ELSEVIER

CrossMark

Journal of Retailing 90 (2, 2014) 275–290

Journal of Retailing

The Impact of Service Characteristics on the Switching Costs–Customer Loyalty Link

Markus Blut[a,*], Sharon E. Beatty[b], Heiner Evanschitzky[c], Christian Brock[d]

[a] Newcastle University Business School, Marketing Subject Group, 5 Barrack Road, Newcastle upon Tyne NE1 4SE, UK
[b] Culverhouse College of Commerce, University of Alabama, P.O. Box 870225, Tuscaloosa, AL 35487-0225, United States
[c] Aston Business School, Aston Triangle, Birmingham B4 7ET, UK
[d] University of Rostock, Ulmenstr. 69, 18057 Rostock, Germany

Abstract

This research investigates the interrelationship between service characteristics and switching costs and makes two contributions to the service retailing literature: (1) As a means of better understanding the effectiveness of switching costs, the study suggests a two-dimensional typology of switching costs, including internal and external switching costs and (2) it reveals that the effect of these switching costs on customer loyalty is contingent upon four service characteristics (the IHIP characteristics of service). We carried out a meta-analytic review of the literature on the switching costs–customer loyalty link and created a hierarchical linear model using a sample of 1,694 customers from 51 service industries. Results reveal that external switching costs have a stronger average effect on customer loyalty than do internal switching costs. Moreover, we find that IHIP characteristics moderate the links between switching costs and customer loyalty. Thus, the link between external switching costs and customer loyalty is weaker in industries higher in the four service characteristics (as compared to industries lower in these characteristics), while the opposite moderating effect of service characteristics for the internal switching costs–loyalty link is noted.

Keywords: Switching costs; Service retailing; Service characteristics; Customer relationships; Hierarchical linear modeling; Meta-analysis

During the last decade, an increasing number of studies have contributed to understanding the construct of switching costs, defined as "the perceived economic and psychological costs associated with changing from one alternative to another" (Jones, Mothersbaugh, and Beatty 2002, p. 441). Recently, researchers have clarified the construct, while also developing useful measurement scales of it (Burnham, Frels, and Mahajan 2003; Jones, Mothersbaugh, and Beatty 2002). Moreover, research has identified the mechanisms through which switching costs influence important relationship marketing outcomes, such as customer loyalty, word-of-mouth behavior, and customer commitment (Dwyer and Schurr 1987; Heide and Weiss 1995; Jap and Ganesan 2000; Jones et al. 2007; Lam et al. 2004; Ping 1993).

Retail managers often use switching costs as a means to encourage customers to stay with the firm. Since most retailers offer a wide variety of services (e.g., restaurants, e-commerce websites, financial services), important questions are whether switching costs are effective in retaining customers for the various retail services, and if so, which types are most effective.[1]

Research that tests the impact of switching costs on customer loyalty has produced inconsistent results (as our meta-analytic review will show). These inconclusive findings may be a consequence of a number of factors, including the type of service industry and the type of switching costs. The need to study contextual factors is underlined by a recent meta-analysis by

* Corresponding author. Tel.: +44 191 208 1707.
E-mail addresses: markus.blut@ncl.ac.uk (M. Blut), sbeatty@cba.ua.edu (S.E. Beatty), h.evanschitzky@aston.ac.uk (H. Evanschitzky), christian.brock@uni-rostock.de (C. Brock).

[1] We acknowledge a broad view of retailing, in which retail is defined as the sale of goods and *services* from individuals or businesses to the end-user (Retail, 2013). Many traditional service organizations (e.g., telecommunications companies) are clearly retailers selling both products and services to consumers in *retail* stores. Thus, while the line between retailers and service providers is a bit blurry, using the term, retail service providers (i.e., firms focusing on selling goods or services to consumers), seems appropriate and will be generally applied throughout this article.

http://dx.doi.org/10.1016/j.jretai.2014.04.003

Pick and Eisend (2013), in which they found a surprisingly weak overall effect of switching costs on switching intention ($r = -.090$). The authors note that switching costs affect switching intention in service industries ($r = -.108$) but not in goods industries ($r = .054$).

However, the retail service industry is heterogeneous (Zeithaml and Bitner 2003), and whether the impact of switching costs also differs *between* retail service industries remains untested. Thus, our study attempts to examine the effectiveness of different types of switching costs across retail service industries serving the consumer market (Pick and Eisend (2013) did not assess differences across retail service industries).

More general characteristics of services, including intangibility, heterogeneity, inseparability, and perishability (referred to as the IHIP characteristics), might be useful in assessing the effects of switching costs on important outcomes such as customer loyalty. While studies suggest that different types of switching costs vary in their relevance across service industries (Burnham, Frels, and Mahajan 2003), it remains unclear how these costs interact with service characteristics. Against this backdrop, we contribute to the literature in several ways.

First, we offer a two-dimensional conceptualization of perceived switching costs, differentiating between an internal and an external dimension. We distinguish between (a) internal switching costs, which are costs primarily rooted in an individual customer's expertise, skills, or ability relative to considering a switch and (b) external switching costs, which are costs based on the benefits provided by the provider to encourage the customer to stay.

Second, we examine whether the effects of both types of switching costs on customer loyalty are contingent upon four service characteristics. Particularly, we test (a) whether an interaction effect exists between service characteristics and switching costs, (b) the direction of this effect, and (c) whether the four service characteristics affect perceptions of switching costs equally.

This study begins by providing a brief overview of the dimensionality of switching costs and the IHIP-classification of services. After deriving our hypotheses, we employ meta-analytic techniques including 183 correlations from more than 33,268 customers to test our basic assumption that whether the link between switching costs and customer loyalty varies across different types of switching costs and across different retail services industries (Study 1). Study 2, using data from 51 retail service industries and 1,694 customers, along with expert ratings on service characteristics, provides further evidence for the impact of IHIP characteristics on the effectiveness of switching costs. Finally, we discuss the results of both analyses and the associated managerial implications.

Service Characteristics, Switching Costs, and Customer Loyalty

The Internal/External-Switching Costs Typology

Switching costs are "the perceived economic and psychological costs associated with changing from one alternative to another" (Jones, Mothersbaugh, and Beatty 2002, p. 441). These costs are "search costs, transaction costs, learning costs, loyal customer discounts, customer habit, emotional cost and cognitive effort, coupled with financial, social, and psychological risk on the part of the buyer" (Fornell 1992, p. 10).

Burnham, Frels, and Mahajan (2003) suggest a three-dimensional typology: (1) procedural, (2) financial, and (3) relational switching costs. Procedural switching costs relate to an individual's perceived effort of information gathering and evaluation of the necessary steps involved in switching. They capture the expected costs associated with information gathering prior to changing a service provider (preswitching costs), costs anticipated with evaluation of a new service provider (uncertainty costs), costs associated with the establishment of a new relationship (setup costs), and the costs expected relative to learning the routines and procedures of a new provider (postswitching and behavioral costs). Financial switching costs arise from structural bonds imposed by the provider. They capture costs stemming from specific benefits that could be lost when switching from a current provider (costs of lost performance), and from previous investments that could be lost if the customer switched (sunk costs). Third, the provider's relationship-building efforts result in relational switching costs. Cases in which the customer must break a bond with a provider-brand (brand relationship costs) or with a customer-contact employee (personal relationship loss costs) can result in emotional discomfort for the customer.

Procedural switching costs are rooted primarily in the individual, who may lack the expertise, skills, or ability to gather the necessary information associated with the switching process, to evaluate alternative service providers, or to learn the procedures and routines of the new firm, all of which make switching more difficult. We refer to these as *internal switching costs*. On the other hand, the provider sets up financial and relational switching costs in order to create additional benefits or bonds that can bind the customer to the firm.[2] We refer to these costs as *external switching costs*. We expect these switching costs will differ in their impact on customer loyalty given theories such as information processing and expectancy disconfirmation. While information processing theory suggests that consumers need a good understanding about the service offering in order to overcome internal switching costs (making them ineffective), expectancy disconfirmation theory argues that a good understanding of the service offering helps managers to develop external switching costs that meet the customer expectations (making them more effective) (Oliver 1993).

The goal of this study is to derive new insights into the effectiveness of switching costs across service industries by applying this two-dimensional typology. This is useful for two reasons. First, the literature argues that in evaluating services vs. goods, customer expertise often plays a greater role in decision-making because the individual is actively involved in service creation

[2] With respect to sunk costs, Jones, Mothersbaugh, and Beatty (2002, p. 443) argue that "... much of the time and effort required to establish and maintain a service relationship involves interpersonal dimensions."