

Customer Retention Practices Among the Major Retailers in Malaysia

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Abstract

Since the last decade, many companies perceive the retention of the customer as a central topic in their management and marketing decisions. A firm can increase profits by 25-95 percent if it could improve its customer retention rates by 5 percent. A retained customer will be loyal due to the attachment and commitment to the organization. This customer will, then, recommend others to purchase and repurchase the companies' products and services. Review on past literatures indicates that studies on customer retention concentrated more on the manufacturing sector over the retailing despite its growing importance as a major service sub-sector. This study explores literatures pertaining to the factors that influence customer retention and its measures at great length. Factors such as top management support, switching costs, perceived service quality, customer satisfaction, interaction with customers, pricing, membership and employees are found to significantly influence the customer retention rate while customer retention rate can be measured by evaluating their characteristics in terms of repeat purchases, willingness in spreading positive word of mouth (WOM) about the company to others, insensitiveness towards the changes in pricing of products and attitude of praising (not complaining). Based on the thorough literatures done, a theoretical framework is proposed and some possible recommendations are put forward for future researches.

Keywords: Customer retention, Customer loyalty, Retailing and Services sector

1. Customer Retention and Retailing Sector

Since the last decade, many companies perceive the retention of the customer as a central topic in their management and marketing decisions (Van den Poel & Larivie`re, 2005). Most of the studies about customer retention argue that retaining customers improves profitability, importantly by reducing the cost incurred in acquiring new customers (Reichheld and Kenny, 1990; Schmittlein, 1995; Reichheld, 1996). Firms that constantly attract new customers will not be able to witness increases in profits if they are unable to retain them but at the same juncture, it is not rewarding to maintain every customer, since it is very costly [Anderson and Mittal 2000 IN Woo and Fock 2004]. This is supported with findings of (Reichheld and Schefter, 2000) which discovered that a firm can increase profits by 25-95 percent if it could improve its customer retention rates by 5 percent. A small shift in customer retention rates can make a large difference for the firm's profit which will accelerate over time (Reichheld, 1993; Wright & Sparks, 1999; Zeithaml et al., 1996).

Inherently, a retained customer will be loyal due to the attachment and commitment to the organization. This customer will, then, recommend others to purchase and repurchase the companies' product and services (Diller, 1996; Diller and Muellner, 1998; Gremler and Brown, 1998; Homburg et al. 1999; Oliver, 1999).

Retailing is identified as one of the top contributors for service sector worldwide (Currah and Wrigley, 2004; Kaliappan et al., 2008) which constantly evolves over time. It is believed that customer retention strategy will be a vital management tool for retailers to survive and grow in the very competitive sector as retailers encounter fierce competition both from local and foreign retailers alike and as well as from non-traditional retailers such as online retailers (Levy, 2009). Review on past literatures indicates that studies on customer retention concentrated more on the manufacturing sector over the service (retailing) sector (Anderson and Sullivan, 1993) despite its growing importance to the development of nations (Hernandez, 2004; Ganz, 2005).

As such, this study intends to explore customer retention practices among the major retailers in Malaysia. It should be noted that retailing has been one of the most dynamic sub-sectors in the Malaysian economy, which endured constant transformation over the years (Mui et al., 2003). This study explores literatures pertaining to the factors that influence customer retention and its measures at great length. Accordingly, a theoretical framework is proposed and some possible recommendations are put forward for future researches.

2. Influencing Factors of Customer Retention

Customer retention requires clear direction and this is the first strand of customer retention (Farquhar, 2004). In order to effectively retain customers, a significant commitment and clear signal from company's top management is highly required. Top management need to adopt a more holistic approach in order to be more receptive towards latest changes in the industry.

With this, the impact of functional barriers and hierarchies of an organization can be reduced which will enable the company to be more competitive in retaining their customers (Dawes and Swailes, 1999).

Switching costs also plays a vital role in customer retention (Chen and Hitt, 2002; Kim et al., 2004). The switching cost includes all costs incurred when a customer switches between different brands of products or services and when it consists of loss and gain costs. Loss costs occurs when customers leave their service providers while gain costs occurs when the customers start to subscribe to a new service or gains a new product [Burnham, et. al. 2003].

Customer retention greatly depends on how customers perceived service quality (Kim et al., 2004). They found that unique features of products, value added services, customer support, price and convenience in procedures significantly influence the perceived service quality. It is discovered that retained customers tend to have higher levels of perceived service quality. Besides, customer satisfaction is also related to the customer retention rate (Reinartz and Kumar, 2003) where more satisfied customers stay longer if the switching costs are similar and there are no contractual obligations.

Relationship marketing has been identified as an important tool to foster long term relationships with all customers in general, profitable customer in particular (Dawes and Swailes, 1999). Interactions with customers would be most effective if sustained through relationship marketing where companies can obtain effective interactions via discussions with individual customers (Farquhar, 2004).

Employees are able to exceed the customers' expectations when they are empowered, knowledgeable and have access to customers' information (Farquhar, 2004). If the staffs are given more power, greater access to information, adequate knowledge and enormous training (Bowen and Lawler, 1995; Dawes and Swailes, 1999) they are in a better position to delight customers and ensure customers stay longer.

Voss et al. (1998) found that the price of company's offerings does affect customer satisfaction and hence it influences customer retention. It is perceived that price set is likely to improve both post-purchase satisfaction and intention to return (Jarvenpaa and Todd, 1997; Liu and Arnett, 2000). The fairness of the price is the dominant determinant of satisfaction and it also influences the subsequent intention to return and stay longer with the company.

According to Diller (1997) customer membership is very essential in improving the interaction frequency between company and its customers via creation of contact and feedback opportunities. With the membership, each customer contact with company begins with the registration of detailed information regarding the individual, their interests and demand structures. This information will then be linked to customer data, which forms the basis for individualized marketing measures. Existence of information systems greatly facilitates the record keeping of customer membership (Farquhar, 2004) which will be beneficial in the company's decision making process particularly in serving and keeping customers satisfied.

3. Measures of Customer Retention

Customer retention has become a vital goal for firms that emphasize on the relationship with customers (Coviello et al., 2002). While the precise meaning and measurement of customer retention can differ by industries and firms (Aspinal et al., 2001; IN Ang and Buttle, 2006) there appears to be a general agreement perceiving customer retention as a tool to yield several economic benefits. Retained customers' purchases increasingly grow bigger together with the referral they made during their lengthy tenure with the company. This results in a decrease in the cost of maintaining relationships with customers. Besides, retained customers may pay higher prices than newly acquired customers and are less likely to receive discounted offers that are often made to acquire new customers. All of these conditions combine to increase the net present value of retained customers (Aspinal et al., 2001; IN Ang and Buttle, 2006).

Ahmad and Buttle (2002) suggested practitioners to employ Key Performance Indicator (KPI) – related metrics, i.e. raw, sales-adjusted, or profit-adjusted metrics, to assess the customers' retention rate. Companies that adopt raw customer retention metrics focus on the retention of a given percentage or number of customers, regardless of the value. Companies that use sales or profit-adjusted retention metrics will focus their efforts on customers that generate higher levels of sales or profits instead of all customers.

On the other hand, (Bowen and Chen, 2001) have perceived that retained customers are those who continuously stay with the company. They have discovered three distinctive methods to measure the retention rate of these customers. Behavioral, attitudinal and composite measurements are these three methods. The behavior measurement method is defined as consistent and repetitious buying behavior (Oliver, 1999; Bowen and Chen, 2001). However, it is found that the consistent and repetitious buying behavior does not reflect buyer's commitments towards the company which subsequently leads to difficulty in assessing customer's retention rate. For an example, school students always buy stationeries from the bookstore located within school compound due to the aspect of convenience. However, arrival of an online shop selling stationeries would influence more students to switch from traditional to e-book stores. It symbolizes that customers with repetitious buying behavior will not necessarily be committed and loyal towards a company unless the company provides distinctive benefits intended for them.

Secondly, customer retention rates can also be assessed by measuring customers' attitudinal data which reflects the emotional and psychological attachment of customers (Bowen and Chen, 2001). This measure relates to a sense of loyalty, engagement and adherence. There are customers who hold a favorable attitude about a company i.e. spread positive word of mouth about a company to friends, but he or she does not purchase from the shop due to specific reasons i.e. high retail price. Although the customer did not make any purchases, he or she is still perceived as a loyal customer considering his or her positive attitude towards the shop.

The third approach of measuring customer retention is composite measurement combining both behavioral and attitudinal measurements (Bowen and Chen, 2001). This approach is said to be a great tool in assessing and understanding customer loyalty and their retention rate. With this approach, customers are said to be loyal and retained with the company when they make continuous purchases and hold favorable attitudes towards the company.

Customer retention has also been characterized as the degree to which a customer exhibits repeat purchasing and price tolerance behavior to a company in addition to positive attitudinal and cognitive disposition (Ahmad and Buttle, 2002; Hennig-Thurau, 2004). Besides holding a favorable attitude and making repeat purchases, loyal customers are believed to be compromising with any prices imposed by the company.

In addition to repeat purchases and price tolerance (Zeithaml et al., 1996) have adopted two additional measures namely word-of-mouth communications and complaining behaviour in measuring the retention rate of customers. They argued that customers, who spread positive word of mouth among his or her social contacts, tend to stay longer with the company (Kumar, et al., 2007). Often, these customers become reference group for the potential customers. On the other hand, the retained customers are likely to complain less about the company and its offerings and vice versa for those customers who are disloyal.

4. Construction of Research Variables

Factors such as top management support, switching costs, perceived service quality, customer satisfaction, interaction with customers, pricing, membership and employees (Diller, 1997; Voss et al., 1998; Dawes and Swailes, 1999; Reinartz and Kumar, 2003; Farquhar, 2004; Kim et al., 2004) are found to significantly influence the customer retention rate of any firms including retailers. This study proposes that these contributing factors towards customer retention can be categorized into two namely internal and external. Internal factors shall consist of top management support, interaction, pricing and employees whereas external factors shall consist of switching costs, perceived service quality, customer satisfaction and membership.

On the other hand, customer retention rates can be measured by evaluating their characteristics in terms of repeat purchases, willingness in spreading positive word of mouth (WOM) about the company to others, insensitiveness towards the changes in pricing of products and attitudes of not complaining (Bowen and Chen, 2001; Ahmad and Buttle, 2002; Hennig-Thurau, 2004; Kumar et al., 2007). Accordingly, this study proposes that customer retention rates can be measured by dividing them into three levels namely Level 1, 2 and 3. At Level 1, customers posse any one of the characteristics of repeat purchases, spreading positive WOM, insensitivity towards changes in price and not complaining. At Level 2, they posse any two characteristics while at Level 3 customers posse all the four characteristics of retained customers. Figure 1 illustrates the proposed theoretical framework for this study. It explains that both internal and external factors significantly influence the customer retention level.

Customer retention is beyond satisfying and maintaining existing customers. Hence, attention on this area is greatly needed in order to further improve the firm's performance. It is believed that customer retention strategy will be a great management tool for retailers to survive and grow in the very competitive retailing industry. This is due to competition faced not only from local retailers but also from foreign retailers in addition to their online counterparts.

5. Research Opportunities

The proposed framework (Figure 1) can be used to examine the factors that greatly influence customer's retention and determine its impact on the current retention rate at major retailers. As such it will enable practitioners to uncover the most and least contributing factors towards customer retention and in which they can spend more resources on the top contributors in order to capitalize on the resulting advantages. Such research should employ the triangulation method in which, initially, a descriptive survey can be used and it should be continued with structured interviews in order to comprehend the findings. Respondents should consist of the shoppers at major retailers. This is because those who shop at major retailers can be easily sampled considering their particulars are readily available with the retailers via loyalty programme. Besides, insights to these shoppers will be very significant in view that these shoppers or final customers have plenty alternatives to choose from. Hence, they can clearly distinguish the important aspect which convinces them to be retained with a particular retailer.

Future researches can also be conducted on the advantages resulting from customer retention strategy by focusing on retailers. It is also suggested to examine the impact of influencing factors on the advantages of customer retention. In addition to this, a cross-comparison study on customer retention between different economic sectors can be done in order to further understand the different practices of customer retention management.

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FIGURE LEGEND

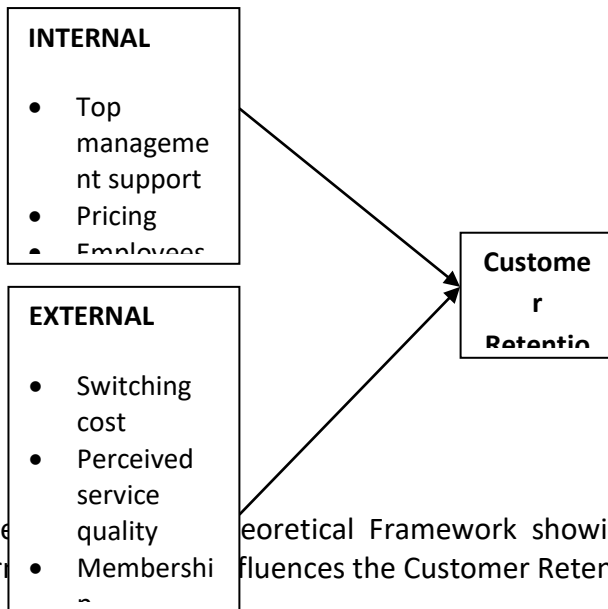


Figure 1: Theoretical Framework showing the Relationship between Internal and External Factors that Influence the Customer Retention Level