When Does Satisfaction Lead to Loyalty? a New Perspective on the Moderating Effect of Switching Costs

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Existing studies on the moderating role of switching costs on the relationship between satisfaction and loyalty are inconclusive. A meta-analysis and four empirical studies reveal that the moderating effect follows an inverted u-shape. The satisfaction-loyalty link is strongest for medium switching costs-levels and weaker for low and high switching costs-levels.

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When Does Satisfaction Lead to Loyalty? A New Perspective on the Moderating Effect of Switching Costs

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EXTENDED ABSTRACT

Due to empirical evidence questioning the impact of satisfaction-related constructs on behavioral loyalty (Mittal and Kamakura 2001; Seiders et al. 2005), research on explaining customers’ repurchase behaviors has been broadened. Most notably, an increasing number of studies investigate the role of switching costs (SC) as moderator of the relationship between satisfaction and loyalty (e.g. Jones, Mothersbaugh, and Beatty 2000; Patterson and Smith 2003; Woisetschläger, Lentz, and Evanschitzky 2011). As these studies reveal inconclusive results, we conducted a meta-analysis and four empirical studies to investigate the moderating effect of SC on the satisfaction-behavioral loyalty link. The main contribution of this research is to resolve existing inconsistencies by suggesting an inverted u-shaped moderating effect of SC.

For the meta-analysis, we followed standard practice such as keyword and manual search of all relevant journals. As a result, we collected 231 studies conducted between 1989 and 2011. We found 77 quantitative-empirical studies of which 27 have directly assessed interaction effects between satisfaction and SC on loyalty. A review of these 27 studies reveals empirical evidence for positive as well as negative moderating effects of SC: seventeen studies report a negative interaction between satisfaction and SC, five report a positive interaction, and five find no effects. In total, our meta-analysis did not find the level of SC to be a significant moderator (β = -.187, p > .10) of the satisfaction-loyalty relationship.

Considering theoretical approaches that explain the moderating role of SC, we found evidence for two opposing effects:

First, there is theoretical evidence for a negative moderating effect (“lock-in effect”) which is particularly important for high SC. It is assumed that decreasing satisfaction levels do not result in lower loyalty if SC are high because customers face psychological and/or economic effort if they switch (Bell, Auh, and Smalley 2005; Jones et al. 2000). The benefits from switching to a more satisfying provider are encumbered by increasing SC. Thus, increasing SC weaken the satisfaction-loyalty link as intentions to switch might be hindered (linear, decreasing curve).

Second, there is theoretical evidence for a positive moderating effect (“amplifying effect”) which is particularly important for low SC. This effect suggests that increasing SC strengthen the relationship between satisfaction and loyalty (e.g. Blut et al. 2007). Research has shown that a high number of alternatives (i.e., low SC) may lead customers to choose others than their preferred providers and switch to less satisfying alternatives (Sela, Berger, and Liu 2009). One explanation for these irrational decision behaviors is customers’ need for variety (Ratner, Kahn, and Kahneman 1999; Seetharaman and Che 2009) which induces customers with low SC to switch because switching is so easy. With increasing SC, customers will no longer switch to less satisfying alternatives and satisfaction is more likely to translate into loyalty. Thus, the satisfaction-loyalty link strengthens with increasing SC at a decreasing rate (concave up, increasing curve).

Combining these two effects, the moderating effect of SC can be described as follows: The amplifying and the lock-in effect complement each other depending on the SC-level: For low SC, the amplifying effect overlaps the lock-in effect as the former increases faster. For high SC, the lock-in exceeds the amplifying effect as the latter decreases faster. Thus, the moderating effect of SC is supposed to follow an inverted u-shape. We assume the satisfaction-loyalty link to be strongest for intermediate SC-levels. Customers with low SC switch retailers due to reasons other than satisfaction (weak link). Customers with high SC are hardly able to switch regardless of their satisfaction (weak link). For intermediate SC, the amplifying effect is already strong whereas the lock-in effect is not yet strong enough to compensate (strong link).

Contrary to existing studies that propose either a positive or a negative linear moderating effect of SC, we hypothesize a non-linear (quadratic) effect:

SC moderate the relationship between satisfaction and loyalty in a curvilinear (inverted u-shaped) way. The relationship is strongest for an intermediate level of SC.

We empirically tested this hypothesis with data from four companies (grocery retailing, DIY, banking services, B-to-B services). In each of the four studies, questionnaires were sent to customers via postal mail. In total, we received 1816 (food), 5695 (DIY), 276 (banking), and 214 (B2B services) usable responses. Satisfaction and SC were measured with established scales (Fornell et al. 1996; Ping 1993). Loyalty was measured with actual purchase data (customers’ spending at the focal retailer) in two of the four industries (grocery and DIY retailing). These transaction data from the retailers’ loyalty card programs were available for 12 months (food) and 6 months (DIY) after the survey. For the other industries (banking and B-to-B services) we used an established seven-point multi-item scale (Zeithaml, Berry, and Parasuraman 1996) to measure behavioral loyalty.

Using hierarchical regressions, we find positive main effects of satisfaction (food: b = 123.17, t = 3.76, p < .01; DIY: b = 4.61, t = 2.01, p < .05; banking: b = 15.68, t = 3.56, p < .01; B-to-B: b = 90, t = 5.66, p < .01) and SC (food: b = 34.62, t = 2.57, p < .01; DIY: b = 2.39, t = 2.24, p < .05; banking: b = 11.65, t = 3.77, p < .01; B-to-B: b = 26, t = 2.78, p < .01) on repurchase behavior. We also show that the linear interaction term between satisfaction and SC is insignificant (p > .10), whereas the quadratic interaction term is significant in all studies (food: b = 20.06, t = 2.14, p < .05; DIY: b = -1.14, t = 2.23, p < .05; banking: b = -9.10, t = 2.64, p < .01; B-to-B: b = -17, t = 2.06, p < .05). The negative sign of the quadratic term indicates that the moderating effect is inverted u-shaped. Thus, our results confirm that the effect of satisfaction on loyalty is strong for medium SC and weak for low and high SC-levels.

This has important implications for customer retention management. Retailers and other service providers should consider customers’ SC-levels when defining future investments in satisfaction management. While focusing on satisfaction is a viable and rewarding strategy for customers with medium SC, it is not sufficient for customers with low or high SC.

To sum up, our paper offers new theoretical insights and contributes to a better understanding of the link between satisfaction and behavioral loyalty. It brings together the conflicting results on the moderating role of SC and gives a reasonable explanation for existing inconsistencies.
REFERENCES


