Why Do They Leave? An Examination Of The Reasons For Customer Defection In The Business Banking Industry

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Abstract

The paper builds on the previous research in the loyalty and customer defection literature, and explores the reasons for customer switching in the business-to-business banking market. The aim of the research was not only to provide qualitative description of the reasons for customer switching, but also to quantify the proportions of customers who switched from service providers for particular reasons. Despite many claims in the literature as to the role of service excellence in customer retention, in the current study, service-related problems were found to account for less than 10 percent of all the defections. Conversely, the majority of respondents claimed non-competitive fees and charges to be the main reason for their switching. The paper also discusses the distinction between the reasons that are beyond the influence of the service provider, and those that are within the control of the service provider, along with implications for marketing theory and practice.

Key words: customer defection, service, reasons for defection, business-to-business

Introduction and Background

While much academic research focuses on customer satisfaction, a side stream of research calls for an exploration of those for whom these efforts have failed, namely customers who have left the company. It is thought that those (former) customers of a brand can illuminate the reasons for customer defection (Reichheld and Sasser, 1990).

Intuitively, it is assumed that people who terminated a relationship with a company were dissatisfied or disappointed with the company's offering, and this can be remedied. It is a widely shared belief in the industry that if the company can just fix those mistakes, then it can achieve almost a zero defection rate (e.g. Reichheld, 1993; Hawkes, 1994; Gould, 1995; Reichheld, 1996). This has led to a rise in customer retention marketing efforts.

However, research into the antecedents of customer defection showed that not all of the customers who left a company did so because of dissatisfaction due to failure of a good or service. Reichheld reported "*on average, 65% to 85% of defectors say they were 'satisfied' or 'very satisfied' with their former supplier*" (cited in Fortune, 1993). In a similar vein, Mittal and Lassar (1998) found that one third of current customers who said they were satisfied with the service provider also expressed an intention to switch. Further, academic studies into the reasons for customer defection (e.g. Schneider, 1973; Keaveney, 1995; Colgate *et.al.*, 1996) found that some groups of customers left their service providers for reasons that were beyond the control of the service provider and the customer, such as the customer moving house.

Therefore, in order to assess the likely return on investment from retention marketing efforts, it is important for managers to not only know the reasons for defection, but also how much defection happens outside of the company's influence. This knowledge can help managers in their planning and resource allocation for retention activities versus those on acquisition efforts to replace those lost customers. While there have been a few academic publications that have looked specifically at the reasons for customer defection, these have typically been single market studies (e.g. Schneider, 1973; Colgate *et.al.*, 1996; Colgate and Hendge, 2001). For example in the retail banking industry Schneider (1973) showed that about half of former customers left a bank because of issues that were beyond the bank's control, like a physical move, death, going out of business, retirement etc. with less than a third leaving because of service dissatisfaction. Few have delved into quantifying the proportions of customers who defect for certain reasons, either across multiple studies in the same market or across markets, thus limiting the generalizability of results.

One effort to build a generalisable model of customer switching behaviour was undertaken by Susan Keaveney (1995). Using a technique where people remembered critical incidents, the author asked respondents about their reasons for switching across 25 types of services in a six month time period. A critical incident was defined as an event or interaction or series of interactions between a customer and a service firm that caused that customer to switch to another service provider. All responses were coded and then categorised by a panel of experts into eight groups describing their reasons for switching, as shown in Table 1.

Table 1. Distribution of the reasons for switching in the Keaveney (1995, p 75) research

Switching Category	**Brief Description**	**% of Critical Behaviours**	**% of Critical Incidents**
Core service failure	Incidents related to technical problems or mistakes with the service itself	25	44
Failed service encounters	Switching related to dissatisfaction or disappointment with the provider's staff actions and attitudes	19	34
Pricing	Switching behaviours involved pricing, rates, fees, charges, penalties etc. dissatisfaction	17	30
Inconvenience	Incidents when a customer felt inconvenient by provider's location, working hours or waiting time	12	21
Response to failed service	Incidents related to failure of service provider to handle the situation appropriately and be responsive	10	17
Competition	Cases of switching to a better provider rather than from unsatisfactory provider	6	10
Ethical problems	Switching due to illegal, immoral, unsafe or unhealthy actions of the provider's employees	4	8
Involuntary switching	Cases beyond control of the provider or a customer, such as move of either of the parties or a third-party involvement	4	6
Other	Any other seldom mentioned incidents	5	9

Keaveney's research has made two major contributions to the literature on switching behaviour. First of all, it was generalisable across multiple markets rather than a single study. Secondly, the research provided not just a qualitative picture of a switching behaviour in services markets, but gave benchmarks regarding a proportion of consumers who were likely to switch service providers for specified reasons. The findings indicated that 'core service failure' was the most common cause of switching, and 'involuntary switching' the least reported reason for switching. However, the key limitation in the Keaveney research was that it asked people to focus on specific incidents or interactions with the service provider that resulted in switching. This is likely to bias respondents towards more 'service provider problems' and away from other factors influencing switching, such as customer moving or personal reasons (these were eliminated from the Keaveney study).

A more recent study by Colgate and Hedge (2001) looked at the relative importance of specific problems, events and factors for customer switching and complaints in the retail financial market. Respondents were presented with 14 problems or incidents adopted from the broad categorisation proposed by Keaveney (1995) and asked to evaluate the level of importance of each of the problems on a five point scale. Factor analysis revealed three major factors of (1) pricing problems, which included non-competitiveness of the fees and interest rates; (2) service failure such as staff being inflexible, inaccessible or rude; and (3) denied services that related to denied loans or lack of advice from a provider. Based on their results Colgate and Hedge (2001) suggested that the model proposed by Keaveney (1995) did not adequately capture reasons for customer defection in the retail banking industry and called for more research into the role of pricing and competitive offerings in financial services markets.

In this paper we extend past research by applying the model proposed by Keaveney to another context – the business-to-business financial market. To avoid any bias through focussing on only critical or more salient service incidents, all clients who had ceased using a provider were interviewed. A further aim is to describe and quantify the reasons for switching in a business-to-business financial services market, and see if these are stable over time. This will then provide some guidance as to the extent to which improvements in service, as opposed to other aspects of offerings (like price or goods characteristics) can consistently influence on loyalty and retention.

Research Design and Methodology

To overcome some of the limitations and extend the scope of the previous research as discussed above, the following research design was implemented. Business customers who had terminated their contacts with the banking service provider were interviewed in the first week of the month following termination. This means that there was a maximum of 37 days between closing of service and being interviewed. Given that changing services in a business-to-business environment usually involves paperwork and having to notify the provider, it is likely that the incident will be salient to all respondents. The service provider (a bank) has commissioned a commercial market research project and supplied a list of its business customers (owners of small and medium businesses). Trained interviewers conducted interviews over the telephone. Respondents and the service provider were assured of confidentiality. Contact rates were over 50% and refusal rates were less than 5%, suggesting minimal chance of non-response bias. This research was conducted over three time periods, each six months apart. Each wave was a different cross sectional sample and sample sizes ranging from 211 to 291 (Table 3).

The specific question respondents were asked was, "In the form you filled out when you notified your service provider of your intention to terminate the contract you listed the reason for your decision. Could you provide me with a little more detail about this". Verbatim responses were collected. Follow up questions about which other provider they had switched to were also collected to ensure that customers were still in the market for that service. People who stated that they stopped using the service because of insufficient use or going out of business were excluded from this study, as interest was only in those who switched from one institution to another.

The verbatim responses were then sorted and coded. In order to minimise the known weakness of the content analysis i.e. reliance of research driven classification, two independent raters were commissioned to sort verbatims into categories from Keaveney's (1995) study. Disputes were solved by a discussion involving a third rater allowing for triangulation of individual opinions. To address the concerns about the applicability of Keaveney's framework raised by Colgate and Hedge (2001), raters were also given the freedom to create their own categories. This resulted in one new category of 'corporate or group decision' which is where either head office made a decision for all retailers in the organization, or the retailers had formed a buying group which then negotiated on behalf of all members, and members then were bound to the outcome of those negotiations. While this broadly fits into the 'involuntary switching' category proposed by Keaveney (1995**),** it does represent a situation unique to the business-to-business market environment.

Discussion of the Results

In general, there was a high level of inter-rater agreement, with 97% of categorisations matching in the first round. Examples of specific verbatim comments that were categorised in each group are shown in Table 2, along with the proportions in each category. The vast majority of respondents gave only one key reason for ceasing to use that provider.

Table 3. Reasons for changing a financial provider (cross-sectional analysis over time)

Statement Categories	Example	Nov03 (n=234) %	May04 (n=291) %	Nov04 (n=211) %	Average %
Competitor offered better deal	"Got a better deal with the other bank"	66	22	36	41
Dissatisfaction with bank fees	"Too high fees invoiced every month"	14	47	30	30
Corporate decision (involuntary)	"Head office changed the bank, it was not our decision"	11	12	13	12
Inconvenience	"Couldn't get daily banking done as there was no branch nearby. Constant trips to city to bank were very inconvenient. I would not have changed otherwise - they were brilliant"	7	10	6	8
Service encounter failure	"The bank representative gave us incorrect information and it was too much trouble. We were not given any follow up call either"	1	6	5	4
Poor core service	"Booklet was just dumped - no explanations or proper instructions were given on how to operate the system"	1	3	6	3
Responses to service failure	"I was told money would go to the account over night, but they didn't. I was told that no charge for keying in business card vouchers, but there was a charge. I was not told the truth"	0	0	2	1
Other		0	0	2	1

The results show that across all three waves, the majority of customers switched because competitors' offers were better (41%) while current provider's fees were too high (30%). Such results support propositions made in the financial services literature (Colgate *et. al.*, 1996; Colgate and Hedge, 2001). This group of customers is much bigger than was reported by Keaveney (1995) in consumer markets, when price dissatisfaction was only the third biggest group with 17% of respondents claiming it to be the reason for switching and competitors' activities were the reason for further six percent of respondents. Such difference in the quantitative results is perhaps due to the research being in the business-to-business financial market, but highlight the influence of competitors in the defection process.

In line with the other findings in the financial services literature on the role of service dissatisfaction or service failure in consumer switching (Schneider, 1973; Colgate and Hedge, 2001) this study also shows that 15% of customers have left because of service issues. Only about one percent of customers claimed ethical problems and response to service failure as the reasons for their defection. Such results suggest that despite the commonly shared view of the importance of service excellence in financial services (Rust and Zahorik, 1993; Mittal and Lassar, 1998) only few business customers have claimed service failure as their main cause for switching provider. This means that even if the superiority in service is achieved (without even considering the cost of such improvements) only about 16% of former customers, who changed to another provider, could have been retained on this basis.

Almost as prominent as service failure was inconvenience as the main cause for switching providers. This figure is similar to the results reported in Keaveney (1995) (12%). This category mainly included inconvenience of hours of operation and branch locations, as well as personal inconvenience of using a provider (usually associated with consolidating all accounts 'under one roof'). Addressing these issues would require significant effort from a service provider, which won't necessarily pay off. Another group of customers (6%) claimed that switching service providers was a corporate decision, and they had little or no control over it. This is a group of customers whose switching was clearly outside of the service provider's influence.

Conclusions and Implications

In this research it is shown that in this business-to-business financial services market, service failure only accounted for 8% (or about one in 10) switching to another provider. This relatively low level of switching due to service failure, was consistent over time, and suggests that companies need to be wary of over-investing in service initiatives in the hope to improve customer retention rates. This supports similar claims made by Colgate and Hedge (2001) in the retail financial services market, but contradicts much of the customer retention literature (e.g. Johnson, 1984; Reichheld, 1993; Hawkes, 1994; Gould, 1995).

While the vast majority of customers have claimed reasons for their switching that were technically within the provider's area of influence (e.g. pricing policy, service issues, hours of operation), it can be argued that some of the problems (hours of operation or location) would be too hard for a service provider to address, whereas the others, like matching competitors' offers, might not be cost effective retention strategies in the long-term. So, unless a company has an explicit price matching policy, there will always be some switching due to this reason, and this study shows that this reason is likely to form the majority of the defection in the financial services market. Therefore, one of the implications of this is that investments in retention strategies need to be balanced with investments in acquisition.

Limitations and Future Research

This research was limited to the scope that only one brand within the financial services industry was examined. Further replication to see if the same pattern applies to other brands within the industry as well as other services industries is needed. Extension over longer time frames to look at shifts in reasons for defection may also provide insight into how company and market initiatives feedback to customers.

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