An Exploratory Investigation into the Propensity to Choose a Service Provider in a Converging B2B Market

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Abstract

In business today, traditional boundaries between industries are converging as existing companies enter new markets, and as existing markets merge, such as are happening with gas and electricity utilities. This changing paradigm means that keeping existing customers and gaining new customers becomes an extra challenge. Realising that loyalty is correlated with the high profitability of the supply organisation (Henry, 2000), businesses need to understand the extent to which customers are sticky or loyal to their supplier. Keaveney (1995, p. 80) found that some customers switched services even when they were satisfied with former providers because of ‘convenience, competitive actions, or prices’. This paper will provide an exploratory investigation into the propensity to choose a service provider in a converging B2B market, by proposing a model to explain this concept. This paper suggests that service providers need to realise that loyalty is not necessarily an antecedent to an ongoing relationship with a customer. Variables such as price, satisfaction, shared physical and communication assets, and skills and knowledge can be more important. This insight will give marketers an understanding of the complexity of the decisions faced by a large, multi-site company, while emphasising the importance of non-loyalty factors in the decision process.

Introduction

Recently, there has been much discussion about the effect of globalisation and the convergence of markets across a range of different industries. For example, industries such as the electricity and gas are merging, and some are looking to expand into other services, ‘for example, telecom, real estate, and home security’ (http://www.pwcglobal.com). Levitt (1983) discussed the growing similarity of the needs and desires of people throughout the world. Jain (1989, p. 72) argued that economic development would lead to convergence of industries, ‘in markets that are economically alike’. This view was quite different from authors such as Kotler (1986), and Craig, Douglas and Grein (1992) who believed that human behaviour was quite diverse and that markets were becoming more diverse in industrialised countries. Added to this is more recent research which discussed ‘developments in customer sophistication’ and ‘increasing competitive pressures amongst suppliers’ (Wilson, 2000, p. 781), and the need for marketers and service providers to understand the effects of these changes. Since the 1990’s the importance of price and brand as marketing tool on their own have lessened as many customers have moved from having a transactional relationship with their supplier to one that includes the importance of the relationship they have with their supplier (Yudelson, 1999). Marketers need to develop close relationships with their customers and, by customising the goods and services on offer, they can increase customer satisfaction and the number of loyal customers. ‘One-way or broadcast marketing is moving to an interactive style to encourage a dialogue with the customer. And mass marketing is shifting to a customised, one-on-one method of reaching individual customers’ (Logman, 1997, p. 40). This means that suppliers cannot necessarily assume that the lowest price or having a good reputation will ensure a sale, and they need to be aware of the factors that could affect the decision to use one supply company rather than another, such as loyalty, customers’ experience and knowledge.
The concept of loyalty in purchase behaviour appears to have been first associated with Cunningham (1956) who related loyalty to the context of the brand. Since then, the term loyalty has been applied in a generic sense to behaviour towards products and companies as well as to brands. Oliver (1997, p. 392) defined customer loyalty as ‘a deeply held commitment to rebuy or repatronise a preferred product or service consistently in the future despite situational influences and marketing efforts having the potential to cause switching behaviour’. In a later study, Oliver (1999) showed that loyalty could not be achieved by all marketers, particularly for products and services that are commodities and where replacements are exact copies of the original. De Ruyter, Wetzels and Bloemer (1998) found that customers were less loyal when the switching costs were low. Keaveney (1995, p. 80) found that some customers switched services even when satisfied with former providers because of ‘convenience, competitive actions, or prices’. A critical factor in the domestic retailing of commodities was the extent to which domestic customers were ‘sticky’, that is, they required a substantial discount to switch suppliers (Leslie, Kausman and Bard, 1999). Therefore, to remain successful, service providers need to understand what their customers want, because authors such as Heilman (2000) argued that customers would become loyal to the brand or business that provided them with the greatest utility. Because loyalty translates to profit (Henry, 2000), research is needed to understand whether loyalty translates to being ‘sticky’, which is especially important in an industry such as electricity where loyalty is not high (Heath, 1997).

Traditionally, marketers have used the satisfaction variable to predict loyalty in customers. However, Fredericks, Hurd and Salter (2001) argued that many businesses subsequently found that only satisfying customer needs on basic quality issues did not lead to long-term customer loyalty because there was a significant difference between satisfaction and loyalty. Unlike satisfaction, loyalty was probably a more realistic alternative as it referred to an ‘active’ or a ‘proactive’ relationship with the supplier (Fredericks, Hurd and Salter, 2001, p. 30). The perceived ‘value for money’ to the customer has been cited as being more important than satisfaction in determining loyalty (Ryan, 1999). For companies that aim to achieve a high level of service, they would need to monitor a customer’s purchase patterns and retention rates, coupled with a survey that focuses on customer loyalty. These would be better indicators than satisfaction of a customer’s likelihood to choose a provider (Dougherty, 2001).

To develop loyalty in customers, service providers need to not only look at customers’ needs, such as product quality, price, and reliable delivery (Fredericks, Hurd and Salter, 2001, p. 30) but they also need to go beyond the obvious product and service issues, and understand some of the other concepts ‘such as image, relationships, and ease of doing business’ (Fredericks, Hurd and Salter, 2000, p. 30). In order to create better value than their competitors, marketers need to ‘fully integrate the resources to use the core capabilities of the firm to deliver a product that fully satisfies the needs at a competitive price’ (Kothandaraman and Wilson, 2001, p. 380).

With these issues in mind the following research question was posed: what are some of the factors that affected the propensity to choose a service provider in a converging B2B electricity market? The choice of researching the factors affecting the propensity to choose an electricity service provider in a converging B2B market for a large multi-site manufacturing and retailing company in Victoria was done as a means of illustrating some of the theories and issues addressed in the literature. This was reinforced by the fact that only a limited body of research existed in such a setting. Since the 1970’s, the electricity industry around the world has undergone rapid changes due to deregulation and privatisation, which was largely initiated as a means of increasing competition in monopolistic industries and to...
raise capital for governments. With the full or partial removal of regulations or controls, all business and residential customers in Victoria are now free to choose their electricity supplier. With the rapid changes in this industry and in related industries, studies exploring the factors affecting the decision making process will provide important insights into their operations. In order to see the world from the customer's viewpoint, a case study approach using depth interviews with one large user of electricity in Victoria was deemed appropriate to obtain a deeper understanding of variables and key relationships, ‘without imposing any a priori categorisation that may limit the field of enquiry’ (Denzin and Lincoln, 2000, p. 653). The case study research was particularly relevant in this business-to-business setting where the number of variables influencing organisational behaviour may inhibit the execution of survey type designs (Johnston, Leach and Liu, 1999). After reviewing the literature, a semi-structured preliminary discussion outline was drawn up which included a mixture of broad indirect questions and direct questions. The study respondent had been involved in the choice of the electricity supplier on three occasions. While it could be argued that the generalisability of depth interviews is limited, this research provides an interesting insight into elements of a very complex and detailed process. It should also be noted that this research is part of a much larger study of the electricity industry in Victoria.

Findings from the research

This company had formed a strategic sourcing team especially for the project of selecting an electricity supplier for their diverse range of operations throughout Victoria, and they had spent a great deal of money and time in deciding on their service provider. For each of the occasions when they had been faced with the decision to renew their electricity contract, they had switched suppliers. This was contrary to the findings of De Ruyter, Wetzel and Bloemer (1998) who demonstrated that customers were less loyal when the switching costs were low, and more loyal when the costs were high. In accordance with the findings of Wathne, Biong and Heide (2001) marketing variables particularly price, dominated the decision making process with price being rated nine out of 10 in terms of importance (with 10 being very important and one being not at all important). The other factors were rated no higher than a five out of 10. Heilman (2000) said that customers will become loyal to the brand or business that provides them with the greatest utility, or the greatest amount of benefit or satisfaction to them. For this customer, when making future decisions other factors such as service and an energy management program may become more important decision-making criteria than now.

I don’t think our decision will be entirely based on price next time because the prices are moving up so that will be an issue, but service will also be an issue especially for some of those sites who have problems with their network.

Loyalty and having a good relationship did not seem to be a factor in this company’s decision to choose a supplier, in accordance with Keaveney (1995), Heath (1997), Oliver (1997) and Oliver (1999)’s findings. Contrary to their original intentions, the supply company with the lowest price eventually won the business, despite the fact that they had a very good relationship with their previous supply company.

Interviewer: so you switched away from (Company) because of price?
Respondent: Yes.
Interviewer: did you have a good relationship with them?
Respondent: Yes, very good and still do.
The concept of loyalty and having to choose one supplier in a newly deregulated electricity environment was quite complex for this electricity customer. Over many years, the different operating divisions of this company throughout the state of Victoria had formed strong relationships with their own regional electricity supply companies, which they now often had to let go of, particularly if the supply company was offering them the added efficiency of both gas and electricity.

*There is a big risk for our company because at the end of the day we will change retailer but we will always be, that site will always be in (the supply company’s) area or whatever. So we are trying to balance the line between linking our relationship with the network business so that we continue to work through quality of supply issues or whatever, but we also need to give the retailers a chance to value add to that relationship and to help us manage it.*

*Our contract, all the current contracts for (our company) came in this year so we have to make a decision for all the currently contracted sites and also we decided to roll into our gas supply, our retail gas supply for the relevant sites in NSW and Victoria.*

The importance of having to quote for both gas and electricity was picked up by some suppliers:

*and we laid it out very clearly, the load, what we expected from a supplier that we had gas and electricity and anyway to varying degrees... a couple of the bigger ones put together teams to work on the tender because we did have gas and electricity.*

However, they eventually awarded the contract to a company that was to provide them only with electricity: *Now I should mention to you (company) didn’t get the gas contract they only got our electricity, we had to go separately for the gas.*

The supply companies were trying to justify maintaining a relationship with their previous customers despite losing their business for what they hoped was the short term. They said that they wanted to have *‘the opportunity to value add to the relationship and help us manage it’* but they could see the benefit of maintaining the relationship in the hope of winning back the business in the future *‘don’t ask me to cut that tie because that tie will always be there’.*

### Conclusions and recommendations

In accordance with research conducted by Keaveney (1995), Heath (1997), Oliver (1997) and Oliver (1999), even though this customer was loyal and had a good relationship with their previous supplier, this did not necessarily affect their propensity to stay with a service provider in this converging B2B electricity market. This research suggested that price was such an important factor that it outweighed any other decision criteria no matter how strongly satisfied the client might be with other non-price criteria. The lure of gaining both the gas and electricity contracts did not eventuate as the contracts were still split at the time of the interview. The existence of interpersonal relationships was not a strong incentive to switch suppliers contrary to the findings of Wathne, Biong and Heide (2001). It seems that to develop loyalty in customers, service providers might need to go beyond the obvious price, product and service issues, and understand some of the other concepts such as satisfaction, shared physical and communication assets, and skills, knowledge and understanding. In the current market, the research indicated that the supply companies might not be able to influence the stickiness or predisposition of a customer to switch companies by offering non-
price factors. Nor does it seem that it is simply a process of increasing switching costs to penalise customers who change. The reality may be more complex. In response to these preliminary findings, the figure shown below attempts to indicate the kinds of relationships that might exist between the decision variables in the process of deciding to choose a supply company. In general terms, Fig. 1 below shows that the propensity for a business to stay with a supplier (service providers) depends on the value of the offer plus the costs of switching.

**Fig 1: Model of determinants of the propensity to choose a service provider**

The model indicates that the propensity for a business to switch is a result of the satisfaction level with each of the specific offer criteria (including the price) weighted by the importance of each criterion to the customer. The factors associated with reducing the switching propensity of customers, irrespective of satisfaction, are the costs associated with switching. These include: any existing shared physical assets; any shared communication assets; skills, knowledge and understanding that are relationship specific and need to be re-learnt on switching; and any payout penalties.

As it seems that price might outweigh the switching costs from one supplier to another, this could have important implications for marketing practice. Historically, the practice of needs and wants marketing has been to improve sales performance by matching the non-price criteria in an offer to customer stated requirements. This has recently been embellished by an emphasis on relationship marketing, which advocated increasing the suppliers’ perceived and actual switching costs by adding bonds of physical assets and information. This research suggests that in some contexts these approaches would appear not to produce satisfactory outcomes, such as what occurs in contexts where the importance of price is so strong that it overwhelms both the non-price satisfaction drivers and the switching costs. It would appear that expending money on traditional marketing activities in industries such as electricity and other utilities could be counter productive, unless the objective of the exercise is to convince customers that there are reasons other than price alone to choose them as their supplier. The authors suggest that in some instances, the appropriate approach would be to reduce traditional marketing expenditure and apply the money saved to giving price discounts.

Further research into this issue needs to expand this research by conducting more depth interviews and testing the proposed model. Additionally, further research could also consider the contingent influences on the sensitivity to price outside of relationships and offer attributes; develop a greater understanding of the relationship between criteria, their
importance ranking and satisfaction in the model; and, develop an understanding of the individual criteria in the equation. For example do continuing decreases in price eventually reduce the importance weighting of price in the model? Or, is the stickiness of behaviour in response to a non-linear price variable?
References


