Chapter 8
Effect of Mediating Factors on Customer Defection with Special Reference to Banking Industry in India

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ABSTRACT

People who were practicing Marketing exercise’s and Academicians thinks that “4 Ps” marketing framework – product, price, place and promotion adds less value to their interest or business where ongoing relationship is critical. In a process of finding a way to overcome these marketers has evolved a concept of Relationship Marketing which talks about understanding customer segments, delivering ongoing quality service, and achieving high customer satisfaction. Relationship marketing was about “putting the customer in the middle of the business circle,” in the words of Dick Lee, principal of St. Paul-based Hi-Yield Marketing. Customer Relationship management is the strongest and the most efficient method of maintaining and creating customers. The challenges for marketers doesn’t stops here, as market matured from national to international to global, customer retention and acquisition become more crucial and challenging for them. Multiple options broaden the path for consumer to get access over many products and services, creating a high probability of defection. Now they have new challenge to face that is “Defection”. They are trying hard to understand what they are supposed to do so as to increase customer retention and decrease customer defection. This paper tries to understand the mediating effect of sources on customer defection (Objective knowledge versus Subjective Knowledge) and its important act on consumers repurchase behavior.

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Effect of Mediating Factors on Customer Defection

1.0 INTRODUCTION

A lost customer is one who has established a relationship with the company but now has terminated the relationship (Homburg et al., 2007:461).

Many research has been carried out to find the best possible ways of Customer Acquisition, Retention, and Expansion but very few studies highlights on the challenges faced by marketers to during this course of action specifically when environmental drivers for defection is high. A research done in America proves that most of the American CEO’s are struggling hard to manage their customers attrition rate which altogether compounded on average, U.S. corporations lose half their customers every five years. Reason might be any like customers see a deteriorating stream of value from the company. or, a climbing defection rate is a sure predictor of a diminishing flow of cash from customers to the company—even if the company replaces the lost customers. Jet, researchers have found that attracting new customers is five times more costly than retaining existing ones. Recently, companies have become more aware of this dilemma, and have begun focusing on strategies to win back lost customers (Athanasopoulou, 2009).

1.1 Customer Defection

There can be many drivers for developing a mode-of-operandi so as to interact with customer but Service quality is taken as one of the prominent among them. Today’s Customer when purchase a product evaluated firms own perspective about what they are offering to them and also measures the company’s service performance, and their opinion of the quality of this service (Shepard, 1999). This may also mean that though service quality is taken as a variable impacting intention but may not lead to behavioral change. Keaveney (1995) has stated that even satisfied customers may terminate a relationship to switch to a different company. He also developed a model exploring the various drivers triggering the switching behavior among consumers.

Defection not only effect Marketing activities adversely but also to financial services of an organization. However (Arndt, 1967; Mizerski, 1982) experienced that aggrieved customers spread negative word-of-mouth about firm product or services to others also. Sonnenberg (1990) states that customers who leave a company because they have been dissatisfied with the service are believed to tell nine to ten people about their experience. Word-of-mouth is clearly a double-edged sword.

According to Hesket et. Al (1994), high satisfaction is not indicative for firms high growth or decline in turnover, consumer repurchase intention can be positively related with satisfaction and

Customer defection is a very important issue in any competitive market affecting the profitability. A research (Reichheld 1996; Reichheld and Sasser 1990) reported that 123 the net present value increase in profit that results from a 5% increase in customer retention varies between 25 and 95%. In the simplest sense, customer defection will be a problem as it cuts out the service firm’s future revenue stream from the defected customer. But this doesn’t end here as customers that do not defect increase their spending at an increasing rate, purchase at full-margin rather than discount prices, and create operating efficiencies for service firms (Reichheld and Sasser 1990), the loss of a continuing service customer is a loss from the high-margin sector of the firm’s customer base. Furthermore, the new customers that come in also cost much as the firms now incur the initial costs yet again—this includes new account setup, credit searches, and advertising and promotional expenses. The sum total of this can add up to five times the cost of efforts that might have enabled the firm to retain a customer (Peters 1988).
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