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Examining Consumer Behavior in the Liberalized German Energy Market the Influence of Customer Satisfaction on Customer Willingness to Switch Public Utility Companies

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EXTENDED ABSTRACT - In most European countries (e.g., Belgium, Denmark, Netherlands, Spain), the energy industry continues to undergo dramatic changes. Amidst a progressing liberalization of European energy markets, customer relationship management (CRM) concepts and their central goal—customer retention—are playing an increasingly significant role in the marketing considerations of energy supply companies. Yet, surprisingly little is known about the reasons why customers remain loyal to a particular energy supplier or why they switch suppliers. Energy suppliers need information on target group satisfaction and associated switching tendencies as well as customer willingness to switch utility providers. Most existing studies limit themselves to the quantitative determination of customers willing to switch.

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In most European countries (e.g., Belgium, Denmark, Netherlands, Spain), the energy industry continues to undergo dramatic changes. Amidst a progressing liberalization of European energy markets, customer relationship management (CRM) concepts and their central goal—customer retention—are playing an increasingly significant role in the marketing considerations of energy supply companies. Yet, surprisingly little is known about the reasons why customers remain loyal to a particular energy supplier or why they switch suppliers. Energy suppliers need information on target group satisfaction and associated switching tendencies as well as customer willingness to switch utility providers. Most existing studies limit themselves to the quantitative determination of customers willing to switch.

In light of previous research that has demonstrated a link between customer satisfaction and outcome variables such as customer loyalty and recommendation behavior (e.g., Mooradian and Olver 1997), the purpose of this study was to investigate the relationship between customer satisfaction and switching intentions as well as to identify switching segments. In particular, the objectives of the paper were (a) to measure the satisfaction level of private energy customers with their current energy suppliers and customer intention to switch providers, (b) to analyze the strength of the satisfaction-switching relationship, (c) to analyze the motivation of customers to either switch energy suppliers or stay with their current supplier, (d) to identify various switching types that differ with regard to their motivation for switching energy suppliers, and (e) to discuss the marketing implications of the investigation.

We particularly focused on the German market for a number of reasons. Most importantly, German consumers have been reluctant to exercise choice and few private electricity customers wish to switch energy suppliers. But despite low switching rates, there is currently an enormous expenditure by German energy supply companies on CRM concepts, which aim at retaining existing and attracting new customers (Krafft et al. 2002). Furthermore, in comparison to companies in other sectors, German energy supply companies exhibit deficits with regard to customer satisfaction and corporate reputation (e.g., Kundenmonitor Deutschland 2001). Therefore, identifying and understanding the needs of loyal customers and switchers in the German market will be particularly useful in furthering our understanding of the relationships between customer satisfaction and switching behavior.

A total of 462 customers of a large German energy supplier were surveyed regarding their perceptions and future intentions in relation to their energy provider. The questionnaire included measures of customer satisfaction, switching intentions, motivation for switching/non-switching intentions, as well as demographic items. All items included in the current investigation were derived from theoretical considerations regarding possible switching motivation (e.g., Lin, Wu, and Wang 2000). The customer satisfaction scale was developed from a mix of original and adapted scale items derived from previous studies (e.g., Hennig-Thurau et al. 2002) and consisted of eight items. Switching and non-switching motives were measured with eight items each. Exploratory as well as confirmatory factor analyses were used to assess the reliability of

all measures. Factor analyses identified two motivational factors of non-switchers (*Satisfaction/Lack of trust in other providers and Wait and see*) as well as two motivational factors for switchers (*General dissatisfaction/Relationship fatigue and Monetary-motivated curiosity*). Depending on respondents' reported intentions to switch or not to switch, they only answered the questions relevant to their intentions. In particular, those customers who had definite switching intentions were examined more closely. In the analysis, the total sample was divided into subgroups of switchers (n=139) and non-switchers (n=323) and then motives were analyzed with regard to their switching tendency.

Results using regression analysis show that customer satisfaction had a significant effect on switching intentions. As expected, those customers who were more satisfied reported lower intentions to switch energy suppliers. In addition, cluster analysis was used to more closely examine switchers. Three unique clusters were identified. The first cluster, *Dissatisfied customers*, consists of primarily older, low-income customers who are particularly dissatisfied but who place little relevance on monetary incentives. The second cluster, *Relatively satisfied customers seeking change*, consists of customers who place relatively high value on monetary-oriented curiosity but less value on dissatisfaction/relationship fatigue. The third cluster, *Dissatisfied customers seeking change*, consists of primarily young, salaried employees and civil servants for whom both motives, dissatisfaction/relationship fatigue and monetary-oriented curiosity are equally important.

Results of this study are discussed in light of its theoretical as well as practical implications. In particular, we discuss the relevance of our findings regarding the relationship marketing literature as well as prior research on the customer satisfaction—customer loyalty relationship (e.g., Jones and Sasser 1995). Furthermore, directions for future research are identified.

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