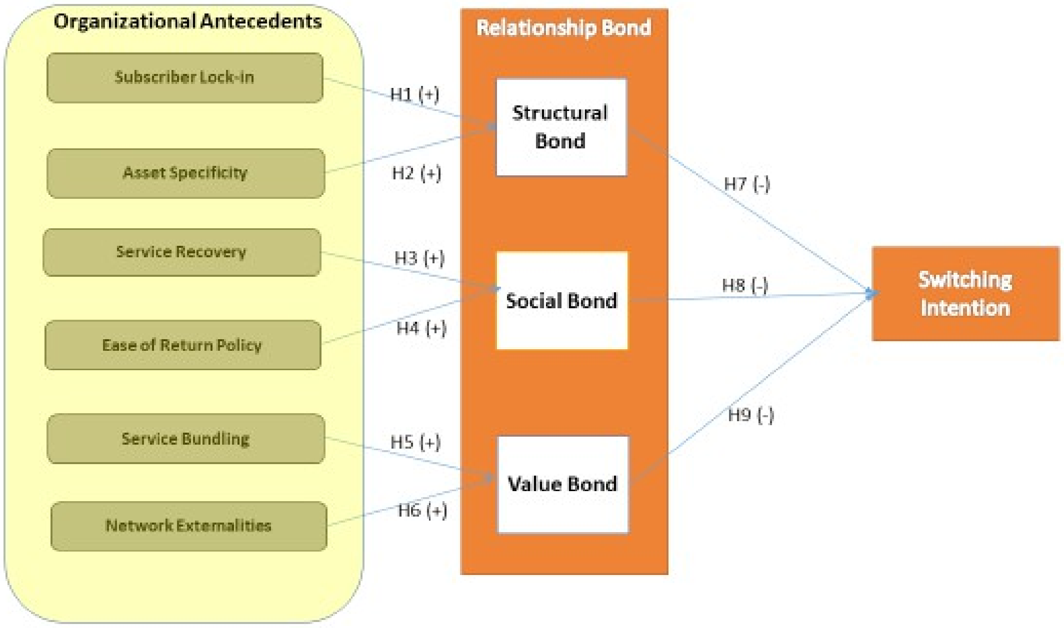

Figure 2. Research Model showing relationship between Organizational Variables and Switching Intentions

IV. HYPOTHESIS DEVELOPMENT

In following section, we elaborate the relationships represented in the model through discussions leading to hypotheses in the subsequent subsections. In preparation to test the influence of each of these variables on consumers' Switching Intensions within the framework, we generate nine hypotheses drawn from literature.

A. Subscriber Lock-in

Service providers may attempt to ''lock in'' customers to prevent them from switching to alternative products, technologies, or suppliers (Bueschken, 2004). Customer lock-in entails charging such high ''switching costs'' for changing vendors that customers are stuck. Customer lock-in involves raising customers' switching costs to the point that the cost of switching outweighs the potential benefits from switching Subscriber lock-in is the most significant switching barrier discouraging subscribers from switching decisions Subscribers can be locked in with long-term contract, fee, and memberships. Traditional methods of achieving lock-in by raising switching costs are also important in online commerce. As, Switching costs result from search costs and contractual commitments. Search costs may go down as customers move online

Hypothesis 1: Subscriber Lock-in is positively associated with Structural Bond.

B. Asset Specificity

Asset specificity refers to investments in assets that are dedicated to a particular supplier and whose redeployment entails considerable switching costs (Williamson 1985). Specific Asset Investments support a particular exchange relationship which may take different forms: they may be physical assets, monetary assets, knowledge, personal relationships, skills, and so on (Williamson 1991). Asset specificity is a very important concept because it can cause dependence on the supplier and hence discourage switching (Ganesan 1994; Joshi and Stump 1999). Asset specificity can be viewed as a type of relational switching cost (Burnham, Frels, and Mahajan 2003; Dick and Basu 1994)A consumer's investment of specific assets in a provider gives the provider some control over the consumer (Jap and Ganesan 2000). Asset specificity creates dependency because considerable switching costs are involved to replace the provider (Heide and John 1988).

Hypothesis 2: Asset Specificity is positively associated with Structural Bond.

C. Service recovery

It includes all the activities and efforts employed by a service provider to rectify, amend, and restore the loss experienced by the customer following a service failure. (Gronroos, 1988). Gronroos (1990) defines service recovery processes as "those activities in which a company engages to address a customer complaint regarding a perceived service failure". It encompasses "all the actions taken to get a disappointed customer back to a state of satisfaction" (Bell, 1994). Customer may stay with a service provider after they have experienced a problem with them because they were satisfied with the service recovery process after they had complained. Consumer punish a bad service more readily than to reward delightful service. Colgate & Lang (2001) considered service recovery as one of the reasons of customer staying in financial services industry. Yanamandam & White (2006) discussed the Impact of service recovery as reasons why dissatisfied customers stay in B-2-B services.

Hypothesis 3: Service Recovery is positively related with Social Bond.

D. Return Policy

The availability of a return policy and its return management offers the psychological benefit for overcoming buyer's remorse, which is a type of security awareness. Additionally, a return policy suggests itself into the minds of consumers as an increase in the service quality of a company, and the perceived quality of a company influences consumption decisions. Results from the cross cultural study by Changchit and Changchit (2009) between Angelo and Hispanic, revealed that, both groups ranked the availability of a return policy as one of the most important security factors.

Hypothesis 4: Return Policy is positively related with Social Bond.

E. Service bundling

Adams and Yellen (1976) describes that bundling refers to the practice of selling two or more distinct goods together for a single price. Cost savings are the key reason for taking a bundle, followed by convenience. Hong and Yu, (2014) investigated that incentive mechanism has positive effect from the discount rate by tying the product bundling within MVPD (Multi-Channel Video Programming Distribution) service provision. A report commissioned by Ofcom, Consumer Switching and Bundling (2010), reported that there is a less likely chance of switching of services in a bundle compared to standalone services. This experience mostly relates to switching any individual services within or to the bundle of services.

Hypothesis 5: Service Bundling is positively related with Social Bond.

F. Network Effect

A network effect (also called network externality) is the effect that one user of a good or service has on the value of that product to others. When a network effect is present, the value of a product or service is dependent on the number of others using it. (Shapiro and Varian, 1999). The classic example can be smartphone, where a greater number of users increases the value to each. A positive externality is created when a smartphone is purchased without its owner intending to create value for other users, but does so regardless. The expression "network effect" is applied most commonly to positive network externalities. Negative network externalities can also occur, where more users make a product less valuable, but are more commonly referred to as "congestion". Over time, positive network effects can create a bandwagon effect as the network becomes more valuable and more people join, in a positive feedback loop. If too many people use the good or service, negative network effects can occur, such as congestion. In the internet analogy, having too many users on the internet can hypothetically cause the speed to deteriorate, decreasing utility for users. Czajkowski and Sobolewski (2013) found that number portability in mobile services can be attributed to only approximately 50% of the total switching costs associated with changing either the provider or the service and the remaining part is associated with status quo inertia (Network Effect). Since network effects play an important role in service valuation, they lead to strengthening the Value bond even further.

Hypothesis 6: Network Effect is positively associated with Value Bond.

G. Relationship Bonds

Based on classification of Relationship Bonds given by Berry and Parasuraman, (2016) into Structural, Social and Value bonds, and explained earlier we have conclude following hypothesis between Relationship bonds and Switching Intensions of Consumer.
Hypothesis 7: Strength of Value Bond is negatively associated with Consumers Switching Intensions.
Hypothesis 8: Strength of Social Bond is negatively associated with Consumers Switching Intensions.
Hypothesis 9: Strength of Structural Bond is negatively associated with Consumers Switching Intensions.

V. METHODOLOGY

Our study follows an exploratory research design through Focused Literature Review and In-depth Interviews to identify the unexplored research gap in literature. We performed an extensive literature review to develop a conceptual framework which can be further employed to empirically test and support the findings.
In the next version of this paper, i.e. the verification stage, data will be collected from cities of selected country(s). Structured questionnaire-based survey was developed. Then, we plan to send it through Google link (online) and manual distribution. The questionnaire consists of two parts: part one is helping to get the biography and their experience in consumer switching; Part two of the questionnaire asks for responses on the key constructs of the research variables namely Service Bundling, Subscriber Lock-in, Asset Specificity, Network Effects, Return policy, and Service Recovery. Data will be examined using structural equations modeling (SEM) which is basically a combination of confirmatory factor analysis (CFA), and linear regression, to find out the causal relationship between the factors considered and consumers' switching Intensions in E-Services.

VI. RESULTS AND DISCUSSION

It was found that previous research laid emphasis on switching intensions and switching behavior mostly through Consumer Characteristics, Firms marketing strategy, service experience and perception of consumers. The factors which are in direct control of the firm affecting CSB are not dwelled upon. Effect of Firm driven efforts and phenomena like Network effect on CSB is observed to be an area unexplored. This study extends to examine through the developed model that how switching intensions can be influenced by employing relational bond (differentiated further into structural, social and value bond) as a switching barrier through variable like subscriber lock-in, service recovery and network externalities (+ & -), which are in direct control of the firm. Network externalities, Service bundling; Service recovery, Ease of return/ Cancellation policy of a service; Asset Specificity and Subscriber Lock-in, are proposed to be having a Positive relation with Value bond, Social bond and Structural Bond resp. All these three bonds in turn effect switching intension negatively i.e. the stronger all these bonds are, less likely a consumer is to switch.

VII. CONCLUSIONS AND IMPLICATIONS FOR THEORY AND PRACTICE

Our exploratory research indicates that besides satisfaction from core service offering, organizational antecedents such as service bundling, subscriber lock-in, asset specificity, and network value can lead to consumer switching barriers that in turn reduce switching intention. The study has important implications for theory and practice. It provides an explanation through an integrated framework from organizational aspect on customer switching intentions. It investigates the role of variables specific to organizational importance. It further goes on highlights the importance of mediating role of relational bonds with respect to consumer switching intensions as a CRM tool. Our study presents a direction for firm's relationship marketing programs in services context. How an organization can control or influence the switching intension and hence consumer switching in turn by investing in relational capital altogether from a new perspective. We give a theoretical framework here and will get back after we are done with data collection and results. As a future course of action, the model developed is empirically tested and results are verified.

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