

Relationship Bonding Strategies and Customer Retention: A Study in Business To Business Context

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Abstract: *A company's ability to attract and retain new customers, is not only related to its product or services, but strongly related to the way it services its existing customers and the reputation it creates within and across the marketplace. The use of relationship management as a key driver in the sustenance and growth of customer base has never been in doubt. Businesses can build customer relationships by initiating one or several types of bonds. Berry (1995) introduced the concept of relational bonding levels that are categorized as financial, social and structural bonds and suggested that the effectiveness of relationship strategies are measured on the basis of these three bonds. Financial, social and structural bonds are important factors that enhance customer relationships and improve customer retention. The present study was an attempt to analyze the effect of relationship bonding strategies on customer retention. The primary data for the study was collected from customers of Philips Carbon Black Limited (PCBL) in Kerala and Chennai. The respondents were contacted personally and the data required for the study were collected by administering pre- tested structured questionnaires. The population of the study comprised of all regular customers of PCBL in Kerala and Chennai. The sampling frame consisted of 114 regular customers of PCBL, out of which 28 customers were from Chennai and 86 customers were from Kerala. The required sample size of 70 was arrived at by adopting simple random sampling. From the analysis it is clear that, structural bonds and social bonds have significant positive effect on customer retention. Hence companies should not merely rely on financial bonds as a mechanism to build long term customer retention because they are easily imitated. The use of structural bonds and social bonds were found to be more effective to achieve customer retention, during later stages of customer- firm relationship.*

Key words: *Customer Retention, Relationship Marketing, Relationship Bonds, B2B.*

I. Introduction

Customer retention is the activity that a selling organization undertakes in order to reduce customer defections. Successful customer retention starts with the first contact an organization has with a customer and continues throughout the entire lifetime of a relationship. A company's ability to attract and retain new customers, is not only related to its product or services, but strongly related to the way it services its existing customers and the reputation it creates within and across the marketplace. The use of relationship management as a key driver in the sustenance and growth of customer base has never been in doubt. According to Zeithaml and Bitner (2000) relationship marketing (RM) is a philosophy of doing business, a strategic orientation that focuses on keeping and improving current customers, rather than acquiring new customers. This philosophy assumes that consumers prefer to have an on-going relationship with one organization than to switch continually among providers in their search for value.

Morgan and Hunt (1994) proposed a definition of RM based on all forms of relational exchange as "all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges". Berry and Parasuraman (1991) identified relationship marketing as a marketing approach that concerns attracting, developing, and retaining customer relationships. From the view point of Coviello (1997) relationship marketing is a multifunctional and integrative approach, which describes marketing as "an integrative activity involving functions across the organization, with emphasis on facilitating, building and maintaining relationship over time". Thus the overall objective of relationship marketing is to facilitate and maintain long-term customer relationships, which leads to customer retention.

Building on these assumptions and the fact that it is usually much cheaper to keep a current customer than to attract a new one (Zeithaml and Bitner, 2000), it is necessary for marketers to emphasize more on retaining current customers. Past studies have revealed that businesses as well as customers are realizing the benefits of entering into relationships. Some have also indicated that the nurturing of market relationships has

emerged as a top priority for most firms because loyal customers are far more profitable than the switcher who sees little difference among the alternatives (Berry and Parasuraman, 1991). Based on the existing literature, we believe that businesses can build customer relationships by initiating one or several types of bonds.

Berry (1995) introduced the concept of relational bonding levels that are categorized as financial, social and structural bonds and suggested that the effectiveness of relationship strategies are measured on the basis of these three bonds. Financial bonds include the financial incentives such as discount, coupons to retain regular customers in the short term etc. Social bonds include the tailor-made and one-to-one services provided to regular customers based on their purchase records. The relationship between sellers and customers is similar to a friendship. Structural bonds include value-added services that help clients to be more efficient and that are not readily available from other sources. These services are usually technology-based and designed to deliver service system rather than merely interpersonal interaction. The present study was an attempt to analyze the effect of these relationship bonding strategies on customer retention in a business to business context.

II. Objectives of the Study

Primary Objective

- To analyze the effect of relationship bonding strategies on customer retention with special reference to PCBL, Kochi.

Secondary Objectives

- To analyze the effect of financial bonds on customer retention.
- To analyze the effect of structural bonds on customer retention.
- To analyze the effect of social bonds on customer retention.
- To offer suggestions to improve enduring relationship with customers.

Literature Review and Hypotheses of the Study

Past studies have revealed that customers in many service industries are realizing the benefits of entering into relationships. Some have also indicated that the nurturing of market relationships has emerged as a top priority for most firms because retaining existing customers are far more profitable than attracting new ones (Berry and Parasuraman, 1991).

Based on the existing literature, it is evident that businesses can build customer relationships by initiating one or several types of bonds. Businesses can enhance customer relationships by delivering economic benefits. Researchers have argued that one of the motivations for engaging in relational exchanges is money savings (Berry, 1995; Gwinner, Gremler and Bitner, 1998; Peterson, 1995; Peltier and Westfall, 2000). Service providers may reward repeat customers with special price offers. For example, banks may offer higher interest rates for long-duration accounts; airlines may design frequent flyer programs to encourage frequent guests etc. In addition to monetary incentives, a non-monetary time saving is also proposed by scholars. Customers that have developed a long-term relationship with a service provider could get quicker service than other customers (Gwinner, Gremler and Bitner, 1998).

Another relational bond suggested in literature is the social bond, which focuses on service dimensions that contain interpersonal interactions and maintain customer relationships through friendship. Berry (1995) as well as Berry and Parasuraman (1991) described how friendships could retain customers within service firms. Marketers at this level always stress staying in touch with their customers, and expressing their friendship, rapport and social support (Berry, 1995; Berry and Parasuraman, 1991). The role played by the salesperson is no longer that of a traditional persuader but a relationship manager (Crosby, Evans and Cowles, 1990). Salespeople or the sales staff must proactively keep frequent contact with customers, develop an in-depth understanding of the customers' needs, and recognize the uniqueness of each customer (Dibb and Meadow, 2001; Tzokas, Saren and Kyziridis, 2001). Social bonds can also be derived from customer-to-customer interactions and friendships in addition to customer- provider interactions (Zeithaml and Bitner, 1996). From the customer viewpoint, the result of the social bonding strategy is perceived as an important benefit received from the service relationship (Beatty et al., 1996; Gwinner, Gremler and Bitner, 1998; Reynolds and Beatty, 1999).

Firms may also use structural bonds to enhance relationships and retain customers. Structural bonds are present when a business enhances customer relationships by designing the solution to customer problems into the service-delivery system. These solutions are valuable to clients and not readily available from other sources (Berry, 1995). For example, business may provide integrated service with its partners, or offer innovative

products/services in accordance with customer needs (Hsieh, Lin and Chiu, 2002). From case studies on retail banking, Dib and Meadows (2001) found that some firms have invested in structural bonds, such as an innovative channel, integrated customer database and two-way information exchange technologies. These investments offer customers a more convenient and customized environment to consume services, and are seen as a key advantage over its competitors.

Following these studies, we suggest that economic, social and structural bonds are important factors that enhance customer relationships and improve customer retention. Economic and structural bonds are expected to have substantial effects on the instrumental component, because they raise the customers' costs when the relationship is terminated. The social aspect of the relationship between customers and service providers may help to develop shared values and a psychological attachment and lead over time to commitment. Therefore, these bonds may reinforce a customer's decision to become involved in a long-term relationship. We therefore propose the hypotheses as:

H₁: Financial Bonds have significant direct effect on Customer Retention.

H₂: Social Bonds have significant direct effect on customer retention.

H₃: Structural Bonds have significant direct effect on Customer Retention.

III. Research Methodology

The study was aimed to identify the effect of relationship bonding strategies with specific emphasis on analyzing the direct effect of financial, structural and social bonds on customer retention. Hence, the study is descriptive and explanatory in nature. In order to identify the effectiveness of relationship bonding strategies that determine customer retention, survey method was adopted. As it was difficult to meet and seek responses from the entire population, sample survey was carried out. The study is cross-sectional research as the data is collected from the population only at a single point of time.

4.1 Data Collection Design

The primary data for the study was collected from customers of PCBL in Kerala and Chennai. The respondents were contacted personally and the data required for the study were collected by administering pre-tested structured questionnaires. The secondary data was collected from the company website, internet and journals. The journals referred include Journal of Product & Brand Management and The Service industries journal.

The instrument used for the study was a pre-tested structured questionnaire. An initial draft questionnaire was prepared and was pre-tested among 5 respondents. After making necessary modifications, the final questionnaire was administered personally to 70 respondents. The questionnaire consisted of 35 questions and was framed in English. The questionnaire was organized into two parts. The first part solicited general information about the buying pattern of the customers. The second part was meant to collect the customer's opinion about relationship bonding strategies. The questionnaire was administered only to the customers who were regular buyers of PCBL in Kerala and Chennai. The study used validated instruments developed by previous researchers to measure customer retention and relationship bonds. Respondents were asked to indicate their agreement on a five- point Likert Scale (where 1 equals strongly disagree and 5 equals strongly agree.)

4.2 Sampling Design

The population of the study comprised of all regular customers of PCBL in Kerala and Chennai. The sampling frame consisted of 114 regular customers of PCBL, out of which 28 customers were from Chennai and 86 customers were from Kerala. The required sample size of 70 was arrived at by adopting simple random sampling.

IV. Data Analysis and Discussion

5.1 Reliability Analysis

Reliability analysis was carried out using SPSS and Cronbach's Alpha value was obtained as shown below.

Table No. 1 Reliability Statistics

Cronbach's Alpha	No. of Items
.774	8

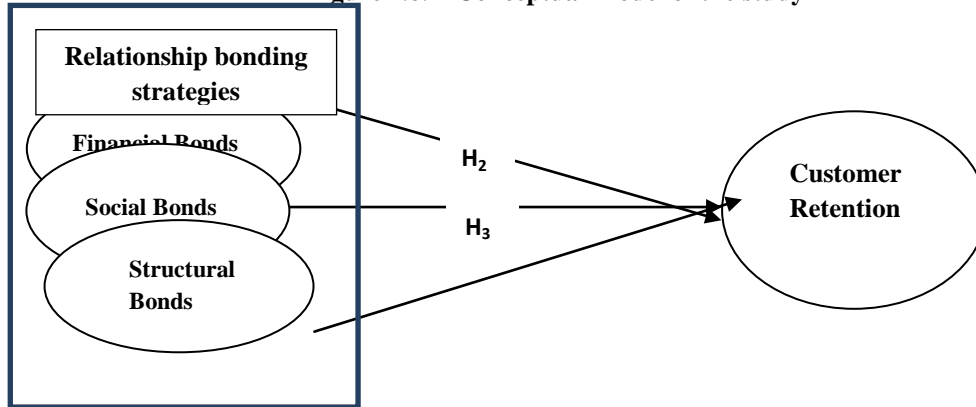
Source: Survey Data

Since the reliability is 0.774 which is greater than 0.7, the instrument can be considered as reliable.

5.2 Regression Analysis

The proposed conceptual model is given in Figure no: 1

Figure No. 1 Conceptual Model of the study



H₁: There is significant direct effect of financial bonds on Customer retention.

H₂: There is significant direct effect of social bonds on Customer retention.

H₃: There is significant direct effect of structural bonds on Customer retention.

As per the literature review the dependent variable is customer retention and the type of relationship bonding strategies - Financial bond, Social Bond and Structural Bond are considered as the independent variables.

According to our hypothesis the cause effect relationship between variables in the figure were analyzed with multiple regressions using SPSS 16.0. Financial, Social and structural bonds were all taken as the independent variables, and customer retention was the dependent variable. For carrying out multiple regression analysis, the average of the items measuring each of the variables was computed. Since the reliability of the items measuring each of the constraints was greater than .7, the average was computed for carrying out regression analysis.

Relationships among financial bond, social bond, structural bond and customer retention

The results of ANOVA indicate whether there is a cause effect relationship between the independent and dependent variables. Table below shows the results of ANOVA.

Table No. 2 ANOVA^b

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	2.286	3	.762	9.369	.000 ^a
Residual	5.367	66	.081		
Total	7.653	69			

Source: Survey Data

a. Predictors: (Constant), avg_fb, avg_tb, avg_sb

Avg_fb : average of financial bond, Avg_tb : average of structural bond, Avg_sb: average of social bond

b. Dependent Variable: avg_cr

Avg_cr : average of customer retention

For a cause effect relationship to exist, ANOVA should be significant. From the above table, the significance value of ANOVA is seen to be 0.000, which is less than 0.05. This suggests that there is significant positive relationship between customer retention and financial, social and structural bonds.

To find if financial, social and structural bonds has an effect on customer retention, the table of coefficients was referred to.

Table No. 3 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.902	.436		4.365	.000
	avg_tb	.380	.144	.375	2.634	.010
	avg_sb	.078	.087	.129	1.893	.005
	avg_fb	.107	.110	.121	.973	.334

Source: Survey Data

Avg_fb : average of financial bond, Avg_tb : average of structural bond, Avg_sb : average of social bond,

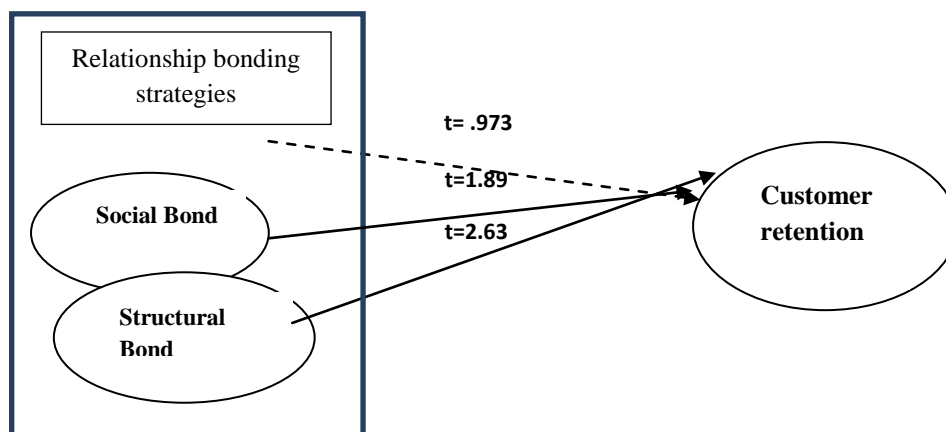
Dependent Variable: avg_cr, Avg_cr: average of customer retention

The above table shows the regression coefficients of the independent variables on the dependent variable. The cause effect relationship is further confirmed if the t-statistic of the independent variables is significant at 5 percent significance level. It is seen that average of structural bond has a t-value of 2.634 and a significance value of .010, which is lesser than 0.05. The path was significant, which supports H3. Social bond has a t-value of 1.893 and a significance of .005, which is also lesser than 0.05. From this, it can be inferred that social bonds does have an impact on customer retention, which supports H2. Financial bond has a t-value of .973 and a significance of .334, which is greater than 0.05. From this, it can be inferred that financial bonds does not have an impact on customer retention; but the structural and social bond has a significant effect on customer retention.

Majority of the respondents were regular customers of the company and the customers were satisfied with the after sale services provided and prompt response of the company for queries. Due to consistent supply of good quality products, they exhibited good relationship with PCBL. The analysis revealed structural and social bonds as having major influence on customer retention.

As a result of regression analysis, the final research model was drawn as below.

Figure No. 2 Measurements of the Research Model



V. Findings

- Financial bonds were found to be insignificant at 5% level of significance with regression coefficient of .334. Hence there is no significant direct effect of financial bonds on customer retention.
- Social bonds were found to be significant at 5% level of significance with regression coefficient of .005. Hence social bonds have significant direct effect on customer retention.

- Structural bonds were found to be significant at 5% level of significance with regression coefficient of .010. The study revealed that, customers prefer to repurchase products from those suppliers with whom they maintain good relationship. Hence structural bonds have significant direct effect on customer retention.

VI. Conclusion and Implications

Marketers and researchers are more and more concerned about customer retention. The growing intensity of competition pushes companies to study competitors and most important to understand their customers including both existing and potential customers. From the analysis it is clear that, structural bonds and social bonds have significant positive effect on customer retention. Customer retention can be achieved by building relational bonds with customers. Different bonds will generate different customer states of mind towards the company. During the initial stages of the relationship, the buyer's intentions to repurchase will be based on their satisfaction with respect to financial benefits. Communication plays a major role during the initial stages of buyer- seller relationship. The interactive communication during the initial stages helps in developing customer relationship.

During later stages of relationship, social and structural bonds act as important drivers. Social bonds via the mechanism of interpersonal interaction exert a sufficiently strong influence on customer retention. Structural bonds, operating through value creation activities also exert enough influence on customer retention. These results suggest that interpersonal interaction, triggered by identification and value creation activities, plays an important role in retaining customers. The findings highlight that companies should not merely rely on financial bonds as a mechanism to retain customers, because they are easily imitated. Instead, the findings suggest that the use of structural bonds and social bonds are more effective to achieve customer retention, during later stages of customer- firm relationship. Hence it can be concluded that customers feel an enduring relationship with the company because of social and structural bonding strategies initiated by the company.

In a competitive marketplace where businesses compete for customers, relationship bonding strategies plays a major role in achieving customer retention. Businesses who succeed in these cutthroat environments are the ones that make customer relationship a key element of their business strategy. Customers always prefer to repurchase products from those suppliers with whom they maintain trustworthy relationships. Hence the company should take utmost care to build relationships and retain their existing customers by way of appropriate relationship bonding strategies, as it is the key differentiating factor especially in a business-to-business context.

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