

An examination of why business customers return to previously fired suppliers

Mark P. Leach
University of Wyoming
USA

Annie H. Liu
Colorado State University
USA

Stephanie A. Oneto
University of Wyoming
USA

Abstract

Salespeople are often working to reacquire their previously fired customers. In this study, we examine what factors drive customers to switch-back to suppliers that they have replaced. By understanding how switch-back decisions are made, salespeople may be better able to conduct effective reacquisition activities. A sample of purchasing agents were surveyed to test the proposed model. Findings suggest that salespeople and sales organizations can influence switching back behavior and the reacquisition of lost customers. Value, Dissatisfaction, Risk, Advocacy are important to switch back behaviors when switching costs are low. When switching costs are high decisions can still be driven by risk, price, and advocacy.

Introduction

Relationship marketing (RM) for decades has highlighted the importance of strong trusting relationships with customers to gain a larger '*share of the customer's wallet*'. This stream of research within the marketing discipline focused on examining the role of social exchange variables such as trust and advocacy in exchange process (Seth, 2017) as well as focusing on the influence of pure economic factors like value, riskiness, and switching-back costs (Palmatier et al., 2006).

Much of customer requisition research in business markets has examine the actions of sales organisations and suggests providing justice and rebuilding relationships for successful reacquisition (Liu et al., 2015;16). However, current literature has not systematically examined the performance of the replacement supplier or the role of rebuilding trust within the process of switching back. Once customers switch away they build a new relationship and invest resources with the replaced supplier. The selling firm is not simply trying to solve the reasons of defection but also competing with the replaced supplier. This competition could be based on value provided by the replaced supplier. As such, buyers will evaluate the performance of the replaced supplier alongside the monetary costs involved before switching back to the previous supplier. Our study aims to shed light on switching back dynamics.

Specifically, we examine the influence of (1) perceived value (product value, price value, relationship value, and network value), (2) dissatisfaction with the replacement, (3) perceived switching-back costs, (4) positive supplier advocacy, and (5) perceived risk of returning on purchasing agent's switch back behaviours. In doing so, we address the following research questions. Why do customers return to previously fired suppliers? What forms of perceived value are most influential? What is the impact of perceived switching cost and perceived risk? What is the impact of having advocates among the customer's decision makers?

Literature review and background

Prior research on organizational buying behavior has focused mainly on exclusive business exchange relationships (i.e., purchasing from a single supplier) (e.g., Ganesan 1994; Anderson and Narus 1990). These studies show that buyer evaluations of exchange relationships are generally associated with the perceived costs and benefits of the relationship (Morgan & Hunt 1994), satisfaction with the exchange partner (Ganesan 1994), as well as the buyer's trust with and dependence on the supplier (Anderson and Weitz 1989). With the Investment Model (Rusbult 1980), the social psychology literature provides

a theoretical framework of relationship continuance that has been adapted to explain share-of-business allocations in a business exchange relationship (Liu et al., 2005). In this study, we use this framework to help explain switching-back behaviour. In the following section, Social Exchange Theory and the related Investment Model are presented to provide an arching theory of returning behavior.

Social exchange theory

Thibaut and Kelley (1959) proposed that an individual's tendency to continue a relationship does not rely on satisfaction with the relationship alone. It depends on the person's satisfaction, as well as their comparison level of alternatives (CLalt). The comparison level of alternatives (CLalt) determines the minimum level of outcomes a person will accept in order to continue the relationship; it represents the attractiveness of the best obtainable alternative. As such, CLalt provides an external comparison standard. Satisfaction is viewed as a function of the discrepancy between the relationship outcome and the individual's internal comparison level (CL). The concept of the comparison level (CL) is an individual's assessment of the expected benefits and costs associated with a relationship. Satisfaction, CLalt, and CL have been widely applied to marketing literature in studies examining the disconfirmation paradigm (e.g., Oliver 1980), gap theory (e.g., Zeithaml, Berry and Parasuraman 1996), working partnerships (e.g., Anderson and Narus 1990), and buyer-seller relationships (e.g., Dwyer, Schurr and Oh 1987).

Investment model

Building on Social Exchange Theory, the Investment Model (Rusbult 1980a) shows that satisfaction and alternatives are inadequate to determine relationship continuation. In addition to these factors, the size of the investment in a relationship affects relationship continuation as well. Invested resources accumulate over time, therefore, as an individual continues a relationship, it becomes increasingly costly to leave and lose their investment. Thus, the size of investment in the Investment Model is similar to transaction specific investments (e.g., Heide and John 1988).

Since its development, the Investment Model has been applied in studies of personal, organizational, and marketing exchange relationships. For example, satisfaction, alternatives, and investment size have been found to have a direct impact on commitment in friendships (Rusbult 1980b), in close relationships (Rusbult and Buunk 1993; Rusbult 1980a), in abusive relationships (Rusbult and Martz 1995), and in patient-physician relationships (Barksdale, Johnson and Suh 1997). In addition, perceived costs and benefits of a relationship have each been shown to affect relationship continuation (e.g., Rusbult and Buunk 1993). As such, research examining the Investment Model suggests that one's intent to continue a relationship increases as the benefits increase, as the costs decrease, as satisfaction increases, as alternatives decrease in attractiveness, and as the investment size increases. These five variables provide the foundation from which the hypothesized model is formulated.

Our conceptualization of customer value incorporates three of the five variables proposed in the Investment Model. Whereas, the Investment Model conceptualizes benefits, costs and alternatives as separate factors, marketing literature on customer value suggests that customers make an overall value evaluation, or gestalt, incorporating the relative benefits and costs of considered alternative suppliers. In other words, value is conceptualized as the integration of perceived benefits, costs, and alternatives. Using Social Exchange Theory and the Investment Model as theoretical foundation, in this study we propose that Satisfaction, relative perceived Value, and Switching costs (i.e., transaction specific investments and others), are not only variables that facilitate relationship maintenance, but also critical in decisions to return to previously replaced suppliers. However, because suppliers considering returning have past experience with both the replacement supplier and the replaced supplier, they should have very accurate specific information about both. They should have a good understanding about what they like and do not like and the strengths and weaknesses of each. As such, we propose that the relative value of each supplier, the current dissatisfaction with the replacement supplier, and Switching costs will be important to switching-back decisions. However, there are a couple additional variables that need to be considered. These variables are perceived risk of switching-back and the presence of advocates. These two variables will be discussed below.

Risk and advocacy

While perceived risk has received significant attention in studies investigating business relations and supplier choice (Brown, Zablah, Bellenger, Johnston 2011), vendor advocacy and the importance of champions and change agents within the buying center has recent become an important area of inquiry. Some of the first steps in developing a win-back strategy are to identify and assess the substance and strength of residual relationships in the defected customer's buying center (i.e., advocates and blockers) and to estimate how much effort will be needed to regain the lost account (Leach & Liu, 2014). Customers who are considering switching back to a replaced supplier will likely have organizational members who prefer returning as well as those who like the replacement supplier. As such, these organizations may feel the influence of both advocates and adversaries.

Model and hypotheses

The above discussion results in a set of five key variables that are likely to influence customers' switch-back decisions. These are: (1) the relative value of each supplier, (2) the current dissatisfaction with the replacement supplier, (3) Switching costs, (4) perceived risk, and (5) vendor advocacy within the buying-centre.

We conceptualize relative value in four dimensions: (1) value derived from product performance, (2) value derived from lower pricing, (3) value derived from efficient and effective working relations, and (4) the value derived from working with a suppliers larger network of firms. Furthermore, switching costs are seen as a universal moderator that reduced the impact of the other variables as they become larger and more difficult to overcome. As such, we propose the following Hypothesis:

- H1. Buyers' perceptions of the relative product performance value improvement over the replacement supplier will be positively related to switching back to a replaced supplier*
- H2. Buyers' perceptions of the relative pricing value improvement over the replacement supplier will be positively related to switching back to a replaced supplier*
- H3. Buyers' perceptions of the relative relational value improvement over the replacement supplier will be positively related to switching back to a replaced supplier*
- H4. Buyers' perceptions of the relative network value improvement over the replacement supplier will be positively related to switching back to a replaced supplier*
- H5. Buyers' level of dissatisfaction with the replacement supplier will be positively related to switching back to a replaced supplier*
- H6. Buyers' perceptions of the level of risk associated with switching back will be negatively related to switching back to a replaced supplier*
- H7. Buyers' perceptions of the level of advocacy to switch back will be positively related to switching back to a replaced supplier*
- H8. Buyers' perceived switching costs will moderate the relationships proposed in the previous hypotheses and attenuate the positive relationships and enhance the negative relationship between risk and switching-back.*

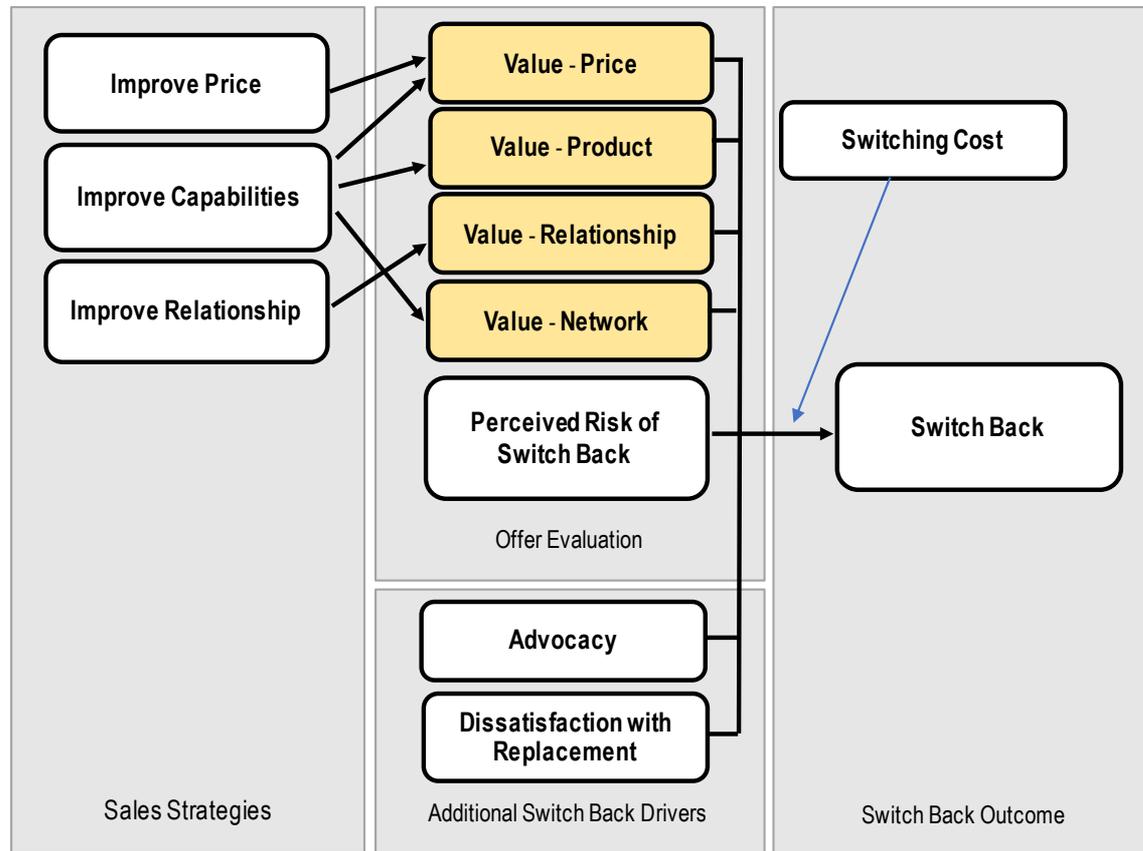
Attempting to examine the effective sales strategies sales organizations employ when working to reacquire these buyers, we also examine the impact on three sales strategies on buyer's perceptions of value. These strategies are (1) reduce price, (3) improve capabilities, and (3) re-establish relationships. Reducing price is expected to improve value from price, while not impacting other dimensions of value. Improving capabilities may enhance value from price, product performance, and the network. Re-establishing relationships will likely improve perceptions of relationship value. Thus, the following additional hypotheses are proposed:

- H9. Buyer perceptions of a suppliers reduction in price will be positively related to Buyers' perceptions of the relative price value improvement over the replacement supplier.*
- H10. Buyer perceptions of a suppliers improved capabilities will be positively related to Buyers' perceptions of the relative product performance value improvement over the replacement supplier.*
- H11. Buyer perceptions of a suppliers improved capabilities will be positively related to Buyers' perceptions of the relative price value improvement over the replacement supplier.*
- H12. Buyer perceptions of a suppliers improved capabilities will be positively related to Buyers' perceptions of the network value improvement over the replacement supplier*

H13. Buyer perceptions of a suppliers improved relationship will be positively related to Buyers' perceptions of the relational value improvement over the replacement supplier

These hypotheses are presented in Figure 1.

Figure 1. Proposed Model and Hypothesized Relationships



Methodology

The data was obtained from a survey of 301 B2B purchasing agents across various industries. Sixty-one percent (61%) of the sample were male with an average of 9.7 years in the buying firm. One hundred and fifty-eight (158) purchasing agents filled the survey recalling a specific supplier to whom they switched back after working with a replacement supplier and other 143 responded based on a specific supplier to whom they did not switch back (i.e., they continued working with the replacement supplier). A confirmatory factor analysis to test the unidimensionality and appropriateness of measurement items was conducted prior to testing hypotheses. This analysis indicated acceptable fit (Chi-square = 1702.8, 657 df, CFI = .966, GFI = .908, TLI = .962, RMSEA = .043). Standardized loadings for each item on its intended construct are presented in Table 1.

A moderated mediating methodology was used to test the proposed hypotheses (see Table 2). Each of the five hypotheses pertaining to how sales strategies were supported (i.e., Hypotheses 9-12). Direct effects were found for relationships between "value from price" and switchback behavior (H2), "dissatisfaction with the replacement" and switchback behavior (H5) "risk", and switchback behavior (H6), and "advocacy" and switchback behavior (H7). Additionally, Moderation by Switching Costs effects were found for the relationships between "advocacy" and switchback behavior, "value from relationship" and switchback behavior, "value from product performance" and switchback behavior. Thus, we found partial support for Hypothesis eight (H8). "Value from the network" is the only variable in this study where neither a direct relationship with switching back, nor a moderated-mediating relationship with switching back when switching costs were low, was found.

Table 1. Measurement Model Item Loadings

VALUE - price	
Saved us money	0.92
Allowed us to reduce our costs	0.94
Had better pricing.	0.90
VALUE - product	
Had Better Performing Products	0.83
Had products that closely met our needs	0.85
Had products/services that better suited our situation.	0.87
Offered a higher level of quality.	0.84
VALUE - relationships	
Easier to do business with	0.86
Work with us the way we like	0.90
We had more confidence in them.	0.87
Were more closely connected with us	0.84
Cared more about our needs	0.87
VALUE - network	
Provided access to high-value supply network	0.82
Provided access to potential new customers	0.78
Working with them enhances our brand	0.86
Strengthens our relationships with our customers and channel partners.	0.85
SWITCHING COSTS	
On the whole, we would have to spend a lot of time and money to switch back to X from Y.	0.77
Overall we would spend a lot of time, and lose a lot if we switched back to X from Y.	0.89
Considering everything, the costs for us to stop doing business with X and start back with Y would be high.	0.85
RISK	
How serious would it be if the chosen supplier provided a solution that underperformed and did not meet our specified parameters.	0.85
How certain were you that X could provide a solution that performed within our specified parameters.	
How serious would it be if the chosen supplier provided a solution with costs higher than expected.	0.77
How certain were you that X could provide a solution that would be priced right.	
How serious would it be if the chosen supplier provided unexpected availability issues and delivery problems.	0.89
How certain were you that X could provide our desired availability and delivery criteria.	
How serious would it be if the chosen supplier provided frustrating exchange relationships and difficulties	0.89
How certain were you that X could provide capabilities facilitating effortless exchange relationships	
How serious would it be if the chosen supplier provided weaker access to a network of business partners than expected	0.82
How certain were you that X could provide access to a network of business partners	
ADVOCATES	
X had many friends within our organization	0.73
We had strong positive relationships with X.	0.78
Key players within my organization appreciated X's products and services.	0.84
X had advocates within my organization.	0.75
SALES STRATEGY - Improve Price	
They gave us price discounts.	0.83
They provided significant discounts on our products.	0.94
They provided heavily discounted or complementary support services.	0.84
SALES STRATEGY - Improve Capabilities	
They developed new capabilities and expertise to be more competitive	0.89
They improved their value proposition in the marketplace.	0.92
They acquired vital knowledge and expertise to enhance their competitiveness.	0.92
They changed their business processes significantly to improve their place in the market.	0.89
SALES STRATEGY - Improve Relationship	
They worked with us to rebuild trust.	0.93
They redeveloped relationships within us.	0.94
They kept us informed of new developments.	0.89
They worked to rebuild their credibility and/or reputation with us.	0.90

Table 2. Findings

			Odds Ratio					Odds Ratio
Improve Price	→ Value - Price	0.07	1.07 *	Switching Cost	* Value - Price	→ Switch back	0.01	
Improve Capabilities	→ Value - Price	0.18	1.2 ***	Switching Cost	* Value - Product	→ Switch back	0.28	0.76 *
Improve Capabilities	→ Value - Product	0.22	1.25 ***	Switching Cost	* Value - Relationship	→ Switch back	0.15	0.85 *
Improve Capabilities	→ Value - Network	0.18	1.2 ***	Switching Cost	* Value - Network	→ Switch back	0.08	
Improve Relationship	→ Value - Relationship	0.41	1.5 ***	Switching Cost	* Advocacy	→ Switch back	0.08	1.09 *
Value - Price	→ Switch back	0.34	1.4 **	Switching Cost	* Risk	→ Switch back	0.03	
Value - Product	→ Switch back	0.46		Switching Cost	* Dissatisfaction w/replacement	→ Switch back	0.05	
Value - Relationship	→ Switch back	0.32						
Value - Network	→ Switch back	0.6						
Advocacy	→ Switch back	0.33	0.72 *					
Risk	→ Switch back	0.33	0.72 *					
Dissatisfaction w/replacement	→ Switch back	0.39	0.68 ***					

In sum, the findings from this study suggest that various factors come into play when business customers switchback to vendors they have replaced. It seems that salespeople and sales organizations can influence switching back behavior and the reacquisition of lost customers. Specifically, Value, Dissatisfaction, Risk, Advocacy are important to switch back behaviors when switching costs are low. When switching costs are high decisions can still be driven by risk, price, and advocacy.

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