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Mitigating customers' negative responses to physical presence reduction

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ABSTRACT

Building on the social exchange theory and presumption of a firm's multi-channel strategy as a customer relationship management initiative, three experimental studies show that: (1) reducing physical presence negatively affects customers' perceived relationship investment and trust and increases their switching intention; (2) to mitigate these negative effects, firms should engage in strategic decisions that benefit customers and are perceived as highly strategic. This research offers new insights suggesting that customers' appraisals of firms' strategic decisions influence their switching intention through the sequential operations of perceived relationship investment and trust. These findings are consistent for both services and retail contexts, highlighting the importance of firms engaging in strategies that are deemed to be unfavorable in the eyes of their customers to be perceived as highly committed to maintaining relationships with their customers.

1. Introduction

Many firms today follow a multi-channel strategy of offering customers various contact points. While numerous firms initially embraced this strategy to increase their sales, they have now started to use it as a strategic tool to build and enhance relationships with their customers, with a long-term objective of creating memorable customer experiences (Sorescu et al., 2011). These efforts to improve the multi-channel strategy may have reshaped the way that customers do business with firms and vice versa, especially as firms now integrate interactive technologies into their multi-channel strategy. One noticeable trend is the high conversion rate from offline customers to online/mobile customers, making traditional channels obsolete (Varadarajan et al., 2010). Oversaturation of the marketplace with physical stores is thus not surprising. In fact, many firms have reduced their number of stores, and experts believe that this trend will continue (Farfan, 2014).

In the highly competitive retail market, closing a fraction of physical stores seems to be a reasonable option for firms engaging in a multi-channel strategy, especially when they notice that customers are increasingly becoming digital-savvy and making fewer trips to physical stores (Walker, 2014). Managing a massive number of physical stores is no longer an attractive option as firms are pressured to be more efficient in their operations (Konuş et al., 2014). For instance, in the U.S., having realized that more consumers have shifted to online shopping, department stores such as JC Penney, Sears, and Macy's have closed multiple stores (www.hiper-com.com); in the U.K., the banking giant, Barclays, planned to close 400 branches as more of its customers embraced online and mobile banking (Maddock, 2013). While prior research has shown that firms consider this to be a viable strategy (Srinivasan, Sridhar, Narayanan, and Sihi, 2013), it is not clear how consumers would react.

Current research regarding the use of a multi-channel strategy has largely examined firms' motivations to engage in this strategy and the constraints on that engagement, the challenges firms face when executing multi-channel strategies, opportunities for synergies across channels, and multi-channel mix decisions, as well as customer behavior in the multi-channel environment (Carlson et al., 2015; Dholakia et al., 2010; Zhang et al., 2010; Pantano and Viassone, 2015). With the exception of one study (Benedicktus et al., 2010), very limited research has looked at the role of physical store presence in a multi-channel strategy. In general, that research demonstrates that, compared to pure e-firms, customers perceive hybrid firms with a physical presence to be more trustworthy, especially if they are not well known or lack a positive customer review. However, recent work has found evidence that eliminating one search channel from existing multi-channel operations affects purchase incidence, order size, channel choice, sales, and profits (Konuş et al., 2014). Clearly, researchers have not yet addressed the effects of channel reduction, especially of a cutback of physical stores, which constitute a channel that historically has been the center of direct interactions between the firm and its customers. Hence, this research addresses this issue by investigating the negative effects of reducing firms' physical presence and strategies to mitigate such effects. This investigation is timely and relevant given the current trend of multi-channel strategies; therefore, it could offer

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insights so that practitioners do not blindly follow the current trend but instead make informed decisions when revitalizing their multi-channel strategies. Moreover, this is intended to ensure that firms' decisions to reduce their physical presence will have minimal impact on both consumers and firms.

Drawing on social exchange theory, and through three experimental studies, we demonstrate that reducing the number of physical stores will have a negative effect on consumers' perceived relationship investment, consumers' perceived trust, and consumers' switching intention (Study 1). Study 2 then shows that, in the context of multi-channel services, for consumers who perceive store reduction as a highly strategic motive, offering benefits to customers is encouraged as a means of increasing perceived relationship investment and perceived trust. Study 2 also confirms the role of perceived relationship investment and perceived trust as sequential mediators linking the firm's strategy and consumers' perceived strategic motives to consumers' switching intention. Study 3 successfully replicated Study 2 in the context of multi-channel retailing.

The rest of the paper is organized as follows. We first review the theory underpinning this research. We subsequently present the three studies that test our hypotheses. We conclude with a discussion of the theoretical and managerial implications of our findings.

2. Theoretical background

Social exchange theory rests on the fundamental principle that human behavior is a product of an exchange of rewards between parties (Zafirovski, 2005). The defining characteristic of social exchange theory is reciprocal interdependence, whereby one party's action leads to another party's response (Molm, 1994). In particular, when a party supplies a benefit, the receiving party is expected to respond positively (Gergen, 1969). That is, the receiving party should feel grateful when receiving benefits from the giving party and thus engages in positive behaviors toward the giving party (Blau, 1964).

Social exchange theory has motivated firms to build and maintain relationships with their customers (e.g., Morgan and Hunt, 1994). Given that the theory focuses on the exchange of benefits between parties, a reasonable assumption is that reciprocity exists between firms, which facilitates transactions by means of their functional capabilities and enabling characteristics, and customers, who emotionally and cognitively respond to the firms (Blau, 1964). Over time, as interdependent transactions occur between firms and their customers, trusting, loyal, and mutual commitments develop (Cropanzano and Mitchell, 2005).

In the context of this study, firms' multi-channel strategy constitutes one approach to regulating customer relationship management (Kumar and Venkatesan, 2005). Firm availability through various contact points certainly offers more convenience, which customers largely perceive as a further enhancement of their consumption experience. In fact, employing a channel mix allows firms to better satisfy their customers' needs by exploiting the strengths of one channel to overcome the weaknesses of another (Zhang et al., 2010). Hence, such a strategy could strengthen the relationship between the firm and its customers and translate to positive customer responses, such as an increase in purchase (Ansari et al., 2008) or customer loyalty (Neslin and Shankar, 2009).

Social exchange theory is the overarching theory for this research, which seeks a clear understanding of (1) the negative effects of physical presence reduction in a multi-channel context on customers' perceptions and behavioral intentions and (2) the potential relationship marketing tactics that firms could employ to mitigate such negative effects. Study 1 addresses the first objective while Studies 2 and 3 address the second objective.

3. Study 1

Social exchange theory asserts that when a firm invests abundant resources that are perceived to be highly beneficial for customers, the psychological link between the firm and its customers grows into a more committed relationship (Blau, 1964). However, the exchange relationship between these two parties could suffer damage when a firm decides to take away some of its previously-invested resources. Using this analogy, this study asserts that a firm's decision to establish and maintain multiple contact points would require a high level of investment and a firm chooses to do so not only to better reach its customers, but also to strengthen its relationship with them. However, a firm's decision to reduce the number of physical stores could jeopardize the exchange relationship with its customers, particularly because customers may perceive such a move as limiting access to the firm, that is, taking away some of the resources from them (Bagozzi, 1995; Braun et al., 2016). When such perception occurs, customers' perceived relationship investment - that is, customers' perception of the extent to which a firm devotes resources, effort, and attention to maintaining or enhancing relationships with customers (Park and Kim, 2014) - could be negatively influenced. This perception also has the potential to influence their future interactions with the firm (Doney and Cannon, 1997). Prior research has found that a damaged relationship between the firm and its customers may lead customers to engage in other negative behaviors, including switching (e.g., Anto´n et al., 2007). Consequently, this study contends that a reduction in the number of physical stores will influence customers' intention to switch to another service provider. This study investigates this variable because, owing to the high cost of acquiring new customers, firms prefer to retain their current customers (Ko et al., 2008), and market-related variables have the strongest influence on switching costs (Pick and Eisend, 2014).

Prior research further shows that customers infer a firm's trustworthiness through its physical presence (Fuller et al., 2007). This suggests that customers associate a strong physical presence with the firm's reliability and integrity; thus, reducing the number of physical stores could potentially damage the pre-established relationship between the two parties. Customers might further perceive this reduction as a cost-focused initiative (Srinivasan et al., 2013) that signals a firm's financial difficulties. All of these reactions could be detrimental by negatively affecting the customers' perceived trust in the firm, which is important in maintaining long-term relationships (Toufaily and Pons, 2017). Perceived trust refers to customers' confidence in a firm's reliability and integrity (De Wulf et al., 2001). Therefore:

Hypothesis 1. a,b,c Reducing the number of physical stores leads to **(a)** lower perceived relationship investment, **(b)** lower perceived trust, and **(c)** higher switching intention.

3.1. Study context

The first two studies in this paper focused on one particular financial services sector, that is, the banking context, for two reasons. First, most banks have long embraced the multi-channel strategy and use a combination of offline, online, and mobile presence to reach their customers (Fonseca, 2014). Many banks worldwide, such as the Bank of America in the U.S., Barclays banks in the U.K., Danske Bank in Denmark, and ANZ bank in Australia, have reduced their physical presence as a high proportion of bank customers have now adopted Internet and/or mobile banking. Therefore, it is essential to understand the importance of the reduction of physical presence from these customers' perspective. Second, customers generally stay with their banks for a long period of time and interact frequently with their banks, using various channels for transaction purposes. These interactions thus strengthen a pre-established relationship between customers and their banks (Roy et al., 2015). Hence, this context fits well with the proposed theoretical framework, which assumes the existence of an interdepen-