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Contrasting the Drivers of Switching Intent and Switching Behavior in Contractual Service Settings

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Abstract

We examine consumer switching decisions in contractual service settings and contrast the drivers of actual switching with those of switching intent. We surveyed a panel of subscribers to all cell phone service providers in a market and recorded key marketing mix data. At four months intervals, we asked panel members about their switching intentions and then subsequently observed actual switching behavior. Consistent with construal level theory, our findings show that switching intent is explained by only a handful of desirability- or outcome-related variables (i.e., overall satisfaction, performance perceptions of important attributes, and monetary switching costs). In contrast, the results show that many more variable categories contributed to explain actual switching behavior. These findings confirm that switching intent is driven by a qualitatively different set of variables than switching behavior. Implications for theory, research and practice are discussed.

Keywords: Switching behavior; Switching intent; Construal level theory; Marketing-mix

Introduction

In this paper, we investigate and contrast the drivers of customer switching behavior and switching intent in contractual service settings.[3] Customer defection is a fact of life in the business world. However, it is more serious for contractual services as a firm often loses all future cash flow from that customer relationship until the customer potentially switches back. Furthermore, there is a convex relationship between the churn rate and customer profitability (Blattberg, Kim, and Neslin 2008), and sizable customer defections can have a particularly devastating effect on the bottom line of contractual service providers (Keaveney and Parthasarathy 2001). It is thus especially important for a contractual service firm to develop effective and proactive policies for targeted retention efforts (Lovelock and Wirtz 2011). To achieve this, marketers must first understand the driving forces behind customer defection and ideally improve their ability to predict who is going to defect at any given time.

Consumers' self-reported intentions are widely used in academic and applied research because they are considered easy-to-collect proxies of behavior (Chandon, Morwitz, and Reinartz

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[3] We define a contractual service as any service where a customer establishes an account with the service provider (on- or off-line settings) and intends to use the service continuously. Cell phone services and bank accounts are examples where customers would normally visit a service outlet, sign formal documents, and establish a contractual relationship. Online brokerage and cable services, on the other hand, are examples where customers establish the business relationship through phone calls or online. Some transactional services have also been strategically shifted from a conventional transactional business model to a contractual relationship format. For instance, Netflix's customers pay a monthly subscription fee for unlimited movie streaming instead of paying per viewing (e.g., iTunes). We also observe that many retailers and other service providers entice their customers with discounts if they spend above a set usage level or pre-load to their membership cards with a sizable amount of money. These practices are all with the purpose to lock in customers and make their switching more costly and difficult.

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2005). However, customers routinely provide inaccurate predictions about their future behavior (Seiders et al. 2005). We collected consumers' information on both switching intention and actual switching, which allows us to explore potential systematic biases that customers may have when predicting their own likelihood of switching. Specifically, we test the construal level theory (Liberman, Trope, and Stephan 2007) for the first time in a switching context, whereby when expressing switching intent consumers are predicted to systematically over- and under-weight decision-relevant outcome and process variables, respectively. Furthermore, we contrast the effects of the often hard-to-collect marketing mix variables in the switching literature (e.g., advertising spent and distribution network density) which we expect to have a stronger impact on switching behavior than on switching intent.

Switching Intent Versus Actual Switching Behavior

Switching intent represents the customer's self-reported likelihood of terminating a current service relationship, whereas actual switching is the objectively observed act of switching to another provider. A number of studies show a strong link between satisfaction and loyalty intentions, but do not establish a relationship with actual repeat purchase behavior (Gupta and Zeithaml 2006). Despite the claim that customer switching is linked to dissatisfaction (or loyalty to satisfaction), few studies relate satisfaction ratings to actual switching behavior (Gupta and Zeithaml 2006). One notable exception is Bolton and Lemon (1999) who build a dynamic model to quantify the relationship between customer satisfaction and subsequent usage incorporating zero usage which implies switching in the model. Another exception is work by Seiders et al. (2005) who show that the link from satisfaction to repurchase behavior and expenditure is moderated by customer moderators (involvement and household income), relational moderators (the age of the relationship and relationship program participation) and market place moderators (competitive intensity and convenience of offering), and that these moderators affected behavior in a different manner compared to intent. The other is Bolton, Lemon, and Bramlett (2006) who show that design and experience quality increases the probability of contract renewals in a B2B context.

The importance of examining the drivers of intent versus actual behavior is further emphasized by recent research that has shown that customers are not very good at predicting repeat purchases and, as a result, repurchase intent is often not a good predictor of actual repurchase behavior (cf. Gupta and Zeithaml 2006). Inferences based on intentions can be misguided if there are significant differences between intentions and subsequent switching behavior, or if common method variance inflates the coefficients between satisfaction and switching intent but not those between satisfaction and actual switching (Mittal and Kamakura, 2001). Therefore, it is important to explicitly examine the extent to which results converge when using switching intent versus actual switching behavior as the dependent variable (Seiders et al. 2005).

The literature highlights a number of potential reasons for the discrepancies between reported intent and actual behavior. These include methodological reasons, such as high common method variance, same response biases (Mittal and Kamakura, 2001) and self-generated validity issues (Chandon, Morwitz, and Reinartz 2005), changes in the true intentions over time caused by changes in decision relevant variables (Sun and Morwitz 2010), individual level differences such as income, education and other demographics (Morwitz and Schmittlein 1992), product involvement, interest, and the ability to make accurate predictions of behavior, and qualitative differences whereby consumers are viewed as cognitive misers, who lack the motivation and cognitive ability to accurately incorporate contingencies into the process of predicting their purchases (Seiders et al. 2005). The latter two categories are consistent with findings by Morwitz, Steckel, and Gupta (2007) who have shown that intentions are more correlated with purchases for existing rather than new products, for durables rather than non-durables, and over short rather than longer time horizons. Controlling for these factors improves the correlation between intent and behavior as has been shown by Sun and Morwitz (2010) who have built a comprehensive model that significantly improves the prediction of purchase.

A potentially relevant theory that goes beyond empirical work in the past and that has not been applied to the switching intent versus switching behavior discrepancy is construal level theory. A critical distinction between switching intent and actual switching is that the former reflects a response to a hypothetical situation, whereas the latter is an action that is actually carried out. Recent research on construal level theory (for a review see Liberman, Trope, and Stephan 2007) shows that when people feel an event is psychologically distant (e.g., when the event is hypothetical), they tend to focus on the "central" aspects of the event such as the desirability of the event or its outcomes (e.g., a better price or better service). In contrast, when people feel an event is psychologically near (e.g., when it is going to happen in the immediate future), they tend to focus on the procedure involved in carrying out the action (e.g., the time and effort involved in achieving the outcome). These effects have been shown in various contexts (e.g., Zhao, Hoeffler, and Zauberman 2007), but not in consumer switching. Extending construal level theory to the switching context, we expect that customers will focus more on the central aspects of switching (e.g., price, quality, and monetary switching costs) when expressing switching intent. However, the procedure involved in carrying out the action (e.g., nonmonetary switching costs) will be more salient in predicting actual switching. Construal level theory and the relative importance of desirability factors (i.e., outcome) versus feasibility factors (i.e., process) have not been explored before in the context of switching of contractual services although switching costs in terms of time and effort and inertia feature highly in the literature (Pick and Eisend 2014).

Finally, some variables may even be completely discounted when expressing switching intent because they typically do not feature in customers' rational decision models, although they still may drive actual switching (cf. Polo and Sese 2009). For example, it seems likely that customers are not aware or at least underestimate the impact of a focal provider's advertising (expenditure) relative to that of its competitors when expressing