



## Antecedents of peripheral services cross-buying behavior



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### ABSTRACT

This study is the first attempt to empirically investigate the determinants of a key type of relationship breadth extension strategy for retailers – buying of peripheral services. Assessing customers' relationship and value perceptions, we find that convenience and social benefits significantly influence peripheral services cross-buying. Notably, our study demonstrates that the factors stimulating customers to cross-buy peripheral services in a retail setting differ from those previously found in other contexts. For instance, commitment and payment equity, considered crucial for stimulating cross-buying behavior in prior research, do not appear to be a significant driver for peripheral services cross-buying in the retailing context. The findings suggest that to increase the breadth of customer relationships, retailers should focus on strengthening the social benefits customers perceive from the relationship and increasing key antecedents of convenience.

### 1. Introduction

In order to improve customer lifetime value (CLV), retailers are increasingly trying to extend relationships with their customers (Kamakura et al., 2005). The “breadth” of a buyer-seller relationship is defined as the number of additional (different) products or services purchased from a company over time, and is commonly viewed as customer cross-buying or add-on buying behavior (Bolton et al., 2004). Cross-buying has been associated with customer retention, revenue generation, switching costs, and loyalty (Aurier and N' Goalla, 2010; Reinartz et al., 2008) and is therefore vital for a company's stable financial development.

Despite its obvious relevance, the breadth dimension of a buyer-seller relationship is a relatively unexplored issue and little research has attempted to identify the drivers of cross-buying (Aurier and N' Goalla, 2010; Kamakura et al., 2005; Kumar et al., 2008). The few studies that attempted doing so (e.g., Aurier and N' Goalla, 2010; Hong and Lee, 2012; Verhoef and Donkers, 2005; Verhoef et al., 2007, 2009) are primarily set in the financial services industry, which is characterized by contractual relationships and relatively high perceived switching costs. As such, it is unclear whether findings are generalizable to other (non-contractual) industries and industries with low switching costs.

For instance, in contrast to the financial services industry, buyer-seller relationships in a retailing context are generally not governed by a contract that predetermines the length and the monetary value of the

relationship. Rather, customers may change the provider with virtually no economic switching costs (Nagengast et al., 2014; Reinartz and Kumar, 2003) even when having purchased multiple products from a particular provider. Because the assortment offered by one retailer often resembles the competitors' assortment, customers do not experience any switching costs. Also, unlike many financial services, a natural order in which products are purchased does not exist. This makes predictions about which product a customer is most likely to buy next on the basis of current product ownership difficult. Although Kumar and colleagues (2008) were among the first to assess drivers of cross-buying in a non-contractual (retail) setting, even their study does not provide insights into an arguably more important type of relationship breadth extension: cross-buying of services.

Trying to encourage cross-buying of services might be a particularly suitable way to deepen customer relationships in retailing because services do not require shelf space that would otherwise be used to display tangible products. Further, given that most retail firms sell similar products (Berry, 1986), offering peripheral services serves as a means for a firm to differentiate from competitors (Tokman et al., 2007; Zeithaml et al., 2014) because service benefits cannot be easily copied (Zeithaml et al., 2006). Services also provide a source of additional revenue and profits as they tend to have higher profit margins than (most) products (Reinartz and Ulaga, 2008). Moreover, compared with products, services help retailers enhance the often superficial relationship with product-only customers, potentially lead-

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ing to more and deeper individual relational interactions with the firm (Frank et al., 2014), helping to establish a personal touch that ties customers to the firm longer (Lemon and v Wangenheim, 2009). As such, cross-selling services should be more attractive for retail firms than simply selling additional products.

Considering the above benefits for retail firms to augment the cross-buying potential of current customers with services, our key contribution to the literature is to provide insights into the drivers of such cross-buying behavior. We do so by testing a conceptual framework, linking customers' relationship and value perceptions to service cross-buying behavior against a sample of 5667 customers of a do-it-yourself (DIY) retailer, relying on 24 month of purchase data as well as survey data on antecedents of peripheral services cross-buying behavior.

## 2. Conceptual framework and hypotheses

To stimulate cross-buying, retailers offer intangible peripheral services along with multiple categories of products. For the purpose of this study, we define peripheral services purchase behavior as *purchasing service(s) that are facilitative or ancillary to the core good being purchased* (Ozment and Morash, 1994). In a typical DIY retail context, such services may include landscaping, installment of garden equipment or interior design consulting services. Marketers wishing to stimulate the consumption of peripheral services may need to adapt their marketing strategies substantially due to the inherent differences between products and services (Zeithaml et al., 2006). A review of literature suggests that both value and relationship perceptions are important and can influence customer's cross-buying behavior (Bolton, 1998; Reinartz et al., 2008; Bolton et al., 2004).

In accordance with the subjective utility theory (Oliver and Winer, 1987), each customer tries to maximize his/her subjective utility obtained from the products and services provided by the retailer. As subjective utility depends upon current satisfaction and price perceptions (Bolton, 1998), it is argued that both quality and payment equity are crucial (Verhoef et al., 2001; Ngobo, 2004; Yavas and Babakus, 2009), which are key aspects of perceived value (Kerin et al., 1992). Thus, the decision to purchase peripheral services will not only depend upon the assessment of merchandise quality already provided by the retailer but also on price fairness, i.e. payment equity. Also, the literature has acknowledged convenience as an important aspect of customer perceived value (Ngobo, 2004) as it helps the firm to create value from the customer's perspective (Seiders et al., 2000). Hence, we take merchandise quality, payment equity and convenience as key aspects of value perceptions.

Extant literature demonstrates that relationship marketing also plays a key role as cross-buying is affected by behavioral loyalty (Henning-Thurau et al., 2002). In this context it is argued that both relational benefits as well as relationship quality approaches are important for understanding relationship marketing (Henning-Thurau et al., 2002). Relational benefits approach assumes that for long term relationships, both service provider and customer must benefit from the relationship (Gwinner et al., 1998); the basic assumption of the relationship quality model is that the customers' decision to continue relationship with a provider depends on their evaluation of the relationship (Morgan and Hunt, 1994). Hence, we draw on both approaches to understand relationship perceptions; social benefits reflect perceptions of relational benefits, while perceptions of relationship quality are reflected in commitment.

Considering the above, we build on the research frameworks developed by Bolton et al. (2004) and Rust et al. (2004), and focus on the roles that value perceptions and relationship perceptions play. With respect to value, we examine perceptions of price, merchandise quality, and shopping convenience (Seiders et al., 2000, 2005) with respect to relationship, we examine customer commitment (Moorman et al., 1992) and social benefits (Gwinner et al., 1998; Henning-Thurau et al., 2002). Fig. 1 provides the conceptual framework of this research.

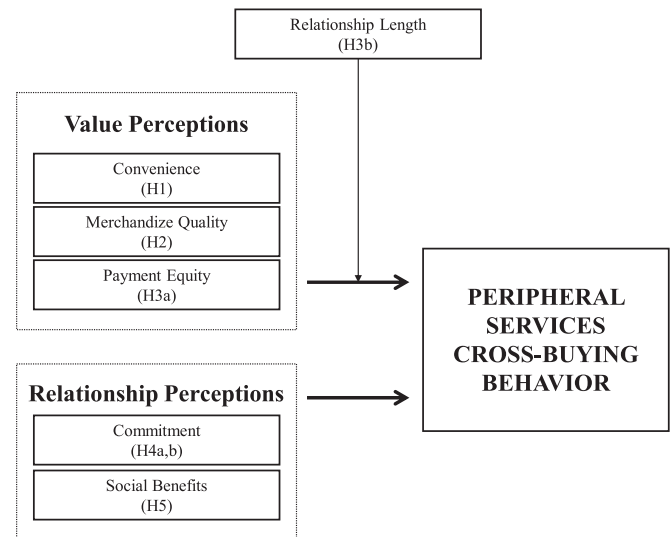


Fig. 1. Conceptual model of peripheral services cross-buying behavior.

In the next sections, we propose individual hypotheses on the effect of value perceptions, as well as relationship perceptions, on peripheral services cross-buying behavior.

### 2.1. Convenience

Convenience is defined as the customer's perceived degree of avoidance of time and effort associated with the entire shopping process (Berry et al., 2002). Previous literature suggests that perceived convenience of one-stop shopping is positively related to customer cross-buying (Ngobo, 2004). With respect to time and effort minimization, if it is easy for customers to access a store that offers peripheral services along with multiple categories of products, we argue that customers are more likely to satisfy their demand for additional services at this focal provider. For customers facing a "make-or-buy" decision, e.g. choosing delivery vs. self-transport, peripheral services could offer a key means for reducing customers' time and effort input to economic exchange. Therefore, we argue that:

**Hypothesis 1.** Convenience has a positive effect on peripheral services cross-buying behavior.

### 2.2. Merchandise quality

Past literature suggests that customers should be more willing to purchase additional peripheral services from the same focal provider who offers high overall merchandise quality (Bolton et al., 2004; Jeng, 2011). Considering findings from the literature, we argue that satisfaction with merchandise quality will have a positive effect on peripheral services purchase behavior in the following way: Very often, retailers offer similar "merchandise quality" (Babakus et al., 2004) in terms of quality standards, offered brands and availability across their product categories. Customer satisfaction with the merchandise quality of already purchased categories should therefore spill over to their decision to purchase peripheral services in additional categories, and this should stimulate customers to satisfy their demand for additional services at the focal provider. Therefore, we propose that customers are able to carry over high perceptions of merchandise quality of a provider's product categories to peripheral services as satisfaction with merchandise quality may provide an indication for a provider's ability to perform the promised service dependably and accurately in future with peripheral services.

**Hypothesis 2.** Merchandise quality has a positive effect on peripheral services cross-buying behavior.

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