

# Back from the brink



# An analysis of why New Zealanders remain with their service providers

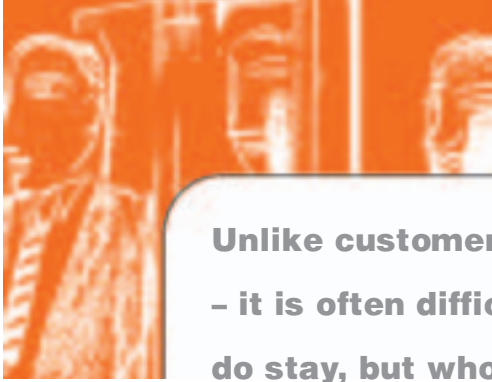
By Mark Colgate, Vicky Nguyen and Christina Lee

**W**hy do some customers carefully contemplate leaving their service providers – such as doctors, banks, internet service providers – but then decide to stay? This occurrence could be compared with marriage. Often people stay in a marriage even though they have considered (many) alternatives. These people may be deeply unhappy or simply feel the need to break free from a relationship where they feel constrained. The same is often true in business relationships; sometimes customers stay with companies even though they feel they may be better off elsewhere.

This article looks at why New Zealanders stay with their service providers, even though they have seriously considered switching. We undertook 24 in-depth interviews and then surveyed more than 340 consumers to discover these reasons and their importance. This research investigates why these potential switchers stay. What makes a customer step back from the brink and which of these “staying” reasons are the most important – these are the questions that drive this research. Ultimately, what we want to know is why don’t customers file for divorce?

This research fits under the umbrella of customer switching research. Studies under this umbrella have, however, tended to concentrate on one main theme: customer exit. Why customers





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leave, what impact exit has on profitability and what companies can do to reduce this defection rate are areas many researchers have tackled relating to customer exit (see, for example, Keaveney, 1995; Reichheld and Sasser, 1990). This type of research makes a lot of sense, as widespread customer defection can be damaging and costly to a firm, both in terms of revenue and negative word-of-mouth. Customer defection can also be easily spotted – a dentist with a dwindling appointment book may quickly realise that customers are not returning and, worse, may also be telling other customers not to come. An internet service provider, a bank and a mobile phone company will also notice this phenomenon relatively quickly. This is why customer defection research has been so prevalent over the past few years.

Our research in the banking industry in New Zealand reminded us, however, that the decision to leave is only one of the two possible outcomes of a “switching dilemma”. The banking industry here, and in many other countries, is characterised by customer inertia. High customer inertia means many customers stay, even though they have seriously considered leaving. An appreciation of the existence of customer inertia makes it easy to see that the other possible outcome of a switching dilemma, the decision to stay, needs to be researched in a manner similar to that of customer exit. This study embarks upon this research challenge.

### **SWITCHING DILEMMA**

The notion of a switching dilemma is a simple one. At certain points in time, customers are motivated to switch from their service provider. This motivation can be stimulated by many factors such as a price increase, a service failure, or a feeling that the customer is not getting the “best deal”. This motivation leads to a switching dilemma, where the customer begins to consider the costs of leaving versus the benefits of staying.

In some cases, the customer believes that the most appropriate decision is to exit, i.e. the motivations to switch are too strong. In many other cases, though, customers resolve that staying with their

current service provider is the best solution to this dilemma. In essence, the reasons to stay (or the “switching barriers” as we term them) are seen as being too high. A straightforward model of this process is shown in **Figure 1**.

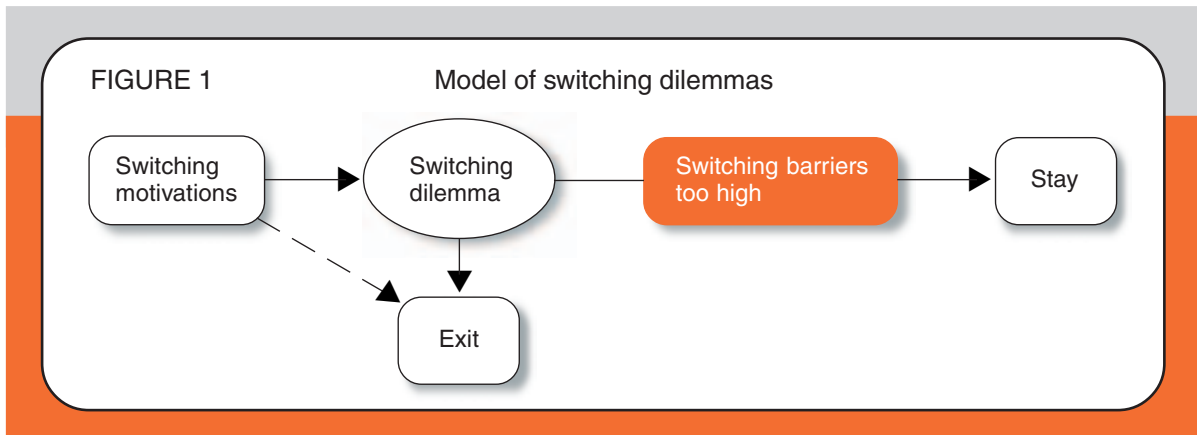
Given that much research has been undertaken on customer exit and the reasons behind this decision, we felt it was necessary to research the other side of this equation – the reasons for staying.

Overall, this study can be useful to New Zealand businesses, as it will enable us to gain insights into two different managerial issues. For managers looking to attract customers from competitors (maybe a new entrant looking to gain market share from incumbents), an understanding of the reasons as to why customers stay will assist in developing strategies and tactics to convince these customers to switch to them. Conversely, managers with many potential switchers in their customer base can use their knowledge of switching barriers to develop tactics to ensure these customers do not switch to their competitors. This research is also of importance in that, unlike customer exit, this is a “silent” problem – it is often difficult to discover customers who do stay, but who are unhappy. Understanding them, however, is just as vital.

### **CONCEPTUAL BACKGROUND**

The concept of potential switchers who stay is close to the idea of spurious loyalty (Dick and Basu, 1994). Spurious loyalty exists when customers show behavioural loyalty, but not attitudinal loyalty. That is, they buy from a company, but they won't necessarily say good things about it. Businesses with many spuriously loyal customers often face problems of reduced profitability and potential negative word-of-mouth. These customers may also be similar to “hostage” customers (Jones and Sasser, 1995). Although not all customers who consider leaving are necessarily dissatisfied, evidence suggests that many are (Colgate and Lang, 2001).

There is some literature on the topic of switching barriers (see, for example, Bendapudi and Berry, 1997; Jones, Mothersbaugh and Beatty, 2000; Ping, 1993). But this research is either conceptual or



explores the notion of switching barriers in the context of customers' *likelihood* to leave or stay. It is more compelling to investigate the reasons why consumers stay with their current service provider after a recent switching consideration (i.e. after they thought about leaving, then stayed). This means that we needed to gather reasons from a sample of people who have recently encountered a switching dilemma, indicating an actual behavioural experience. This is the unique aspect of this research.

In light of the identified gaps in the literature, the goal of this research was to provide managers and researchers with a parsimonious understanding of the switching barriers from the customers' perspective. We also sought to understand the importance of these barriers across these service categories, i.e. high-contact industries such as hairdressers and solicitors, medium-contact industries such as banks and car mechanics, and low-contact industries such as insurance and electricity companies.

## METHODOLOGY

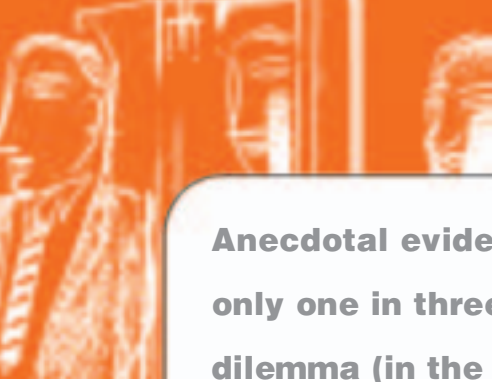
Two studies utilising different research approaches were used to tackle the questions raised. Both studies looked at the business-to-

consumer market rather than the business-to-business market. Study 1 used a qualitative research approach. In-depth interviews of customers from different service industries assisted us in exploring and identifying the perceived switching barriers. The primary goal of this study was to provide an in-depth understanding of why customers do not switch, even though they have seriously considered it. A total of 24 interviews were undertaken in Auckland. The respondents were selected based on the criteria that in the past six months they had seriously considered leaving one of their current service providers, but had decided not to leave.

The 24 respondents consisted of 10 men and 14 women ranging in age from 20 to 59 years. A total of 15 different service industries were cited. These included five from banks, three from insurance companies, two each from doctors, electricity companies and dentists, and one each from mobile phone companies, fitness centres, hairdressers, internet service providers, telephone companies (landline), airlines, credit card companies, auto mechanics, video stores and opticians. These industries allowed us to analyse a comprehensive range of service companies.

Each interview lasted approximately 45 minutes ▶

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## **Anecdotal evidence suggested that approximately only one in three people had a recent switching dilemma (in the past six months)**

and was focused on respondents' switching considerations and their decision to stay with their current service provider. The interviews were audiotaped and later transcribed. The coding process involved three judges (the three authors of this article). Two of these judges were involved in the interviewing process and the third judge, who was not intimately involved in the research, was recruited to provide a fresh perspective and to strengthen the reliability of the coding process.

The purpose of Study 2 was to empirically examine more closely the switching barriers identified in Study 1. A mail survey of service customers was conducted. A sample of 4000 consumers was randomly selected from a database of individuals from all over New Zealand with telephones. From the 4000 questionnaires that were sent out in two waves, 343 responded (9.1 per cent, after accounting for 217 "gone – no address" returned questionnaires). Although this response rate is below that of most mail surveys, anecdotal evidence when seeking interviewees for the in-depth interviews suggested that approximately only one in three people had a recent switching dilemma (in the past six months). In this respect, this response rate is most likely to be understated, in that not everyone could participate in the survey.

The final sample for the mail survey consisted of 178 males and 165 females. While the sample under-represented younger people and over-represented middle-aged people, the sample was evenly distributed in terms of household income and gender. A broad range of service industries were represented in the data (similar to those industries represented in the in-depth interviews).

Two approaches were taken to ensure reliability and validity of the questionnaire. One was the careful design and flow of the survey and the other was the pre-testing. In terms of the design, the introduction of the questionnaire acted as a filter to ensure that respondents were qualified to participate in the survey. This section allowed the respondents time to recall any relevant switching dilemma in relation to their service experiences. A list of the 15 service providers was provided at this point to

facilitate the recall process before any information regarding the service context was obtained. As the respondent might have experienced a switching dilemma in more than one service industry, only the most recent experience was requested. Respondents were asked to write down the service industry being considered and to respond to the remaining questions focusing on that particular service provider. The questions then followed a similar structure to the qualitative research in that two warm-up questions were used to enable the respondent to be familiar with the survey and the topic before reaching the "crucial question". In this respect, respondents were asked (1) what motivated them to consider switching, (2) what action they took while considering switching, and (3) why they did not switch, i.e. the switching barriers – the focus of this study.

Similarly, the survey was pre-tested using 10 subjects. The pre-tests revealed minor problems that required some of the barriers unearthed in the first study to be removed (as they were too similar to others and/or too confusing) and some reworded.

For simplicity, the two sets of interviews and questionnaire results are presented together and quotes are given from the qualitative research to illustrate how New Zealand consumers defined some of the more surprising switching barriers unearthed.

In total, 29 switching barriers, sorted into seven categories, were discovered and are presented later in this article. The aim of the qualitative phase of the research was to discover the existence of the switching barriers while the quantitative phase was designed to create statistical validity, generalisability and to highlight the most important switching barriers – something Study 1 could not do.

These categories and their explanations are given later in this article. The managerial implications of these results are then outlined.

## **RESULTS**

**F**igure 2 shows the seven categories and the staying reasons within each of these categories. These seven categories are now explained in detail

FIGURE 2

**CONFIDENCE**

- I am satisfied with my current service provider (SP)
- I am comfortable with my current SP
- I am familiar with my current SP
- I trust my current SP
- There has not been a bad enough incident to make me switch from my current SP
- I have a history with my current SP

**INERTIA**

- Time and effort involved in looking for a new SP
- Time and effort involved in switching to a new SP
- Time and effort involved in learning about the new SP
- Effort in establishing a new relationship with a SP

**ALTERNATIVES**

- No better alternatives exist
- I am concerned that the new SP may be worse
- Do not know of any alternatives to move to

**LOCKED IN**

- Current SP is convenient
- Possible problems caused by moving to another SP
- Financial cost of switching
- Future benefits of staying

**SOCIAL BONDS**

- I get on well with staff at my current SP
- I am recognised by staff at my current SP
- I know staff at my current SP
- Friendly staff at my current SP
- Staff at my current SP understand me
- My current SP has my best interests at heart

**SERVICE RECOVERY**

- A complaint I made was handled well
- A problem I had was handled well
- My current SP improved offerings

**EMOTIONAL BONDS**

- I feel a sense of loyalty toward my current SP
- I am afraid I would hurt my current SP's feelings if I left
- I'd be too embarrassed to tell my current SP that I was leaving

**STAYING REASONS**

and analysed in order of importance. From time to time, quotes are used to highlight some of the more interesting discoveries from this study.

**Confidence**

The first category is labelled “confidence” as this category indicates that customers stay because their current service provider reassures them.

Of the six individual switching barriers that make up this category, four are probably not a surprise as reasons to stay after consideration to switch: satisfaction, trust, feelings of comfort and familiarity (which is actually the most important reason of all the 29 switching barriers).

The other two barriers in this category were more of a surprise to the researchers, particularly as they represent the second and third most important barriers out of all the barriers uncovered in this study. These are a history with the service provider (second most important reason overall) and a lack of critical incident, which relates to the idea that there has not been a bad enough incident to make the customer switch (e.g. a significant service failure, such as a rude employee).

In terms of history, the following quote from a customer who decided to stay with their bank is informative.

**Two barriers in this category were more of a surprise ... these are a history with the service provider (second most important reason overall) and a lack of critical incident**



## **“Who’s to say that anyone’s going to be any better?**

**Yeah, so it definitely is the devil you know versus the devil you don’t. The lesser of two evils”**

“I think the history was quite important. I think that was the deal-breaker because they all know my history and that’s what kept me with them. So to start a relationship again with no history would be quite difficult.”

This notion goes well beyond a credit history and it relates to the idea of belonging and attachment. Customers do not want to lose the history they have accumulated. The quantitative research indicates that this is the second most important reason overall, underlining the importance that customers place on the past they have developed with a firm.

In terms of lack of critical incident, the quote below is from a customer who had used the services of a car mechanic for a number of years, but had always been unhappy with the billing and other aspects of the work. The lack of a critical incident was the main reason cited for staying.

“But I haven’t had the final push factor that kicked me out of the company because I’ve been really unhappy with service, or they’ve had some muck-up which has really upset me.”

As this was the third most important reason, it highlights the importance of avoiding making major mistakes with customers.

### **Inertia**

The second category is labelled “inertia” as it relates to hassles and problems involved in leaving a service provider, looking for an alternative, and joining a new service provider.

Overall, these barriers are probably not a surprise, although consumers talked about the effort in learning about and building a rapport with a new service provider more often than we initially imagined.

The quote below is representative of those customers who talked about the problem of learning about a new service provider and comes from a consumer who was reluctant to leave her dentist.

“Just the whole idea of having to get to know somebody else, getting to know the procedures you go through and the things you just get used to in the one service.”

### **Alternatives**

The third category relates to the perception of alternatives in the marketplace and contains the fourth and fifth most important overall reasons.

The two significant barriers within this category are “concerned new service provider may be worse” (fourth most important reason overall) and “no better alternatives exist” (fifth most important). The “fear” that consumers may end up worse off by switching was prevalent in many discussions with consumers and the quote below is a good example.

“Yeah, I guess it’s just a fear of making the change and finding out the same thing’s happening. Who’s to say that anyone’s going to be any better? Yeah, so it definitely is the devil you know versus the devil you don’t. The lesser of two evils.”

### **Locked in**

The next category relates to the idea that customers may not move if in some way they feel restrained. The two most interesting switching barriers within this category relate to the idea that customers stay because of the future benefits they may receive from staying or the perceived possible problems caused by switching. Future benefits relate to the notion that customers expect a return from the history they have with the firm and leaving would forfeit any of these potential benefits. An example of a benefit would be to receive special treatment from a long-serving provider, such as being squeezed in for a late appointment.

In respect to the possible problems barrier, this switching barrier seems to relate to disruptions caused by switching, such as having to change a mobile phone number or losing direct debits when switching bank accounts. The quote below is from a consumer who was going to switch from an internet service provider, but decided not to because of the problems associated with this switch.

“And it sort of said that we will now be your [internet service] provider ... and we suddenly thought, ‘Oh, that means we won’t have our email address and we won’t’ ... so we pulled back and we didn’t go any further.”

## Social bonds

The fifth category is labelled “social bonds” and is a positive factor because consumers decided to stay due to relationships built with staff. Once these bonds are in place they are difficult to break. Furthermore, when the consumer faces a choice in terms of a service provider, the relationship they have created with the staff at their current service provider is often a strong enough reason to hold them with this company. The quote below is from a consumer who travelled across Auckland – a major inconvenience – to see her dentist because the dentist understood her hatred of dental visits. It underlines the importance of social bonds.

“And the dentist says, ‘OK, I understand how you’re feeling. I can live with that and I can do these things to help you out’ sort of thing. So she accommodates my pathetic attitudes toward dentists.”

## Service recovery

The service recovery barrier relates to the situation where consumers receive good customer service after a problem or a complaint. It also relates to situations where consumers have told their service providers that they are thinking of leaving them for another service provider and, in response, service providers improve their offerings to keep the customers. (Although sometimes service providers improve their services offerings independently as consumers are going through the switching dilemma process.) The quote below is a good example of service recovery.

“I took them [sunglasses] straight back to the shop. I was really upset and they just managed it, no questions asked. They took them back, they apologised and kept me in touch when they were coming back, and got them back to me as soon as possible.”

## Emotional bonds

The final category is called “emotional bonds” as it relates to emotion that may become part of the switching process and this emotion is ultimately a reason for the consumer to stay. The fact that consumers will sometimes stay because they either feel embarrassed about saying to their service provider that they are leaving or that they feel they would hurt their service provider’s feelings was not expected by the researchers.

Needless to say, this was only really an issue

in high-contact service situations such as doctors or dentists. The quote below is a good example of this. In this case, the consumer did not think her doctor was very good at diagnosis or follow-up, but stayed because of the emotion involved in switching.

“The thing is I hate hurting people. I’d hate to tell him [I’m leaving], because he’s been so interested. Every time I’m there, he always asks how are the boys, how’s [the husband]. It’s not just a physical visit.”

## MANAGERIAL IMPLICATIONS

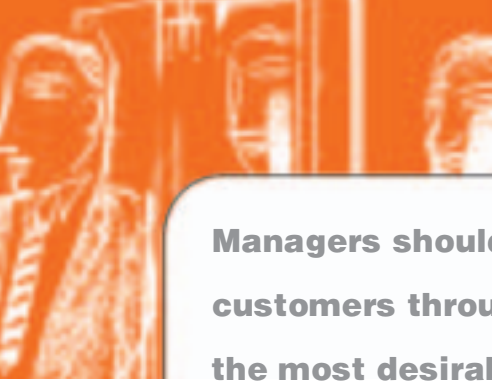
An important implication for managers is that, to a certain extent, the seven categories of switching barriers in services are under the influence and control of a service firm. It is therefore imperative for a manager to recognise and understand all of these categories. As noted at the outset of the paper, the strategic implications of the switching barriers relate to two different managerial issues. One issue relates to retaining potential switchers – understanding why they stay and building further barriers to exit. The second issue relates to strategies to attract potential switchers away from the competition (particularly new entrants who are looking to attract customers from those incumbent firms who have many potential switchers).

The most important category unearthed in this research is “confidence” – the feeling of security customers get by staying with a service provider. From the manager’s point of view, this means understanding the importance and developing trust, satisfaction, familiarity and the feeling of comfort as well as understanding the importance of history and avoiding critical incidents. The latter two are more novel research findings and we focus on these in our managerial recommendations.

In terms of the history barrier, managers of service firms should note that a long-term customer expects preferential treatment over new customers because s/he feels that personal history should count for something. This requires managers to reassure customers by recognising, understanding and demonstrating that the firm values them as customers. Managers could also assert that it would be hard for them to re-establish such a history with another provider (or it would be a long time before they could reap similar benefits). For example, being







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more lenient on an insurance claim for a customer of 10 years, offering a lower interest rate for long-term bank customers, or squeezing in a late appointment (e.g. hairdresser, dentist or doctor).

Another important barrier within the confidence factor is “lack of critical incident”, which was important across all types of service industries.

Managers must, therefore, ensure they understand the areas that create negative critical incidents and implement strategies to avoid them. The Critical Incident Technique (a research tool; see “Further reading” at the end of this article) has widely been cited in services marketing as a way of uncovering these areas.

Another important category is inertia. In terms of managerial implications, we recommend that a firm attempting to discourage customers from switching should build strategies to heighten these switching costs. In particular, through cross-selling and strategic bundling of products, service firms can effectively increase switching costs by increasing the complexity and hassle of switching. A customer who buys a “bundle” is less likely to exit even if someone offers a better deal on one of the items in the bundle. Strategic bundling and cross-selling have been applied in insurance and retail banking and may be useful in other industries. (Although managers should be aware that “locking in” customers through constraints might not be the most desirable long-term strategy. Increasing the confidence of customers may be a more positive sustainable marketing approach.)

In contrast, to attract potential switchers from competitors, service firms should consider taking the perceived hassle out of switching to their firm. For instance, approaching prospective customers and offering to handle the whole switching process for them, or educating customers about the actual switching process (where it can be made to seem less demanding).

Another important category, particularly in terms of high-contact industries, is social bonds. For many service industries, the real source of competitive advantage can be from the unmatched service attitude of the firm, especially its frontline. A team of well-recruited, well-trained, well-supported and empowered employees is likely to be perceived as friendly and caring and get on well with customers. As systems are put in place to allow for relationships to develop, the employees get to know the customers and vice versa, effectively delivering the social



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benefits that are realised by the customers who stay. We recommend strategies that track customer preference data and reward employees for using customers' names, to encourage the development of social bonds to help keep existing customers.

Finally, we discovered that many customers do not switch because of the perception that the alternatives may be "worse" or "no better". This implies that a firm looking to attract potential switchers from competitors must be superior in the customers' eyes. This suggests that differentiation by maintaining a strong reputation and brand promotion is crucial, since customers often decide to stay to avoid the risk of having to deal with another "devil", or not being any better off than their current situation.

Findings from this research suggest that switching barriers vary in terms of their significance and relative importance depending on the service industry. As the significance and relative importance of the switching barriers vary across service contexts, so would the strategies to be employed by different service industry managers.

## FUTURE RESEARCH

In terms of future research, from a buyer-behaviour perspective, consumer differences inevitably affect the switching process. Future research could explore the impact of variables such as personality traits on customers' decisions to stay with their current service provider.

Future research should also explore whether similar switching barriers exist in business-to-business contexts. The implications may be quite different in these contexts where complex organisational buying centres exist, where multiple parties are involved in purchase decisions, and consumption of the service may be far removed from the decision makers. For example, we may expect some structural bonds to be in place in a business-to-business scenario (e.g. shared equipment, knowledge) which are unlikely to exist in the business-to-consumer market.

## CONCLUSION

In marriage, we can build strong relationships with our partners if we understand why our partners stay with us. For example, knowing that trust is a key part of personal relationships means that we

need to keep building trust and avoid situations where that trust may be broken.

In terms of business research, we can also enhance relationships if we understand switching barriers. Knowledge of why customers stay will help managers retain existing customers (particularly for those businesses with a number of customers who are seriously considering switching) and help win potential switchers (for those managers looking to attract customers away from competitors).

While this research has much to offer service managers in terms of strategic suggestions, particularly in terms of creating confidence from the customer's point of view, a number of research challenges are also presented. Specifically, we believe the discovery that the history customers build with service providers is the second most important reason to stay with a service provider indicates that much more work needs to be undertaken in this area as it is relatively unexplored phenomenon in the business arena.

### FURTHER READING

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