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Securing business-to-business relationships: The impact of switching costs

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A B S T R A C T

While the relationship marketing literature acknowledges the importance of switching costs for increasing customer retention, little is known about its relevance in industrial markets. In particular, it is unclear whether switching costs, and associated dimensions, impact on behavioral outcomes of buyer–seller relationships in business-to-business (B2B) markets. In order to contribute to theory development in this important area, our research first explores the dimensions of switching costs for the B2B domain and also tests the relative impact of these dimensions on business customers' actual purchase behavior. Results suggest that switching costs in B2B settings are a multi-faceted construct, including (i) procedural, (ii) financial, and (iii) relational switching costs. Moreover, we find relational switching costs to be most important for securing B2B buyer–seller relationships since they impact a customer's (a) share-of-wallet, (b) cross-buying behavior, and (c) actual switching behavior. While procedural switching costs only influence share-of-wallet, financial switching costs solely impact customer's cross-buying behavior. These findings contribute to a better understanding on how to secure B2B buyer–seller relationships.

1. Introduction

Investigating predictors of customer repurchase behavior is at the core of research in the field of business-to-business (B2B) relationship marketing. While established drivers such as customer perceived value, customer satisfaction, and trust have received considerable attention in the industrial marketing literature, surprisingly little is known about the relevance of switching costs (Anderson & Mittal, 2000; Dall'Olmo Riley & de Chernatony, 2000; Payne & Holt, 2001; Szymanski & Henard, 2001; Yanamandram & White, 2006).

Switching costs are defined as the customer's perception of the magnitude of additional costs required to conclude the current relationship, and secure an alternative supplier (Blut, Frennea, Mittal, & Mothersbaugh, 2015; Jackson, 1985; Ping, 1993; Porter, 1980; Yanamandram & White, 2006).[1] Unsurprisingly, it seems, management practice and tactics are often aimed at increasing switching costs through introducing loyalty schemes or offering unique customer solutions. Recent examples in the B2B context include General Electric's 2014 ‘Innovation at work’ television campaign or Lufthansa's PartnerPlusBenefit loyalty program.

Managers making investment in switching cost-increasing measures assume that these activities will strengthen customer relationships. Due to higher specific investments and a greater complexity of the purchasing process in the B2B context, it is perhaps reasonable to expect that switching costs are of even greater importance in interorganizational settings than they are in business-to-consumer (B2C) markets.

Interestingly however, a recent meta-study on the effectiveness of switching costs across different contexts indicates that perceived switching costs generally show a weak average correlation with switching intention ($r = -.090$, $p < .05$). Even more surprisingly, this study points out that switching costs are more effective in consumer markets than they are in industrial markets ($r_{B2C} = -.113$ versus $r_{B2B} = -.065$) (Pick & Eisend, 2014). The low association between switching costs and switching intention for industrial clients may be interpreted in the light of two characteristics that apply to the majority of research in the B2B switching cost literature.

First, switching costs are usually conceptualized as a one-dimensional construct (e.g., Geiger et al., 2012; Sengupta, Krapfel, & Pusateri, 1997). With regard to the switching cost literature however, it can be assumed that switching costs represent a multi-dimensional construct consisting of several sub-dimensions or facets (e.g., Burnham, Frels, & Mahajan, 2003; Jones, Mothersbaugh, & Beatty, 2002). It may be that some switching costs were of greater relevance for securing B2B relationships than others.

Second, most research investigating outcomes of switching costs has relied on self-reported purchase behavior (Blut et al., 2015). Thereby, given that self-reported measures of purchase behavior usually do not

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[1] Usually, switching costs studies examine the perceived costs of switching instead of real costs (although this examination would be interesting) (Jones et al., 2000). Therefore, whenever we use the term switching costs in the manuscript, we refer to the costs perceived by the customer.

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perfectly correspond to actual purchase behavior, switching costs may show differential effects for actual behavior compared to self-reported purchase intentions (Blut, Evanschitzky, Vogel, & Ahlert, 2007; Blut et al., 2015; Chebat, Davidow, & Borges, 2011; Wirtz, Xiao, Chiang, & Malhotra, 2014; Woisetschläger, Lentz, & Evanschitzky, 2011).

Summing up these arguments, it is unclear whether the meta-analytic finding of a rather weak association between switching costs and switching intention in B2B markets truly reflects business reality or is merely a result of methodological and conceptual shortcomings of the meta-analyzed studies. Against this background, our research intends to deepen understanding of the relative impact of switching cost dimensions on customer behavior in industrial markets by:

(a) Conceptually developing and empirically exploring the dimensional structure of switching costs, as perceived by industrial customers.
(b) Examining the precise impact of switching cost dimensions, on the purchase behavior of industrial customers.

Given the lack of consensus on the dimensionality of switching costs in B2B markets (Barroso & Picón, 2012), our research employs a mixed-method design, and is organized as follows. Study 1 explores the dimensionality of switching costs in the B2B domain, drawing on input gained from 38 in-depth interviews with B2B customers of staffing agencies. Based on the identified dimensions, and using a sample of customers of a European supplier of chemical products and related services, Study 2 assesses the relative impact of switching costs on actual purchase behavior. Finally, we discuss our findings on the relative impact of switching costs from both managerial and academic perspectives.

2. Study 1: conceptualization of switching costs

2.1. Study purpose and method

In order to develop our understanding of the dimensions of switching costs, we conducted a qualitative study, conducting in-depth interviews with 38 staffing agency customers who had recently switched service providers. Interviewing those that have switched service providers is crucial, since we want to understand the dimensions of the switching cost construct. To ensure reliable recall by respondents, we followed a procedure suggested by Keaveney (1995), verifying that termination of the customer relationship had occurred within a six month time period prior to the interviews. We then identified within each company those responsible for the switching decision. Those that were interviewed held titles such as vice president, human resources manager, or operations manager; indicating that in B2B businesses a broad variety of functions are involved in switching matters.[2] On average, respondents had about eight years of industry experience, indicating considerable expertise in their field.

Interviews were conducted by means of open-ended surveys. On average, interviews lasted an hour and half, resulting in a total of approximately 60 interview hours. All interviews were recorded, and the transcripts were assessed with the aid of the QSR NVivo software. One designated author conducted all interviews and transcriptions, in order to avoid problems such as variation in recording or inter-interviewer bias. Data coding was accomplished iteratively by means of an inductive categorization method (Spiggle, 1994; Strauss & Corbin, 1990). Identification and categorization of relevant factors related to the switching decision was processed by two of the authors.

2.2. Results

Responses from the interviews allowed us to identify factors that made it difficult to switch from the current provider. Our results indicate that customers differentiate between eight facets of switching costs, which can be assigned to three higher-order dimensions (Table 1). With regard to the latter aspect, we found that switching costs in industrial markets can be distinguished into procedural, financial, and relational switching costs according to the conceptualization of Burnham et al. (2003).[3]

First, procedural switching costs involve the expenditure of time and effort in locating, adopting, and using a new brand/provider as well as the uncertainty associated with this process. In our interviews, we found that the participants referred to the following costs, and relate them to the process of switching to alternative suppliers: uncertainty costs ($n = 14$), pre-switching search and evaluation costs ($n = 24$), post-switching behavioral and cognitive costs ($n = 15$), and setup costs ($n = 17$). Respondents typically associated the process of switching providers with levels of uncertainty and risk, and the potential for negative outcomes. Respondents noted that switching also requires them, as customers of a new company, to acquire skills and know-how in order to effectively use new products or services. Moreover, they perceived switching to be difficult and costly, particularly because of the burdensome measures required to gather necessary information. Finally, switching necessitates some time and effort in order to set up a new business relationship.

Second, financial switching costs involve the loss of financially quantifiable resources, including monetary losses (e.g. fees to break contract, initiation fees to adopt a new brand or provider) and lost benefits (e.g. loss of reward points, preferred access, or special status). Respondents mentioned financial switching costs as a significant concern in the decision to change provider. These costs include the loss of specific privileges and benefits, or lost performance costs ($n = 24$) and sunk costs ($n = 19$). Our interviews revealed that the loss of industry expertise when switching to an alternative service provider is an important switching cost (Goff, Boles, Bellenger, & Stojack, 1997). Respondents stated that they rely on a service provider's expertise to provide individualized service solutions, which saves on their operating costs. Moreover, these clients had made specific investments that would be lost when switching to a new provider.

Third, relational switching costs involve the loss of identification and emotional bonds with both the brand/provider and any employees with who the customer interacts. In our interviews, the participants argued that not only do impersonal (i.e. brand) relationships ($n = 9$) prevent them from switching to alternative suppliers, but personal relationships ($n = 15$) do as well. They found it difficult to switch because that meant breaking bonds.

Comparing the explored dimensions of the switching cost construct in our research setting, with a recent conceptualization suggested by Barroso and Picón (2012) in the insurance industry for professional clients, we make the following observations: First, our study identified three dimensions of switching costs (procedural, financial, and relational) consisting of eight facets. Barroso and Picón (2012), who recently examined one of the most comprehensive conceptualizations of switching costs in an industrial context, tested six dimensions of switching costs and combined them to an overall switching cost measure. In our conceptualization, we observe that participants of the in-depth interviews explicitly link the eight facets to three higher order switching cost dimensions. Hence, it appears that the main motivation for customers not to switch is either related to the process of switching (procedural switching costs), to financial losses (financial switching costs), or the breaking of relationships (relational switching costs).

[2] Please note that we did not find differences across the diverse participants in our qualitative interviews.

[3] A comprehensive assessment of this conceptualization is provided by Blut et al. (2015).