

CUSTOMER TENURE, RECOMMENDATION AND SWITCHING

Robert East, Kingston University
Wendy Lomax, Kingston University
Radhika Narain, Kingston University

ABSTRACT

In relationship marketing, the circumstances under which customers recommend services to others are of major importance. We report an exploratory study of two services, which addressed three questions related to recommendation: (1) How voluntary were the service switches? (2) What proportion of the switches was based on recommendation? and (3) Did recommendation rates decline or increase with the duration of customer tenure? We found that a substantial proportion of switching arose in circumstances over which respondents had little control. When switching was voluntary the main reason given for the choice of a new supplier was recommendation. The rate of recommendation of the current supplier *declined* with the duration of customer tenure for both services. This last finding suggests that recently acquired customers may have been undervalued in relationship marketing.

INTRODUCTION

Influence can occur via three routes: social (word of mouth, emulation), individual (personal search) or through the mass media (marketing communications, editorial). We focus on positive word-of-mouth (WOM) communications, also known as recommendation and advocacy.

Individuals vary in their propensity to advocate goods and people whose advocacy recruits new customers have more value to a supplier than those who exert little influence on others. Sometimes referral programs give incentives to existing customers to make introductions (Biyalogorsky, Gerstner and Libai 2001) but we are concerned here with naturally occurring social influence that occurs without incentives. More specifically, we are concerned

with the way recommendation rates vary in the customer base. Strong advocates must be identified if these unpaid salespersons are to be targeted and used in marketing. If we know the characteristics of strongly recommending customers, we can use databases more effectively to keep these customers and to assist them to recommend.

Recommendation is clearly an important influence. Rosen and Olshavsky (1987) found that recommendations could be used to reduce both the range of alternatives and the attributes that were assessed; thus, the advice of others can simplify and speed up choice. Brown and Reingen (1987) reviewed some early studies, which showed that WOM is the dominant effect in cases involving adoption and switching of new products. More recently, Keaveney (1995) found that recommendation was the method for selecting a new service supplier in about 50% of the cases studied. In the United Kingdom, Cody (2000) has reported similar figures for choice of dentists; 46 percent of dental patients attributed their selection to recommendation although 21 percent had grown up with their dentist and never made a choice. If they had to find a new dentist, 65 percent stated that they would use recommendation.

In a paper on the definition of loyalty, Dick and Basu (1994) suggest that repeat purchase is one of the factors that will promote recommendation. Thus more repeat purchase, indicated by a longer tenure as a customer, might be expected to raise the rate of recommendation. Similarly, Reichheld (1996) suggests that one of the ways that long-standing customers contribute more value than recent customers is by referring more new customers. Figure 1 shows how Reichheld presents the different contributions to profit as customer tenure increases. This chart has been widely quoted in textbooks such as

Heskett, Sasser and Schlesinger (1997). However, Reichheld's work seems to be based more on casework than systematic research and Dick and Basu's (1994) proposals are not supported by evidence.

Evidence is required on whether the rate of recommendation rises with customer tenure, as Reichheld's work implies. Strictly, Reichheld considers customer referral rather than recommendation. We define referral as *new customers acquired in whole or in part by recommendation*. Ideally, we would investigate referral since this is more directly related to customer value but this would require respondents to know of their success in turning a recommendation into a customer gain and this is difficult to establish. We have therefore restricted ourselves to the recommendation rate and focused on two services, supermarkets and hairdressers; these differ in the quality of the interpersonal contact between supplier and customer, and this factor may be related to recommendation. We examine the rate of recommendation as a function of both the customer's duration of tenure and their attitude toward the service. We also investigate how often recommendation is cited as the reason for choosing the customer's current supplier and we assess the freedom of choice of customers when they select a supplier.

THE ROLE OF RECOMMENDATION IN SWITCHING

Although the effects of WOM are widely accepted, it is difficult to assess how much effect this form of influence has. This lack of precision is connected to a number of factors. One problem arises from sector differences such those between services, durables, and groceries. This has several aspects. One is *constraint on choice* (Bendapudi and Berry 1997). Often, service accessibility may compel switching and WOM can have little effect when the customer has little or no choice. Lack of choice occurs, for instance, when a preferred outlet closes. Another sector difference relates to the *other channels of influence* that are available.

Reichheld (1996) suggests that credit card companies rely more on advertising and less on WOM than some other services, but we lack systematic evidence across categories on how the main influence channels (marketing communication, consumer search and recommendation) contribute to selection. More than one influence channel can operate in a decision and there may be interactions between channels, e.g. recommendation may employ facts from advertising. We expect WOM to be related to other aspects of the mix too, such as price, product specification, and availability since these also provide content for recommendation.

Services also vary in the degree of *interpersonal contact* that occurs. The provider may service the person (as in dentistry), his/her possessions (as in car servicing) or there may be little direct contact (as in supermarkets). The contact between customer and supplier can be friendly and personally oriented or detached and impersonal and Mittal and Lassar (1996) have described this quality of the contact as *personalization*. The level of interpersonal contact seems likely to be associated with the use of recommendation; for example, hairdressing switches might be more dependent on referrals than supermarkets. Another sector difference is *usage frequency*; products that are used daily, and are thus more salient, could be recommended more often than those that are infrequently used. On this basis, supermarkets would be recommended more often than DIY stores. Also, the provision in a sector may be more or less homogeneous; the more varied the provision, the more scope for recommendation.

Finally, there may be sector differences that relate to *obsolescence and renewal rates*; a product that becomes unfashionable, or which lacks new technical features, is less likely to be recommended. Conversely, when the product is prone to change, such as a fashion shop, recommendation may be maintained.

Our knowledge is also limited by the way the research questions have been framed. Questions about switching can invite responses about the

failure of the previous product, the superiority of the current product, or the effect of intervening information channels that serve to define the choice set and thus focus selection. Because questions can be put in different ways, answers may apply to one or more of these aspects of switching. For example, Keaveney's (1995) research focused on defection from a supplier. She found eight reasons for switching and recommendation was not one of these. However, Keaveney also examined how customers came to replace the service they had rejected. Eighty-five percent of her respondents had found a new supplier. Of these, approximately half had used 'word-of-mouth, references and referrals', about 20 percent used active external search and about 20 percent used advertising and promotions.

TENURE, ATTITUDE AND RECOMMENDATION

Claimed Relationships

As illustrated in Figure 1, Reichheld (1996) shows a rising return from referrals as customer tenure increases but it is not clear how this might occur. Clearly, the longer the period of tenure, the more the number of recommendations that will be made. Also, any recruits may make further referrals and thus produce a "pyramid sales" effect. But neither of these effects favors the retention of established customers over the recruitment of new customers. To demonstrate the superiority of established customers, we must show that they *currently* provide more referrals than would be provided by new customers. This depends on the rate of recommendation of established and new customers and the conversion rate of any recommendations into recruited customers.

There is no direct evidence on how recommendation rates change with tenure. Gremler and Brown (1999) conducted a study of recommendations by customers of banks and dental practices. They found an increase in the total number of recommendations with duration

but, when we divided the number of recommendations by duration, it appeared that the rate of recommendation declined from the start of the relationship. However, this is weak evidence since it is prey to recall errors, which will have different effects over different periods. A better procedure is to ask customers whether they have recommended a service in the last year (or other interval) and then to relate this to how long they have retained the service. This is what we did in the study reported later.

Underlying Processes

What processes might be involved in any association between the rate of recommendation and duration as a customer?

Four processes might increase recommendation with tenure. *First*, those who like a brand strongly are likely to stay as users longer and the concentration of these people in the long-term segment could raise the rate of advocacy of the brand if advocacy is associated with liking. This is a survival bias effect. *Second*, self-perception effects could raise the association between recommendation and customer tenure (Bem 1967). Self-perception inverts the normal causal order between retention and recommendation. Those who hear themselves recommending a product may infer that they like it and will therefore continue to buy it. These two effects thus depend upon a rise in evaluation with tenure. *Third*, increases in expertise with tenure could be associated with recommendation. This could also be mediated by increases in evaluation of the product. *A fourth* process depends on an increase in use of products with tenure; there is some evidence that long-term customers narrow the portfolio of brands they use so that surviving brands are used more heavily (Carroll and Rose 1993). Gremler and Brown (1999) found that the recommendation rate was somewhat higher among heavier users of banks and dentists.

Three processes could raise the rate of recommendation on first acquisition of a product, resulting in a decline in this rate with customer

tenure. *First*, customers exhaust their contacts and this reduces the scope for recommendation after a period as a customer. *Second*, customer tenure may correlate with product obsolescence and this suggests that the grounds for recommendation of a specific product will diminish over time. (But conversely, some services, such as fashion shops, regularly renew the offering so that recommendations can be made afresh, even to those who have already received recommendations about previous merchandise.) *Third*, it is commonly found that those who have recently acquired a product tend to show more interest in it and this acquisition arousal could raise recommendation [The arousal after purchase is often described as a dissonance effect (Festinger 1964) but this may be mistaken. Dissonance is a negative condition and occurs when a people have *insufficient* justification for a choice (Brehm and Cohen 1962), often because it was difficult to decide between alternatives. However, the difficulty of consumer choice may be over-stated; one study of car purchase found that only two percent of buyers found the choice difficult (Pearce 2000). It seems more likely that most consumers experience a positive arousal rather than dissonance when they acquire a new product. Either way, the arousal occurs on acquisition and this leads us to think there would be more recommendation at this point.]. Richins and Root-Schaffer (1987) suggested that involvement in the product raises the level of WOM and Richins and Bloch (1991) found that high involvement customers showed a decline in satisfaction with their new cars over the first two months of ownership. We should avoid equating satisfaction, involvement and arousal but this evidence is suggestive. After some time as a customer, habit is likely to set in and, in this low involvement condition, consumers are less likely to volunteer information.

Objectives

This review suggests that, although we expect recommendation to relate positively to attitude, no

clear prediction is possible about how recommendation rates are related to the duration of customer tenure. In our empirical study we examine recommendation of two common retail facilities, supermarkets and hairdressers. We seek evidence on three issues:

1. How voluntary is choice? Often location limits the services that can be used.
2. How often is recommendation cited as the main reason for choosing a new supplier, compared with other reasons? We expect that this reason will be more common for hairdressing than for supermarkets; hairdressers provide a more personalized service than supermarkets and this suggests that there will be more recommendation of hairdressers.
3. How does the rate of recommendation vary with attitude to the service and duration as a customer?

RESEARCH

Procedure

Telephone interviewing was employed using random dialing to two telephone exchanges in two London districts. Invalid, industrial, answer machine and facsimile machine numbers were discarded. Those who did not use supermarkets were excluded. Respondents sometimes refused to answer or suggested another time and this resulted in a response rate of 20 percent. One hundred female respondents were obtained in this way and data from the two districts were combined for the analyses. All respondents were asked about both supermarkets and hairdressers. Five respondents claimed to have no hairdresser, or no previous hairdresser, leaving 95 respondents in this category.

Questions

With regard to supermarkets, respondents were asked: how long they had been with their

main store, their *main* reason for switching to this store, whether they had recommended their main store in the past year, and their attitude to the store. Corresponding questions were then asked about their hairdresser. Age and income bands were also obtained. Respondents were not given response alternatives except, on a few occasions, when these were specifically requested. This procedure allowed the respondent to give either their reasons for defecting from the previous service or their reasons for opting for the current service.

Results

Reasons for Switching. We have divided the reasons given by respondents into those where the switch was made necessary by external circumstances and those where the reasons suggest choice on the part of the respondent. Table 1 indicates that many of the switches were necessitated, or at least pressured, by circumstances; this is particularly so in the case of supermarkets (56 percent versus 34 percent for hairdressers). The two main pressures for switching are moving home or changes in supplier availability.

Table 1
Reasons for Switching

<u>Supermarkets</u>	<u>%</u>	<u>Hairdressers</u>	<u>%</u>
<i>Necessity:</i>	56%	<i>Necessity:</i>	34%
Moved home	26	Moved home	18
New store built nearby	17	Closure of hair salon	16
Store closure	12		
Lift to store	1		
<i>Choice:</i>	43%	<i>Choice:</i>	65%
Recommendation	31	Recommendation	42
Range, quality, service	6	Hair looked awful, out of fashion	16
Not open convenient times	2	Regular hairdresser not available	2
Avoiding high prices	2	Avoiding high prices	2
Other	2	Other	3

In the case of hairdressers, 42 percent claimed that the main reason for switching was recommendation, which contrasts with 31 percent for supermarkets. However, when recommendation was computed as a share of the voluntary reasons, it emerged as a slightly stronger reason for switching supermarkets (72 percent versus 65 percent).

Recommendation and Tenure. Table 2 shows that the likelihood of recommending the store or hairdresser is related negatively to the duration of customer tenure in both cases. When respondents had been using the service for less than 12 months, we still asked about recommendation in the last year. This means that the reported rate of recommendation for the under-six months group of respondents probably understates the true annual rate.

Table 2
Recommendation in Last Year by Duration of Customer Tenure

Duration of customer tenure	<u>Supermarkets</u>		<u>Hairdressers</u>	
	<u>N</u>	<u>% segment recommending</u>	<u>N</u>	<u>% segment recommending</u>
<6 months	14	93	12	92
6-12 months	24	100	18	100
1-2 years	34	94	29	97
2-8 years	15	54	24	67
>8 years	13	31	12	50
Total	100		95	

The simple association between attitude and recommendation was less clear; there appeared to be some positive effect for hairdressers but none for supermarkets. Logistic regression was used to establish the contribution to recommendation of different factors. Neither income nor age was significant. When attitude and relationship duration were entered, the Cox and Snell pseudo-R² was 30 percent for supermarkets and 25 percent for hairdressers. The logistic coefficient for customer duration was significant for both supermarkets and hairdressers ($p < 0.0001$ and

$p < 0.001$ respectively); attitude was not significant for supermarkets but was significant for hairdressers ($p < 0.003$).

DISCUSSION

WOM effects are likely to depend on many factors: the respondent's freedom of choice, whether customer retention or acquisition is under investigation, the novelty and changeability of the product, and whether the WOM is positive or negative. We also expect WOM to interact with other marketing variables, such as advertising and price. To complicate matters further, it is difficult to study WOM as it occurs and researchers have to rely on consumers' reports of their behavior. Not surprisingly, work on recommendation is still poorly developed and rather exploratory. We have three principal findings to discuss. *First*, many switches of hairdresser and supermarket are involuntary or only partly voluntary. *Second*, recommendation is the main reason given for switching in these fields. *Third*, recommendation is negatively related to the duration of the relationship.

How Voluntary is Switching?

In the services chosen, involuntary switching was caused in roughly equal measure by house moves and by the opening and closing of facilities. Our data showed that a substantial proportion of switching was not freely chosen (56 percent supermarkets, 34 percent hairdressers). This is much higher than Keaveney's finding that 6 percent of critical switching incidents were involuntary but differences in method and choice of service industries may explain this. We chose services that are strongly affected by location. When an outlet closes, customers *have* to switch. But some environmental pressures encourage but do not compel action. Customers are not forced to switch to a more convenient store or hair salon when this is opened and we should, perhaps, not classify this as necessity. Such switching could be averted if there were superior quality, service

or lower prices in the current outlet, or by the strength of the social relationship when the service is personal, as in the case of hairdressing. Despite this, the accessibility of an outlet appears to be a powerful influence; marketers, using the tools of price, promotion, and quality, can make only limited headway against this strong control on behavior.

The Importance of Recommendation

Our study reveals that recommendation is the main reason given for switching (42 percent for hairdressers and 31 percent for main supermarkets). When the less voluntary switches are excluded, the proportions are even higher at 65 and 72 percent. The fact that there is little difference in the importance of recommendation between supermarkets and hairdressers was contrary to our expectation. This finding suggests that the one-to-one relationship in hairdressing may have less effect on recommendation than we supposed. We shall understand this better when a wider range of services has been studied. Supermarkets are frequently used and one possibility is that heavily used services get more recommendation. It also seems likely that the telephone interviewing method can affect the reason given for switching. More than one reason can apply and the one that is more easily recalled is likely to be favored when there is no visible response format. If a written questionnaire is employed, with personal search, advertising, and recommendation supplied as possible sources of information, social demand effects may affect the response. It seems likely that this would favor personal search.

The figures above are commensurate with Keaveney's (1995) evidence that 50 percent of new service suppliers were chosen on the basis of WOM. Keaveney's evidence appeared as a minor aspect of her paper. Most of her paper is concerned with reasons for not retaining customers and these reasons did not include recommendation. There is a danger that the pursuit of customer retention will lead to the

neglect of customer acquisition. Lost customers are mostly acquired by other suppliers and we need to understand the substantial role of recommendation in this process.

This evidence of the strong effect of recommendation in service selection does not mean that other elements in the marketing mix have only marginal effect. We assume that recommendations are made *because of* price, quality, service, or accessibility and that advertising may provide information that helps customers to frame a recommendation. Marketers need to give attention to the way in which customer recommendations use content from advertising copy and other mix factors.

Attitude and the Duration of Customer Tenure

The Attitude Measure. Our study reveals that attitude to the service is significantly associated with recommendation only in the case of hairdressing and here the effect was weaker than that of tenure. The weaker effect of attitude may be because this was not measured *relative to alternatives* as suggested by Dick and Basu (1994). The measure used was:

Do you rate shopping in your main store as ...
Very good [1]
Good [2]
Adequate [3]
Unsatisfactory [4]

It would have been better if this measure had been prefixed with a phrase such as '*Compared with other stores*'. We anticipate that a relative measure will show a stronger association with recommendation and further research in this field should use the relative form of measurement.

Spending on Acquisition Rather than Retention. Our work suggests that recent customers recommend more than longer-term customers do, so that customer acquisition carries an advantage over retention in this respect. We do not measure the conversion of

recommendations into referrals but it seems unlikely that differences here could reverse the strong effect we observed. Despite this, it will pay to adopt a strategy of retention rather than acquisition in many fields because of other considerations, particularly customer acquisition cost. However, in retail industries, acquisition costs can be modest since there are no induction costs when customers begin. Thus, in the case of industries like hairdressing and supermarkets, it seems quite possible that new customers bring more benefit than has been assumed, because of their greater recommendation rate compared with established customers. It is alarming that, years after the widespread acceptance of relationship marketing, it is still possible to conduct simple studies such as this one, which cast doubt on an important aspect of the retention strategy.

Our evidence on recommendation in relation to tenure has a practical implication for direct marketers who can target communications by duration as a customer. Referrals are sometimes promoted by reward programs (Biyalogorsky, Gerstner and Libai 2001). It seems likely that this form of promotion will be more effective among recently acquired customers since, without incentives, they recommend more than others.

Adoption Studies. Research on the diffusion of innovation has tended to maintain a separate literature from that of service switching. Convergence of these areas has been restrained by an emphasis on social structure in adoption studies (Rogers 1983) but we would argue that the two fields have much in common. Switching is normally seen as a shift of supplier within a category, while new adoptions are often, in effect, a switch in interest from one category to another. Also, many switches within the category may be influenced by a degree of innovation, which is normally a characteristic of adopted categories. Our evidence on the decline of recommendation with tenure suggests that recent adopters would recommend more than longer-term adopters. This helps us to explain short-term fashions or crazes in which an innovation spreads rapidly because, in

this context, every adopter is recent and recommendation rates will be high.

FURTHER WORK

This work was exploratory and there is a need for further investigations. We list for attention:

1. Other applications. Does the decline in recommendation with tenure hold for other product fields? We can test this for fashion stores, business services, financial services, car servicing, Internet products, medical services, durables etc. We can also examine the recommendation of new categories. A number of differences between services were cited as possible bases for differential recommendation behavior, e.g. usage frequency, innovation, and personalization.

2. More and better measures. A *relative* measure of attitude should be used. We would expect this to have more relationship with recommendation than an absolute measure. It also seems worthwhile to include a measure of relative *satisfaction* as well as relative attitude. Our view is that satisfaction will have less association with recommendation because satisfaction is a retrospective evaluative assessment relating to personal needs. Recommendations are forward looking and should take more account of the needs of others. Another small change that could be made is to ask for recommendations over the last *six months* rather than a year; this should increase the sensitivity of this measure. Also, we could ask how *many* recommendations were made in six months. We need to include other factors that may be associated with recommendation. Candidates here include *share-of-category loyalty measures* and *weight-of-category spending*. We may also investigate whether recommendations that were made occurred as a response to inquiry or were spontaneous. It seems likely that *sought* recommendations are more influential.

Widening the inquiry, we could examine the level of *negative WOM* among users and we could try to find out how many recommendations are converted into referrals.

3. Alternative methods for gathering data.

Telephone interviewing stops response format effects but it is prey to low response rate. We do not think that representative sampling is important at the exploratory stage but we favor a method that gives a high response rate, e.g. drop and collect.

4. Wider analysis. It is of interest to know how *attitude changes with tenure*. Several possible ways in which recommendation might rise with tenure were suggested that were based on an increase in evaluation with duration as a customer. If there are no systematic effects we may exclude these explanations. When more than one service is investigated with the same respondents *mavenism* (Feick and Price 1987) could be tested for; this is a generalized tendency to recommend.

REFERENCES

- Bem, Darryl J. (1967), "Self-Perception: An Alternative Explanation of Cognitive Dissonance Phenomena," *Psychological Review*, 74, 183-200.
- Bendapudi, Neeli and Leonard L. Berry (1997), "Customers' Motivations for Maintaining Relationships with Service Providers," *Journal of Retailing*, 73, 1, 15-37.
- Biyalogorsky, Eyal, Eitan Gerstner and Barak Libai (2001), "Customer Referral Management: Optimal Reward Programs," *Marketing Science*, 20, 1, 82-95.
- Brehm, Jack W. and Alan R. Cohen (1962), *Explorations in Cognitive Dissonance*, New York, Wiley.
- Brown, Jacqueline J. and Peter H. Reingen (1987), "Social Ties and Word-of-Mouth Referral Behavior," *Journal of Consumer Research*, 14, December, 350-362.
- Carroll, Peter and Sanford Rose (1993), "Revisiting Customer Retention," *Journal of Retail Banking*, 15, 1, 5-13.
- Cody, Emma (2000) "I Heard it Through the Grape Vine" - An Investigation into the Effect of Word of Mouth Referrals on Switching Behaviour within the Dental Industry," Master's dissertation, Kingston University Business School.
- Dick, Alan S. and Kunal Basu (1994), "Customer Loyalty: Towards an Integrated Framework," *Journal of the*

- Academy of Marketing Science*, 22, 2, 99-113.
- Feick, Lawrence, F. and Linda L. Price (1987), "The Market Maven: A Diffuser of Market Place Information," *Journal of Marketing*, 51, 83-97.
- Festinger, Leon (1964), *Conflict, Decision and Dissonance*, Stanford, California, Stanford University Press.
- Gremler, Dwayne D. and Stephen W. Brown (1999), "The Loyalty Ripple Effect: Appreciating the Full Value of Customers," *International Journal of Service Industry Management*, 10, 3,
- Heskett, James L., W. Earl Sasser and Leonard A. Schlesinger (1997), *The Service Profit Chain*, New York, The Free Press.
- Keaveney, Susan M. (1995), "Customer Switching Behavior in Service Industries: An Exploratory Study," *Journal of Marketing*, 59, 71-82.
- Mittal, Banwari and Walfried M. Lassar (1996), "The Role of Personalization in Service Encounters," *Journal of Retailing*, 72, 1, 95-109.
- Pearce, Lucinda (2000), MA dissertation, Kingston University Business School.
- Reichheld, Frederick F. (1996), *The Loyalty Effect*, Harvard Business School Press.
- Richins, Marsha L. and Peter H. Bloch (1991), "Post-Purchase Product Satisfaction: Incorporating the Effects of Involvement and Time," *Journal of Business Research*, 23, 2, 145-159.
- Richins, Marsha L. and Teri Root-Schaffer (1987), "The Role of Involvement and Opinion Leadership in Consumer Word-of-Mouth: An Implicit Model Made Explicit," In Michael J. Houston (Ed) *Advances in Consumer Research*, Provo, UT, Association for Consumer Research.
- Rogers, Everett M. (1983), *Diffusion of Innovations*, 3rd Edition, New York, Free Press.
- Rosen, Dennis L. and Richard W. Olshavsky (1987), "A Protocol Analysis of Brand Choice Strategies Involving Recommendations," *Journal of Consumer Research*, 14, December, 440-444.

Send correspondence regarding this article to:

Robert East
Kingston University
Kingston Hill
Kingston KT2 7LB
Surrey, ENGLAND
