

# Antecedents Of Customer Loyalty In The Retailing Sector: The Impact Of Switching Costs

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## ABSTRACT

*The objective of this work is to propose and test a conceptual framework that considers customer satisfaction, store image, perceived value and switching costs as antecedents of customer loyalty. In addition, we examine the moderating effect of switching costs in the relationship between loyalty and its antecedents. While customer satisfaction, store image and perceived value are important determinants of loyalty, switching costs have the same strong impact on customer loyalty as satisfaction. The findings prove that switching costs have a moderating effect on the relationship between store image and loyalty, as well as between perceived value and loyalty.*

**Keywords:** Customer Loyalty; Customer Satisfaction; Switching Costs; Store Image; Perceived Value

## INTRODUCTION

Faced with an increasingly competitive environment, ensuring and growing customer loyalty is crucial to many retailing strategies. Srivastava et al. (2000) argue that customer loyalty has been universally recognized as a valuable asset in competitive markets (see also Kumar and Shah, 2004). Loyal customers are important for retailers because they buy more, are willing to pay higher prices, and spread positive word of mouth, thus suggesting a strong connection between loyalty and long-term profitability (Reichheld 1996; Anderson and Mittal, 2000). In this context, efforts to improve customer loyalty may be a critical defensive strategy for retailers.

The objective of this work is to propose and test a conceptual framework that considers customer satisfaction, store image, perceived value and switching costs as antecedents of store loyalty. Understanding how various levers impact store loyalty can help managers increase this variable effectively. For many years retailers have considerably invested in customer satisfaction in order to increase loyalty, and therefore profitability (Kumar et al. 2013). However, despite the numerous studies published about the relationship between customer satisfaction and loyalty, we can note the lack of definitive conclusions. Indeed, though most studies assume that customer satisfaction with a brand/seller leads to future patronage intention (Oliver 1997; Jones and Reynolds, 2006), many fail to provide a strong relationship between these two constructs (Capraro et al. 2003; Stoel et al. 2004; Pan et al. 2012). The study conducted by Augustin and Singh (2005) in the retail clothing and airline industries showed that relational trust and value are the most important determinants for loyalty intentions, rather than customer satisfaction. Given this uncertainty about the impact of customer satisfaction on store loyalty, this study aims to investigate the satisfaction-loyalty relationship. Nevertheless, only customer satisfaction is not enough to explain loyalty. Our study included other relevant variables in the model: store image, perceived value and switching costs.

In addition, we examine the moderating effect of switching cost in the relation between loyalty and its antecedents. According to our knowledge, little is known about the direct effect of switching costs on customer loyalty and even less about its moderating effect. This work is also motivated by the finding that studies on the moderating effect of switching costs show inconsistent findings (Nagengast et al. 2014). However, as outlined by

Burnham et al. (2003) there is reason to suggest that perceived switching costs impact on repeat purchase decisions and remain an important factor to consider when adopting marketing managerial practices.

The remainder of the paper is organized as follows. First, we present a conceptual framework and hypotheses development. Thereafter the methodology is described, the study's findings are subsequently presented, and a discussion and conclusion completes the paper.

## CONCEPTUAL FRAMEWORK AND RESEARCH HYPOTHESES

### Customer Loyalty

Although interest has focused on consumer loyalty in recent years, the great diversity of measures proposed to assess this concept highlights the lack of consensus (Bustos-Reyes and González-Benito, 2007). Traditionally, customer loyalty has been defined as a behavioral measure (Kumar and Shah, 2004). In retailing, the following measure of customer behavior is commonly applied by practitioners: purchase share, visit share, wallet share, and RFM (Recency, Frequency and Monetary) value. However, only behavioral loyalty is insufficient to measure the "true" customer loyalty. Day (1969) suggested that for true loyalty to be effective, the customer must have both a favorable attitude towards a product and purchase it repeatedly. As outlined by Smith (1998) (see also Shoemaker and Lewis, 1999; Kumar and Shah, 2004) a truly loyal customer is a customer who *"feels so strongly that you (the company) can best meet his or her relevant needs that your (the company's) competition is virtually excluded from the consideration set and the customer buys almost exclusively from you (the company)"*. However, the best way to measure loyalty depends on market-specific context, data availability, and the purpose of the research (Bustos-Reyes and González-Benito, 2007). According to Ehrenberg et al. (2004), behavioral measures are more relevant in frequently consumed product markets, particularly grocery markets in which consumers tend to buy out of inertia, perceive smaller risks, and exhibit polygamous or multi-store purchase behavior.

Retailers should consider that loyalty might be based not on a higher attitude but rather on an absence of alternatives (i.e. forced loyalty), functional superiority (cognitive loyalty), or routine shopping activity (inertial loyalty). Moreover, as highlighted by Bustos-Reyes and González-Benito (2007, page 1016), *"some loyalty may include both a solid attitudinal commitment toward a store and promiscuous purchase behavior (multi-store loyalty) because of customers' variety seeking or diverse purchase situations characterized by different sought benefits"*.

### Customer Satisfaction

Satisfaction is usually considered to be a customer's summary affective response to the experience (Oliver, 1980). Customer satisfaction has generally been considered as a major lever of loyalty (Fornell, 1992; Anderson et al. 1994; Dick and Basu, 1994; Oliver, 1999). Therefore, high levels of customer satisfaction have become a key objective for many retailers. However, as we have highlighted, there is no consensus on the relationship between customer satisfaction and loyalty. Szymanski and Henard (2001) carried out a meta-analysis which showed that satisfaction explains less than 25 percent of the variance in repeat purchase. In addition, Kumar et al. (2013, page 247) concluded that the *"customer satisfaction-loyalty main effect is indeed weak and that customer satisfaction, by itself, can hardly change customer loyalty in a significant way."* Nevertheless, the relationship between customer satisfaction and loyalty varies according to the way that this constructs are measured, the industry, the customer segment studied, the nature of the dependent and independent variables, and the presence of numerous factors that serve as mediators, moderators, or both to the relationship (see also Kumar et al. 2013). It is thus difficult to generalize research findings across studies. In accordance with previous research, we propose that:

**H1:** Customer satisfaction has a positive effect on customer loyalty.

### Perceived Value

Perceived value is considered in marketing literature as a function of both quality and price (Dodds et al. 1991; Zeithaml 1988; Johnson et al. 2006; Chaudhuri and Ligas, 2009). Zeithaml (1988, p. 14) defined this concept as *"the consumer's overall assessment of the utility of a product based on perceptions of what is received and what*

is given.” As pointed out by Grewal et al. (2004) “*Customers use various types and sources of information provided by retailers to form their assessments of value. They cognitively trade off benefits against costs to determine their value perceptions.*”

From the consumer’s perspective, obtaining value is a key objective and essential to all successful exchange transactions (Holbrook, 1994; Davis and Hodges, 2012). As a result, many retailers are trying to find to turn shopping into a high-value pursuit and are underlining perceived value as an important source of competitive advantage (Woodruff, 1997; Davis and Hodges, 2012). According to Holbrook (1994) there are three key dimensions of consumer value: extrinsic versus intrinsic, self-versus other-oriented, and active versus inactive. The author proposed a value typology with eight sub-dimensions: efficiency (convenience), excellence (quality), play, esthetics, status, esteem, ethics, and spirituality.

Several studies have considered perceived value as an important antecedent of customer satisfaction and loyalty (Jones and Sasser 1995; Cronin et al. 2000; Grewal et al. 2004). Where the perceived value is low, consumers may be more susceptible to switch to competitors in order to increase perceived value, which leads to a decrease in loyalty. Therefore, the following hypotheses are advanced:

**H2:** Perceived value has a positive effect on customer satisfaction.

**H3:** Perceived value has a positive effect on customer loyalty.

### **Store Image**

The conceptualization of store image has been advanced in past literature (Doyle and Fenwick 1974, Marks 1976; James et al. 1976; Mazursky and Jacoby, 1986). Martineau (1958, page 47) defined store image as “*the way in which the store is defined in the shopper’s mind, partly by its functional qualities and partly by an aura of psychological attributes.*” Later, Keaveney and Hunt (1992) highlighted that store image is not only a function of the image of a particular store but also of the images and associations in the memory of existing store and/or retail categories (see also Hartman and Spiro, 2005). The dominant attitudinal perspective that is taken in the literature treats store images as the result of a multi-attribute model (Marks 1976; James et al. 1976). As suggested by Malhotra (1983), Baker et al. (1994), store image is an important factor of the store selection decision. According to Mayer (1989), store image has been one of the main conceptual subjects in academic retailing research.

Previous studies conducted have shown that store image is a predictor of satisfaction (Boloemer and de Ruyter 1998) and a predictor of loyalty (Bellenger et al. 1976; Sirgy, 1985). However, the relationship between store image and loyalty has remained inconclusive in literature. For example, the study carried out by Boloemer and de Ruyter (1998) showed that store image has an indirect effect on loyalty through satisfaction, but has no direct impact. With regards to the relationship between store image and perceived value, store image is considered as antecedent of perceived value (Grewal et al. 2004). In line with the above we propose the following hypotheses:

**H4:** Store image has a positive effect on customer satisfaction.

**H5:** Store image has a positive effect on customer loyalty.

**H6:** Store image has a positive effect on perceived value.

### **Switching Costs**

Switching costs are frequently defined as “*the perceived economic and psychological costs associated with changing from one alternative to another*” (Jones et al. 2002, page 441). Several researchers have classified switching costs into different categories (Burnham et al. 2003; Jones et al. 2002; Patterson and Smith, 2003), however the most accepted categorization is proposed by Burnham et al. (2003) (see also Nagengast et al. 2014):

- Relational switching costs
- Financial switching costs
- Procedural switching costs
-

Jones et al. (2007) proposed that relational and financial switching be classified as “positive switching costs” because they derived from “positive sources” of constraints (loss of privileges, forfeited loyalty card points, loss of special treatment). Contrary to this, procedural switching costs result from “negative sources” of constraints (search time, travel costs) and represent “negative switching costs” (see also Nagengast et al. 2014).

According to Dick and Basu (1994), switching costs are used as a corporate strategy to grow customer loyalty. In the same vein, the study conducted by Burnham et al. (2003) find that perceived switching costs have a positive effect on customer loyalty. Recently, Pick and Eisend (2014) carried out a meta-analysis considering different industries and shown that switching costs reduce switching and has a major role when explaining customers’ repurchase behaviors. Where perceived switching costs are perceived high, customers may remain despite their dissatisfaction due to perceptions that switching costs exceed switching benefits (Jones at al. 2000). In contrast, under low switching costs, it is easy for customers to switch and that they are free in their purchase decisions (Zeithammer and Thomadsen, 2013; Nagengast et al. 2014).

To conclude, the following hypothesis is proposed:

**H9:** Switching costs have a positive effect on customer loyalty.

#### *The Moderating Role of Switching Costs*

Research concerning the moderating effect of switching costs in the formation of customer loyalty is relatively recent in marketing literature (Yang and Peterson, 2004) and therefore warrants further investigation. Empirical studies about the moderating role of switching costs on the satisfaction-repurchase behavior relationship are inconclusive (Nagengast et al. 2014). Indeed, several studies showed positive moderating effects (Pettersson, 2004; Yang and Peterson, 2004), other find negative moderating effects (Jones et al. 2000; Peterson and Smith, 2003; Stan et al. 2013) or no significant moderating effect (Burnham et al. 2003; Lam et al. 2004) of switching costs on the relationship between satisfaction and repurchase behavior. Besides these studies, Anderson and Mittal (2000), Mittal and Kamakura (2001) and recently Nagengast et al. (2014) suggested that nonlinear effects are more appropriate to understanding the relationship between satisfaction and repurchase behavior. However, the moderating effect of switching costs on the satisfaction-loyalty relationship depend on the way that the constructs are measured, markets studied (B2C vs B2B), product (goods vs service).

As for the relationship between image and loyalty and value and loyalty, fewer research have considered switching costs as a moderator (Yang and Peterson, 2004; Wang, 2010) and the results are mixed. The work conducted by Yang and Peterson (2004) in the business-to-consumer electronic commerce showed that switching costs are not a moderator for value-loyalty relationship. Later, Wang (2010) carried out a study in hair grooming services and found that as switching costs increase, the relationship between perceived value and loyalty diminishes. The conclusion is the same concerning image-loyalty relationship (as switching costs increase, the relationship between image and loyalty diminishes).

Therefore, the following hypotheses are advanced:

**H7:** Switching costs negatively moderate the relationship between customer satisfaction and loyalty.

**H8:** Switching costs negatively moderate the relationship between image and customer loyalty.

**H9:** Switching costs negatively moderate the relationship between perceived value and loyalty.

Taking insights from the literature, the next figure provides an overview of the hypotheses:

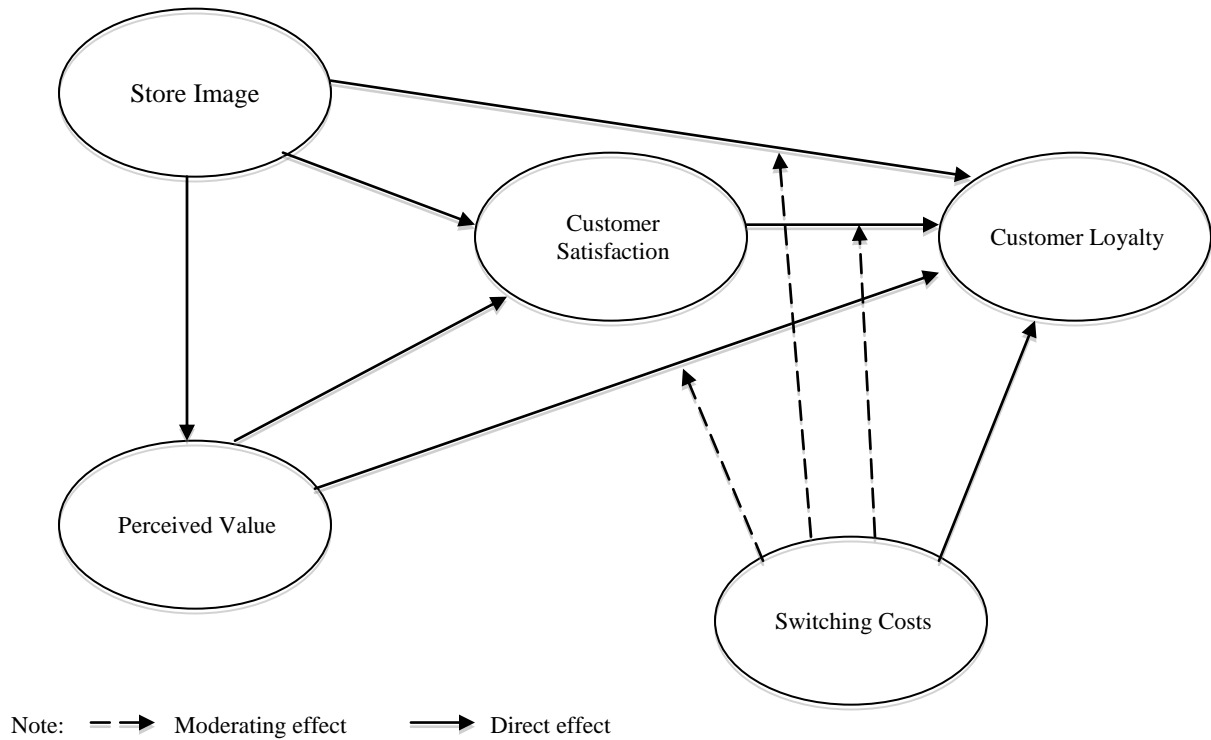


Figure 1. Proposed Conceptual Model

The direct and moderating effect are assumed to be linear here.

### METHODOLOGY

The questionnaire is based on scales adapted from previous research. All the items are scaled from 1 to 10, except for loyalty. Value 1 expresses “strongly disagree” while value 10 expresses “strongly agree.” For loyalty, the items are scaled from 1 to 5 (1 expresses “strongly disagree” while 5 expresses “strongly agree”). Data were collected in collaboration with a major retailer in United States. Using the list for the retailer’s loyalty program, 7,000 customers were randomly selected. The questionnaire was send via surface mail. The questionnaire was filled in by the household member who has the main responsibility for grocery shopping. In the end, a total of 2,000 valid questionnaires were received with an effective response rate of 29%. The sample characteristics are the following:

**Gender:**

77% female  
23% male

**Age:**

34% younger than 40  
50% between 40 and 65  
16% older than 65

<b>Constructs and Items</b>
<p><b>Store Image</b> (adapted from Baker et al. 1994; Mazursky and Jacoby, 1986) You are familiar with them and understand what they are about They have different services that other discount retail stores do not have They are a popular discount retail store They feel like a friend</p>
<p><b>Perceived Value</b> (adapted from Sweeney and Soutar, 2001) This store offers value for money This store provides a good service for the price</p>
<p><b>Customer Satisfaction</b> (adapted from Mittal and Kamakura, 2001; Oliver, 1981) Overall Satisfaction Meet Expectations</p>
<p><b>Customer Loyalty</b> (adapted from Mittal et al. 1998; Maxham and Netemeyer, 2002) Six months from now, how likely are you to still be shopping at &lt; &gt;? How likely would you be to recommend &lt; &gt; to friends and colleagues?</p>
<p><b>Switching Costs</b> (adapted form Burnham et al. 2003) You care a lot which retail store you choose to shop at &lt; &gt; You find shopping at &lt; &gt; interesting and enjoyable Likelihood to switch to another retail store</p>

**FINDINGS**

Partial Least Squares (PLS) approach (Wold, 1966; Chin, 1998a, b; Tenenhaus et al. 2005) with XLSTAT 2014 software was used to test the model presented in Figure 1. The data were analyzed in two sequential stages. First, the measurement model was tested by assessing individual item reliability, construct reliability and unidimensionality, convergent and discriminant validity (Bagozzi, 1981). Second, the structural model was tested by estimating the path coefficients between the constructs and the R<sup>2</sup> for the endogenous variables

**Measurement Model**

The relationships between the measures and their latent variables are assumed to be reflective here.

*Individual Item Reliability*

To guarantee this criterion, we used factor loadings. The recommended values for this indicator should be above 0.7 (Carmines and Zeller, 1979). The following table shows that all factor loadings are higher than 0.7.

**Table 1. Factor Loadings**

<b>Construct</b>	<b>Loadings</b>
<b>Satisfaction</b>	
Satisf 1	0.965
Satisf 2	0.967
<b>Image</b>	
Image 1	0.854
Image 2	0.770
Image 3	0.806
Image 4	0.830
<b>Value</b>	
Value 1	0.929
Value 2	0.897
<b>Loyalty</b>	
Loyalty 1	0.936
Loyalty 2	0.955
<b>Switching Cost</b>	
Switching cost 1	0.826
Switching cost 2	0.792
Switching cost 3	0.795

*Construct Reliability and Unidimensionality*

The construct reliability analysis used Dillon-Goldstein’s  $\rho$  to establish the reliability of each construct. Table 2 shows that all  $\rho$  values satisfy the reliability analysis:  $\rho > 0.7$  (Tenenhaus et al. 2005) and all constructs are uni-dimensional.

**Table 2. Reliability And Unidimensionality**

<b>Construct</b>	<b>Dillon-Goldstein’s <math>\rho</math></b>	<b>First Eigenvalue</b>	<b>Second Eigenvalue</b>
Image	0.888	2.662	0.674
Value	0.911	1.671	0.329
Satisfaction	0.965	1.866	0.134
Switching cost	0.847	1.949	0.634
Loyalty	0.944	1.789	0.211

*Convergent validity* is assessed with the Average Variance Expected (AVE) (Fornell and Larcker, 1981). As shown in the table 1, all AVE exceed 0.50, confirming that all constructs demonstrate satisfactory convergent validity (Chin 1998b).

**Table 3. Average Variances Extracted**

<b>Construct</b>	<b>AVE</b>
Image	0.665
Value	0.835
Satisfaction	0.933
Switching cost	0.647
Loyalty	0.894

*Discriminant Validity*

The following table presents the correlations between the latent variables in the lower left, off-diagonal elements of the matrix, and the square root of the AVE. Discriminant validity is satisfactory if the diagonal values are larger than off-diagonal values (Fornell and Larcker, 1981). Table 4 shows that this condition has been satisfied.



**Table 4.** The Latent Variable Correlation Matrix With Square Root Of AVE On The Diagonal

Construct	Image	Value	Satisfaction	Switching Cost	Loyalty
Image	<b>0.815</b>	0.701	0.707	0.610	0.624
Value		<b>0.914</b>	0.652	0.550	0.585
Satisfaction			<b>0.966</b>	0.471	0.681
Switching Cost				<b>0.804</b>	0.436
Loyalty					<b>0.946</b>

**Structural Model**

The overall model fit, estimated using the Goodness of fit (GoF) index, is satisfactory: GoF= 0.635, which is superior to the recommended level of 0.5 (Tenenhaus et al. 2005). The theoretical model explains 53% of the variance of the customer loyalty, demonstrating satisfactory predictability. Furthermore, store image and perceived value explain 55% of the variance of customer satisfaction and store image explains 49% of the variance of perceived value.

**Table 5.** Results Of Structural Model

Dependent Variables	Explanatory Variable	Path Coefficient	p-value
Loyalty (R <sup>2</sup> =0.534)	Satisfaction	0.476	0.000
	Store Image	0.377	0.000
	Perceived value	0.376	0.000
	Switching costs	0.479	0.000
	Satisfaction x Switching costs	-0.128	0.320
	Store Image x Switching costs	-0.312	0.020
	Perceived value x Switching costs	-0.369	0.007
Satisfaction (R <sup>2</sup> =0.548)	Store Image	0.492	0.000
	Perceived value	0.306	0.000
Perceived value (R <sup>2</sup> =0.492)	Store Image	0.701	0.000

The results reported in the previous table reveal that eight of the nine hypotheses are supported. Customer satisfaction, store image, perceived value and switching costs are powerful predictors of customer loyalty. With regards to the moderating effect of switching costs on the relationship between satisfaction and loyalty (H7), image and loyalty (H8) and value and loyalty (H9), the results indicate that H8 and H9 are supported (p-value=0.020, respectively 0.007) but not H7 (p-value=0.320). The negative sign of the interaction supports our prediction that as switching costs increase, the associations between store image and customer loyalty and between value and customer loyalty diminish.

**DISCUSSION AND CONCLUSION**

Over the last years, important changes have occurred in retailing such as the greater diversity of retail forms that compete aggressively in the market and the growing complexity of consumer purchase habits and consumption (Bustos-Reyes and González-Benito, 2007). In this context, customers’ loyalty is a major interest for retailers. This study proposed an integrated framework explaining customers’ loyalty in retailing sector. Particularly interesting for managers is that switching costs have quasi the same strong impact on store loyalty as satisfaction, these two variables being the most important levers for loyalty.

Given the mixed results concerning the satisfaction-loyalty relationship, this study shows that satisfaction is an important lever for loyalty. Therefore, switching cost and satisfaction are important factors to consider for retailer managers in order to decide, for example, how to allocate resources. Retail managers frequently use switching costs as a tool to encourage customers to stay with the firm (Blut et al. 2014). For customers with low switching costs, it is thus key to understanding how barriers to switching can be further increased. On the other hand, it is essential for retailers to understand the type of switching costs that should be actively managed (Nagengast et al. 2014).

Concerning satisfaction, retailers should be aware that “customers form their attitudes about the performance of products, brands, or store by learning about different characteristics of the objects and integrating these values into



*a more global affective evaluation. This affective evaluation (satisfaction) is used as a predisposition to compare alternatives and guide final choice and loyalty” (Olsen, 2002, page 247; see also Dabholkar et al.2000).*

Another interesting finding is that store image and perceived value have the same impact on loyalty. This finding supports past results that store image and value play a central role in the consumer choice process (Grewal et al. 1998). Furthermore, store image has a strong impact on customer satisfaction and perceived value. In this context, managers should pay special attention to store image in the development and implementation of their marketing strategy. More precisely, the offer of the services, the availability of the staff, the relationship with the staff are essential attributes that should be used by retailers. In addition, these store image attributes could attract consumers with low store knowledge and effective communication would have an essential role. Indeed, marketing communication can form a strong image amongst potential customers on a given organization, its products and services, and can initiate first purchase intentions.

Our results show also the importance of perceived value for loyalty. In the face of major changes in the global marketplace customers modify their shopping behaviors, but also their value perceptions (Grewal et al. 2012). According to Grewal et al. (2012, page 2) “*technological changes affect both the benefit side (e.g., instant access to product information, such as reviews) and the cost side (e.g., lower search costs, lower prices) of the value equation*”. In this context, personalized offers are an important means of increasing consumer value and ultimately guarantee customers’ loyalty to the retailer. As highlighted by Chaudhuri and Ligas (2009), relative value might be created by using in-store and out-of-store communications to compare competitors’ offerings (e.g., their price, quality) with those of the focal store.

This work also examines the moderating role of switching costs in the relationship between customer loyalty and its antecedents. Our results show that switching costs have a moderating effect on the relationship between store image and loyalty and between perceived value and loyalty. Unexpectedly, the moderating effect of switching costs on the relationship between customer satisfaction and loyalty is not significant. However, it was assumed that the moderating effect of switching costs on the relation between loyalty and its antecedents was linear. According to Nagengast et al. (2014, p. 13), “*assuming nonlinear effects is more appropriate to understanding the relationship*” (see also Anderson and Mittal, 2000; Mittal and Kamakura, 2001; Pink and Eisend 2013). Consequently, hypothesis H7 is not supported because there may be a non-linear effect that should have been tested.

To conclude we provide some limitations and recommendations for future research. Our study did not include data on marketing structure (e. g., competitors) which is of great relevance in retailing. Future research should use this kind of data to consider the effects on competition on customer loyalty. As highlighted above, fewer studies have examined the direct and moderating effects of switching costs in the formation of customer loyalty with mixed results. Additional research needs to investigate this issue more closely.

Our study assumed the moderating effect of switching costs on the relationship between loyalty and its antecedents to be linear. However, as we highlighted above, the nonlinear effects on switching costs on the satisfaction-loyalty relationship is more appropriate, and thus future research should test this hypothesis.

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