RELATIONSHIP MARKETING – A CLIENT RELATIONSHIP LIFECYCLE PERSPECTIVE – THEORETICAL CONSIDERATIONS ON THE CLIENT ACQUISITION AND RETENTION PHASE

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Abstract:

The purpose of this paper is to review conceptually the first two phases of the client relationship lifecycle. In this regard, the author has structured the paper in two parts, the first one describing the client acquisition phase, and the second one the client retention phase. Thus, the client acquisition phase describes the actions undertaken by both the client and the company for starting an exchange relationship. Client retention is defined by using different theoretical surrogates (e.g. loyalty, rebuying behaviour), and determinants (e.g. satisfaction, social effects, anticipated regret of future use). Moreover, the dynamic character of this phase is taken in consideration by presenting the specific phases of the client-company relationship in accordance with the exchange and relationship marketing theories.

Keywords: relationship marketing, client relationship lifecycle, acquisition phase, retention phase

JEL classification: M31

1. Introduction

According to the relationship marketing theory (Bruhn, 2009), the client acquisition phase represents the beginning of client-company relationship. This phase can be divided in two sub phases: initiation and socializing phase. Within the initiation phase, no transaction will take place between the client and the company; the client accumulates information about the company, about its offering and how this offer could solve his actual and future

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problems. Simultaneously, the company develops client acquisition specific actions (for example: communication programs that aim creating client awareness regarding the company’s offer). After the first transaction between the client and the company has taken place the initiation phase ends and the socializing phase begins. Within the socializing phase, the client is getting familiar with the company in general, and with its offer in particular. Through consumption based experiences, the learning process of the client regarding the company improves. On the other side, the company attracts the first information about the client and uses them for further customized offerings and experiences. Overall, the acquisition phase represents a financial loss for the company because of the high initiation and socializing costs and the reduced amount of sales (one sale). The company’s objectives in this period are winning clients (initiation phase) and getting clients familiar with the company’s offer (socializing phase). The actions throughout which these objectives can be achieved are part of the company’s marketing communication efforts (informing potential clients, creating awareness regarding the company’s offer) which target the company’s prospects (initiation phase) and, afterwards, each individual client (socializing phase).

The second phase of the client-company relationship is considered to be the retention phase (Bruhn, 2009) which begins when a client buys for the first time. Relative to the relationship development, the retention phase can be structured in two sub-phases: growing phase and maturity phase. From the company’s perspective, the growing phase targets the client’s buying potential by determining cross-selling acts. The client’s need for achieving a complete solution for his problems can be satisfied by the company through customized offerings. Within the maturity phase, the client’s buying potential is exhausted, the company’s purpose is to keep the sales per client volume at a maximum level. Within the retention phase (both growing and maturity phase), the sales volume exceeds the initial acquisition costs and ongoing retention costs, thus profits are obtained. Client retention can be observed through behaviors like rebuying and recommendation.

2. Client acquisition phase

The exchange theory describes relational exchange from the buyer-seller perspective without detailing these elements, nor their relationship according to the characteristics of a particular market. In general, the buyer-seller relationship is defined as a five stages process: awareness, exploration,
extension, commitment, and dissolution. The first two stages are relevant for understanding the client acquisition phase.

The awareness phase is described as the recognition of one part of the exchange partner quality of the second part. Indifferent of which part, such a recognition is influenced by situational factors which are highly unpredictable.

Within the exploration phase, the exchange partners’ efforts are of searching and trying. Through their interaction, the exchange partners try to determine the responsibilities, benefits and impediments of a future exchange. There are five processes which conceptualize this exploration phase (Scanzoni, 1979): attraction, communication and bargaining, development and exercise of power, norm development, and expectation development. Attraction represents the beginning of the exploration phase, being the result of a process through which every part has evaluated the counter-part according to the perceived benefits/costs ratio of a future exchange. The perceived benefits can be tangible (monetary) and intangible (perceived utility); the associated costs can include economic factors (monetary) or social ones (negative imagine due to the counter-parts bad reputation). Communication and bargaining are means used by the parts to settle responsibilities, benefits and impediments of the future exchange. Such a consent state-of-mind is reached by the company’s external communication efforts and by the client’s informing process (consumer markets). Development and exercise of power represent the means used by the parts to impose their points-of-view in the initiated relational exchange. This power exercise is based on the scarcity of resources hold by one part and desired by the other. Because of demand and supply atomicity, for the consumer markets the power pole has shifted from the supply side to the demand side (especially for the goods characterized by high price elasticity). The consumer exercises his power through his buying behavior, switching and recommendation behavior. Norm development prescribes certain behaviors that should be adopted by the parts in future exchanges. A spontaneous consent of the parts can generate a one-time exchange, but does not guarantee an exchange relationship. Such norms are very effective for the company’s selling force which should precisely respect the specific selling phases for facilitating future exchanges. Expectation development contains the level of unity or conflict of the parts regarding a future exchange. Trust is considered the most important factor for managing the relational expectations of the involved parts. The two phases (awareness and exploration phase), along with the five processes (attraction,
communication and bargaining, development and exercise of power, norm development and expectation development) are of high importance for the relational context because of their purpose: to test the compatibility of the parts’ objectives, integrity, and performance.

A structured process of the company-client relationships is also developed by the inter-organizational marketing literature (Ring, 1994). The exchange concept is based on other forming elements due to the parts involved in the exchange – companies. These enter exchange relationships (exchange network) either for buying resources and equipment needed for their production process, or for selling their own products. The exchange relationships between two or more companies are defined as inter-organizational relationships, and include strategic alliances, partnerships, coalitions, joint-ventures, franchises, research consortium and different forms of network organizations. In most of the cases, the inter-organizational relationships respect a legal framework and their actions are based on fair exchange and efficiency. Fair exchange is defined as a ratio between the company’s investments and the obtained benefits; while efficiency is representing the concept by which a transaction is finished rapidly and at the lowest cost. Cooperative IORs (inter-organizational relationships) are the result of three successive phases: negotiation, commitment, and execution, all of them guided by fair exchange and efficiency. The client acquisition phase (specific for relationship marketing) is similar to the negotiation phase where the parts develop together expectations regarding the motivations, investments, and uncertainties of a future exchange. This phase is dominated by the standard business negotiation procedures which aim to achieve consent. Consent is considered a socio-psychological process throughout which the negotiating parts estimate each other’s potential to get involved in a relationship by clarifying their own objectives and identity (Weick, 1979). Through their interaction, and particular through communication, the parts transmit their perceptions regarding the negotiation process; a congruence of these perceptions result in the ending of the negotiation and the initiation of the contractual relationship. A very important concept of this stage is the psychological contract which differs from the legal contract by its unwritten form; the psychological contract contains one part’s expectations and suppositions regarding the other part’s responsibilities and prerogatives for a future exchange. In some situations, the parts are not fully aware of this
psychological contract, but, a future fulfillment of the expectations and prerogatives will initiate the parts’ mutual trust.

The new dominant service logic (Vargo, Lusch, 2004) represents a new understanding of the marketing concept. The main elements which built up this theory consider the company’s resources (operand and operant). Moreover, the new dominant logic considers that production companies will become service provider companies and that the provided services will replace the products as the core part of the companies’ offer. The client acquisition phase is correlated with the relationship initiation phase (Edvardsson, 2008). The initiation phase of the relationship is described based on seller-buyer pair and differs from other approaches by its dynamic and recursive structure. Thus, the concept of relationship status is introduced as a stage valence which can evolve or not into the next relationship stage. The dynamic of the initiation process is understood through convertors and inhibitors; convertors are those factors which trigger the progress of the initiation process from one status to another, while inhibitors represent those factors which block the progress of the initiation process, and in some situations determine status regression. Three forms of status were developed for the initiation process of a client-company relationship: (1) unrecognized status specific for the situation in which none of the parts knows any information regarding the other one. The unrecognized status will be transformed in a recognized status (2) if one of the two parts recognizes a collaboration opportunity with the other part. The initiation process ends when the negotiating parts reached a consent (agreement) about their future collaboration materialized formally through signing a contract and/or informally through hand shake. There are three types of convertors accepted by both the seller and the buyer: trust, time and service offer; they are interdependent one of each other because the service offer must be consistent in time so that trust can arise. Along with the convertors, the inhibitors manifest also three forms: bonds, risk and image which can block the progress of the relationship initiating process. Thus, image is understood as the buyer’s perception of the seller, perception which can be influenced directly by the selling agent (communication efforts and quality of the provided services) or indirectly (experience of other buyers). Risk can be defined as the buyer’s estimation regarding the difficulties he will encounter in his relationship with the seller. There is a reverse relation between risk and trust, as trust rises so the perceived risk lowers. Bonds represent a sociological construct based on explicit and implicit factors which create inertia within the
relationship. Moreover, bonds are built on the learning process (direct and/or indirect learning) of the buyer and result in preferences and loyalty towards a specific seller.

3. **Client retention phase**

According to the relationship marketing theory, client retention is considered a strategic objective in the relationship marketing context; thus, the specific literature is oriented towards defining client retention and identifying its determinants and effects on the company. Client retention definition should take in consideration concepts like: rebuying behavior and brand loyalty, concepts which are misused as synonyms. Brand loyalty is a construct that includes both a behavioral, and an attitudinal dimension (Jacoby, Chesnut, 1978). The client’s rebuying behavior can be considered a part of client retention if this specific behavior is a result of the company’s actions (Henning-Thurau, Klee, 1997). Thus, the company plays an active role in creating client retention and therefore the client retention definition of representing those client specific buying behaviors resulted from the company’s actions. By reviewing the literature, the author has determined three ways for measuring client retention:

1. Through monetary variables (sales or profit) (Reichheld, Sasser, 1990); thus, the client’s individual buying behavior is replaced by an aggregate expression of monetary data;

2. Through rebuying intention (Oliver, Swan, 1989)

3. Through real buying data, at individual level.

Research regarding client retention (Crosby, Stephens, 1987 and Guo, Xiao, Tang, 2009) had mainly studied the relationship client satisfaction – client retention in general, and client satisfaction as a cause for client retention, respectively. The simplicity of this relationship, which in many cases does not exist or is very low, has extended the number of factors which can be considered determinants of client retention.

Based on the Theory of Reasoned Action (Fishbein, Ajzen, 1975), the authors Guo, Xiao, Tang assign the elements of the attitude-behavior relationship to the satisfaction-retention relationship. The theory of reasoned action considers that the individuals’ attitudes and intentions determines their observable behavior. Considering attitude as the learned predisposition to react favorable or unfavorable consequently towards an object or a class of objects (Catoiu, 2002), we can differentiate attitude according to its object.
Thus, the client’s attitude object can be a client’s target like the organization or their behavior. Attitude toward target is measured by using a surrogate in the form of client’s satisfaction regarding the company. The two components of the attitude towards target: behavioral beliefs (expected utility resulted after the behavior of being the company’s client) and normative beliefs (social compliance resulted after the behavior of being the company’s client) influence the attitude towards the future behavior of being the company’s client. By analyzing the model proposed by Guo, Xing and Tang, the following can be considered: (1) client satisfaction towards the company can be related with attitude towards a target if satisfaction is dynamic as a flow of cumulated experiences; (2) attitude towards remaining the company’s client mediates the relationship attitude towards target – behavioral intention of remaining the company’s client, thus the satisfaction-retention relationship; (3) behavioral intention is used as a surrogate for client retention. The research results have validated the existence of direct and indirect influences of attitude toward target on attitude toward behavior. The indirect influence over attitude towards behavior is done through utilitarian motives (expected benefits) and social one (respecting the social norms through behavior); both motives favor the attitude-behavior relationship. By considering the surrogate attitude-behavior for the satisfaction-retention relationship, the following limitations can be spotted: (1) client retention cannot be measured only through their intention to remain the company’s clients (rebuying intention) and (2) client retention is not considered a direct effect of the company’s marketing actions, but, maybe, an indirect one through attitude towards target.

The marketing literature considers the client’s loyalty towards a company equivalent to client retention (Morgan, Hunt, 1994). Client loyalty towards a company is considered a two-sided structure based both on the emotional commitment of the client and on their rational one. Thus, the clients’ commitment (affective and rational) is a determinant of client retention. The affective dimension of client commitment manifests itself through the client’s personal interaction, reciprocity and trust in the company, while rational commitment is created by the company though relationship marketing actions that result in higher switching costs. The influence of the client’s rational commitment is defined and measured through his buying intentions, ignoring the actual buying behavior of the client. The mentioned limitation is sought to be eliminated by the authors Gustafsson, Johnson and Roos (2005) which measure the clients’ retention through an observable buying behavior, their
churn rate. Their model consists of four determinants of client retention: affective commitment, rational commitment, client satisfaction, and situational factors. The main difference between the two forms of commitment and satisfaction is that satisfaction is a result of past experiences, while commitment is future oriented. Situational factors represent a category of observable variables which influence directly the client-company relationship; for their model, the authors consider two types of situational factors: (1) events that take place in the biological lifecycle of the client (Bruhn, 2009) and which modify the clients’ lifestyle because of the occurrence of new consumption needs, like: changes of family structure, changes of workplace or financial status and (2) factors that trigger consumption related reactions like: decline in company’s performance before purchase, during purchase, or during consumption. The research results can be summarized as follows: (1) client satisfaction influences negatively the client churn rate, its effect on client retention being a positive one, (2) when affective commitment is associated with satisfaction, it has no effect on the client churn rate (affective commitment and satisfaction measure the same information type), (3) rational commitment influences negatively the client churn rate (and positively the client retention rate) and is representing the general company’s competitiveness.

An alternative model for client retention based on determinant factors was developed by the authors Henning-Thurau and Klee (1997). They consider that satisfaction does not directly influence client retention, but indirectly through a mediating variable: client’s quality perception of the company. Quality perception represents a high-order psychological construct and is the result of a flow of felt satisfaction, while felt satisfaction appears spontaneously and discrete and is emotion-based. Based on some internal standards, the client’s perceived quality of the company’s offering is presumed to have three states: progressive, stable and resigned. Moreover, the comparison of the company’s perceived quality with the perceived quality of the competition is considered to be a better predictor of client retention than the absolute values of the perceived quality. Along with client’s trust in the company, client’s commitment towards the company, the perceived quality of the company’s offer influences the perceived quality of the client-company relationship. By taking in consideration a set of situational (time, pressure, financial constraints, etc.) and intra-psychological factors (variety seeking),
the perceived quality of the relationship is considered to be the main determinant of client retention.

Research specific for the service marketing domain contains a client retention model which is different from the previous presented ones. The authors Lemon, White, Winer (2002) consider that the pair satisfaction-retention is insufficient in explaining and predicting client retention. Thus, the proposed model contains, along with general felt satisfaction, two other variables (client expected future use and anticipated regret) as determinants for client retention. The expectations regarding a future use of a service are triggered by a mental stimulation process which is defined as the cognitive construction of some hypothetical scenarios and the rebuilding of scenarios that happened. The mental stimulation function is to create expectations and to confirm a particular behavior. Thus, the client’s expectations for future use are based on his former expectations regarding the service and his accumulated experiences through service usage. In this respect, client retention is considered to be influenced by the client’s expectations for future use and the client’s general satisfaction with the company. Within the proposed model, client retention is measured through a variable with two categories (the first category is specific for the situation in which the client has used the service in a particular period of time, while the second category represents the client’s not usage of the service in the same period of time). Client retention is once again associated with the actual buying behavior of the client and not through his buying intention, thus eliminating the attitudinal dimension of client loyalty. The research results can be structured in three main ideas: (1) If both variables (general satisfaction and expectation for future use) are included in the proposed model as determinants of client retention, the expectations for future have a higher influence on client retention than general satisfaction does. Considered separately, both variables have a positive and high influence on client retention; (2) Expected future use mediates the influence of general felt satisfaction on client retention; (3) Expected future is not influenced by the company’s communication efforts, having thus, no influence on client retention. The lack of correlation between the company’s communication efforts (measured through two different variables) and the clients’ expected future use guides us to formulate some assumptions regarding the client retention definition. (a) If the company’s communication efforts do not influence the client’s expected future use, it can be assumed that these efforts either influence another determinant of client retention (maybe anticipated
regret) or do not influence client retention at all; (b) according to the assumption that expected future use is directly influenced with a decreasing rate by the past usage expectations, it can be stated that the company’s communication efforts have the highest influence on the initial client expectations regarding the first use and, thus, are part of the client acquisition phase; (c) the company’s marketing actions should target either a growth of the client’s expectations for future use, or an increase of the actual service/product usage/consumption degree.

Another extension of the satisfaction-retention relationship considers the client’s anticipated regret regarding a future behavior as determinant for client retention. Regret is defined as that negative feeling, cognition based, felt by an individual when he is aware or imagines himself that his actual situation could have been another one (more favorable) if he had adopted another behavior (Zeelenberg, 1999). Anticipated regret can appear before or within the client’s decisional process with the inclusion of the chance of regretting the result of some future behavior. The occurrence of regret as a result of a certain behavior is more probable if the actions were done conscious (voluntary) relative to the situation were actions were omitted. This assumption is in accordance with normative theory which states that individuals feel a more intense regret if their actions differ from the social norms. In the context of services and relationship marketing, it can be stated that the clients who consider anticipated regret in their decisional process have a lower probability of giving up a certain service relative to the clients who do not consider it. The relation anticipated regret – retention is mediated by the client’s satisfaction, thus, anticipated regret has a higher influence on the clients characterized by a low level of satisfaction relative to the highly satisfied clients. Based on the upper statements, companies can include anticipated regret in their communication strategies for maintaining a proper retention rate. In this regard, the company should communicate the possible unfavorable situations which can occur of the client decides not to use the company’s offer anymore. By underlining the possible regret situation, the company can shape a favorable context which leads to an enhancement of the clients’ satisfaction or transform dissatisfaction into satisfaction.

Another category of factors which influence the clients’ retention takes the form of social effects. Social effect or influence can be understood as a set of information shared by people which are linked one with another. Social influence manifests itself as a social and normative pressure which reduces the
clients’ uncertainty and pressure in seeking information and adopting a specific behavior. Research done by Nitzan and Libai (2011) study the influence of social effects on client retention. In their model, the mentioned authors consider that client retention is determined by two categories of factors: (1) traditional influence factors of retention, like: client satisfaction, usage patterns, tenure, and demographics, and (2) social influence factors of retention, like: exposure, effect of time, degree of connectivity, homophily, and tie strength. The novelty of this research consists in including social effects as influence factors of retention. In this regard, exposure is defined as the clients’ presence who renounced to the company’s offer, in the social system of another client which, also has renounced the company’s offer. Tie strength is understood as the communication intensity between two clients. Homophily is measured as the percentage of the common demographic characteristics of two clients relative to all demographic characteristics. Degree of connectivity is defined as the number of clients a certain client has communicated with in a specific period of time. Effect of time measures how the drop out of one client has influenced (dynamically) the drop out decision of another client which was part of the first client’s social system. The research results confirm that the hazard of dropping out the company’s offer is higher when: (1) the number of contacts the client does with the company, (2) the degree of service usage decrease, and (3) the number of conversations in other networks increases. Moreover, the influence of the social effects on the client retention can by synthetized in the following ideas: the client’s exposure has a direct and strong influence on his retention, while the other factors (tie strength, homophily, degree of connectivity, and time effect) have a direct and weak one.

4. Conclusions

Relationship marketing theory considers client retention a direct effect of his perception regarding the quality of his relationship with the company. Alongside with perceived quality of the relationship, Verhoef (2003) considers a second set of determinants for client retention, loyalty programs and direct e-mail (relationship marketing instruments). The members of a loyalty program have periodical benefits (economic benefits) in accordance with their past
buying behavior (e.g. monetary value of bought products, bought brands, etc.). Companies develop loyalty programs for increasing the client retention of some market segments by offering high levels of satisfaction and value (Bolton, Kannan, Bramlett, 2000). Direct e-mails contain specific features, like: customizing the company’s offer according to the client’s profile, client’s possibility to react (reply) and, lack of competition for the client’s attention (Roberts, Berger, 2000). The client’s perceived relationship quality is a psychological construct which presumes both an internal evaluation manifested through the client’s engagement, and an evaluation of the company’s offer resulting in client satisfaction and client perceived value (Rust, Zeithaml, Lemon, 2000). Client engagement is defined as the measure in which a partner is eager to continue a valuable relationship; its affective component is considered a cause for client retention. Satisfaction is understood as the emotional state-of-mind which results from the client-company interaction; perceived value (or payment equity) is linked with the price the client pays for a product or service. Client retention and share are two behavioral variables (which try to be explained), thus, the author (Verhoef, 2003) considers only the behavioral dimension of client retention, excluding the attitudinal one. The research results in the following conclusions: (1) affective client engagement can be considered a determinant for both client retention and share, (2) direct e-mail increase, in time, the client share; loyalty programs extend the relationship period and increase the client share.

Exchange theory elements contribute to a better understanding of the client retention phase. Out of the five exchange phases (awareness, exploration, extension, commitment, and dissolution), extension and commitment can be linked to the client retention phase. The extension phase of the buyer-seller relationship is characterized by an increase of the benefits for both parts involved in the exchange. By fulfilling the exchange obligations, trust between the parts appears, determining them to get involved in more risky exchange interaction. Thus, the motivation for maintaining the relationship is due to the great economic outputs which decrease the parts’ exchange alternatives. Commitment (as an exchange phase) is related to the buyer-seller pair and not to a certain part and is defined as that implicit or explicit promise to continue the exchange (Dwyer, Schurr, Oh, 1987). The perspective towards the future of the commitment is based on its three characteristics: input, durability, and consistency. The bare existence of
commitment assumes a high number of inputs from the involved partners, inputs which can be economical, communicational, and/or emotional resources. Durability presumes the awareness of the partners regarding the exchange benefits so that the can plan the environment for future exchanges. Commitment consistency is understood as a constant input activity of the involved parts. Like chemical bonds (relationships) tend to entropy, social relationships in general, and exchange one in particular, get weak or dissolve if they are not actively maintained (Levinger, Snoek, 1972).

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5. References

