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New Insights in the Moderating Effect of Switching Costs on the Satisfaction–Repurchase Behavior Link

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Abstract

Existing studies on the role of switching costs (SC) as moderator of the relationship between satisfaction and repurchase behavior are inconclusive. We attempt to explain these inconclusive findings by synthesizing an amplifying and a lock-in effect, and hypothesize a nonlinear moderating effect. In Study 1 (a main study and three replications), we find strong evidence for an inverted u-shaped moderating effect of overall SC. Our results suggest that satisfaction is a particularly important predictor of repurchase behavior in situations characterized by medium-levels of SC. Based on Prospect Theory, Study 2 (a main study and one replication) reveals that this inverted u-shaped moderating effect of SC is stronger for positive (relational and financial) SC than for negative (procedural) SC. We conclude with recommendations for satisfaction management of different customer segments, and describe possibilities to influence customer switching costs in various industries.

Keywords: Customer satisfaction; Switching costs; Repurchase behavior; Customer retention management; Hierarchical regression; Prospect theory

Introduction

Todays' retailers direct substantial marketing resources toward improving customer satisfaction (e.g., Gómez, McLaughlin, and Wittink 2004). However, the financial outcomes of these investments are lower than is often assumed, because positive attitudes do not necessarily translate into behavioral aspects of loyalty (for a review, see Kumar, Pozza, and Ganesh 2013). As research on explaining customer repurchase behavior has broadened (e.g., Evanschitzky et al. 2012; Mittal and Kamakura 2001; Reinartz and Kumar 2000, 2003; Seiders et al. 2005; Voss, Godfrey, and Seiders 2010), empirical evidence questioning the impact of satisfaction-related constructs on customer behavior and financial outcomes has increased as well. Most notably, an increasing number of studies investigate the role of switching costs (SC) as a complementary explanation for observed behavior (Kumar, Pozza, and Ganesh 2013).

Research has recently clarified facets of the SC construct, including its dimensions and measurements (Burnham, Frels, and Mahajan 2003; Colgate et al. 2007; Jones, Mothersbaugh, and Beatty 2000, 2002; Jones et al. 2007; Lam et al. 2004; Patterson and Smith 2003). SC are often defined as the costs (time, money, and effort) involved in switching from one provider to another (Burnham, Frels, and Mahajan 2003; Heide and Weiss 1995). This widely accepted definition includes monetary as well as nonmonetary costs; for the purpose of this study, therefore, we define SC as *monetary and nonmonetary costs a customer faces when switching to a new provider* (Dick and Basu 1994; Pick and Eisend 2013).

In addition to this definition, research has also classified SC into different types (e.g., Blut et al. 2014; Burnham, Frels, and Mahajan 2003; Jones, Mothersbaugh, and Beatty 2002; Patterson and Smith 2003). Some authors distinguish between psychological SC (e.g., interpersonal relationships) and economic SC (e.g., search costs) (Marshall et al. 2011; Wathne, and Heide, 2001). Others categorize SC into learning, transaction, and artificial costs (Klemperer 1987; Nilssen 1992).

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Arguably, the most accepted categorization of SC is suggested by Burnham, Frels, and Mahajan (2003), who distinguish "relational," "financial," and "procedural" SC. Jones et al. (2007) argue that because relational and financial SC result from positive sources of constraints (e.g., loss of privileges, forgone loyalty card points, loss of special treatment), they are classified as "positive SC." In contrast, procedural SC are derived from negative sources of constraints (e.g., search time, travel costs), and represent negative SC (Jones et al. 2007). In other words, positive SC are foregone benefits from the current relationship when switching to a new provider, whereas negative SC represent actual losses associated with the switching process.

SC are understood to influence customer behavior directly as well as indirectly. A recent meta-analysis of Pick and Eisend (2013) has summarized their main antecedents as well as their direct effect on switching. Considering different industries, the authors have shown that SC reduce switching and play an important role when explaining customers' repurchase behaviors. Our study aims to extend these findings by considering not only the direct effect of SC on repurchase behavior but also their moderating effect. Notably, the moderating role of SC on the relationship between satisfaction and repurchase behavior has received considerable attention (e.g., Bell, Auh, and Smalley 2005; Jones, Mothersbaugh, and Beatty 2000). However, individual empirical findings are inconclusive and theoretical reasoning is somewhat thin. While some studies find positive moderating effects (e.g., Patterson 2004; Yang and Peterson 2004), others reveal negative moderating effects (e.g., Anderson, Fornell, and Lehmann 1994; Jones, Mothersbaugh, and Beatty 2000; Patterson and Smith 2003) or find no significant moderating effect (e.g., Burnham, Frels, and Mahajan 2003; Lam et al. 2004) of SC on the satisfaction-repurchase behavior link. On that basis, our research intent is to shed light on the moderating effect of SC on the satisfaction–repurchase behavior link. In particular, we set out to make three contributions:

(1) We theoretically derive a nonlinear (inverted u-shaped) moderating effect of SC on the relationship between satisfaction and repurchase behavior by synthesizing two opposing effects: a negative moderating effect ("lock-in effect") and a positive moderating effect ("amplifying effect").
(2) We empirically test the nonlinear moderating effect of overall SC across different settings.
(3) We show that different types of SC (i.e., positive and negative) exert different moderating effects on the satisfaction–repurchase behavior link.

Beginning our article with a meta-analytical synthesis of empirical studies that investigate the moderating effect of SC, we find evidence for positive as well as negative effects. We then theoretically argue for an inverted u-shaped moderating effect of SC on the satisfaction–repurchase behavior link. In Study 1, we test the moderating effect of *overall SC* in a food retail setting (Study 1a) and further generalize findings with data from do-it-yourself (DIY) retailing (Study 1b), retail banking (Study 1c), and a business-to-business (B-to-B) setting (Study 1d). In Study 2, we take a more nuanced view, testing the moderating effects of *different SC types* in a retail banking setting (Study 2a) and replicating the effects in a B-to-B setting (Study 2b). The paper concludes by discussing explicit implications for theory and management practice.

The Moderating Role of Switching Costs: A Meta-Analytical Review

A large number of empirical studies have examined factors moderating the relationship between customer satisfaction and behavioral aspects of loyalty (for an overview, see Seiders et al. 2005). Among these, several empirical studies specifically investigate the moderating role of SC, making a meta-analytical synthesis of these findings viable.

To identify relevant studies, we employed an extensive literature search in scientific databases such as Ebsco, Proquest, ABI/Informs, and Elsevier Science Direct, searching for terms such as "switching cost(s)" and "switching barrier(s)." In total, we collected 240 studies conducted between 1989 and 2012.[1] From these, we identified 86 quantitative-empirical manuscripts, of which 32 directly assess interaction effects between customer satisfaction and SC on repurchase behavior. Some of the 32 studies test the moderating effect of SC in more than one sample, thereby providing a total of 47 individual samples for our first analysis.

Of the 47 samples, 21 find support for a negative interaction between satisfaction and SC on repurchase behavior, 10 find a positive interaction effect, and 16 find no evidence for a moderating effect (see Table 1). A chi-square test indicates that the effects across the three categories (negative, positive, and insignificant interaction effect) are equally distributed ($\chi^2(2) = 3.87, p > .10$). Hence, no conclusions can be drawn on whether SC exert a positive, a negative, or no moderating effect.

To gain a first impression about the shape of the interaction effect, we examined all 86 empirical studies, investigating the satisfaction–repurchase behavior link in more detail. For each study we coded effect size and level of SC. Among the 86 studies, 18 studies provide sufficient information to warrant including them in our meta-analytical assessment. These 18 studies provide information about 42 effects on the customer satisfaction–repurchase behavior link. Of these, 33 effects (79 percent) were based on the Pearson correlation coefficient, and 9 effects (21 percent) were correlations derived from the beta coefficient (Lipsey and Wilson 2001). As well, 38 effects (90 percent) examined "self-reported repurchase intentions" as the dependent variable, while 4 effects (10 percent) investigated "objective repurchase behavior."

We split the SC variable into three equal-sized groups (low, medium, and high levels of SC) to plot the mean correlations for each of these groups (see Fig. 1). First, we coded the mean levels of SC (based on correlations or regression results). Next,

[1] We used 1989 as the starting year because, to the best of our knowledge, the first important empirical study on the topic was published that year. A list of all 86 studies is available upon request.