

# Customer Acquisition And Retention Strategies In The Service Industry - A Case Study

*\*Dr. V. Murugaiah*

*\*\*Radhika Vishvas*

**"One estimate is that attracting a new customer can cost five times as much as pleasing an existing one. And it might cost sixteen times as much as to bring new customer to the same level of profitability as the lost customer. Customer retention is thus more important than customer attraction."**

**-Philip Kotler**

## INTRODUCTION

Sale of any product or service comes from two ways. One is through existing customers (repeat sales) and another is through new customers (fresh sales). Nothing may seem more obvious than the need to keep customers coming back (DeSouza Glenn, 1992) as, cultivating loyal customers can lead to increased sales and customer share, lower costs, and higher prices (Reichheld and Teal 1996; Zeithaml, Berry, and Parasuraman 1996). But here, the challenge is to retain the existing customers. Practitioners bombard consumers with relationship marketing efforts, value-creating strategies, and key account programmes (Palmatier W. Robert 2007). Retaining existing customers and acquiring new customers are two important challenges to the marketers. Retaining existing customers needs a totally different set of strategies than attracting new customers every time. Now- a- days, it is very difficult to retain customers owing to reasons like competition in the market place, customer education and awareness about the products and brands, deficiencies in customer care, ever changing customer preferences for products, accessibility of products in the market, etc., Hence, marketers are equally focusing on attracting new customers into their fold, which is relatively easier one. As a result, sales are mostly through first time purchases also. Now, the question before the marketers is how to drive customers towards their products. Advertising, Sales promotion, Personal selling are some of the important strategies being used for this purpose. In some cases, they bring desired sales to the firm. Now, the crux of the problem with business houses is how to acquire new customers on one hand and on the other, how to retain existing customers. This problem can be explored with help of analyzing the following: **1)** The factors considered by the customers for buying the products/services. **2)** After buying them, what are the attributes/features they look for in the product/service to draw satisfaction. **3)** In case of dissatisfaction, how they experience it and attribute it to the various factors associated with the same and at times, switch over to another shop/service provider for same product/service. Against this backdrop, a survey has been conducted in the service sector, with the following specific objectives.

## OBJECTIVES OF THE STUDY

1. To ascertain the factors governing the switching behavior of the customers in different service segments.
2. To study the means through which respondents tracked the new service providers.
3. To understand the views of the respondents about the players in the service sector.
4. To suggest the strategies for customer acquisition and retention.

## HYPOTHESIS OF THE STUDY

**Ho: Impact of selected variables on the switching behavior differs in different service industries.**

## MATERIALS AND METHODS

**\*Study Area:** Davanagere city- district headquarter of Davanagere from Karnataka State was chosen for the study purpose. Service sector, in the recent times, is a major contributor for any economy's GDP- either it is a developed one

---

*\*Professor and Chairman, Institute of Management Studies, Davangere University, Davangere, Karnataka.*

*\*\*Assistant Professor - Marketing, IFIM Business School, Bangalore. Email Address: radhika.vishu@gmail.com*

or it is not. It otherwise denotes that focus on the economic front shifted to the service sector. It is the case with customers too. They not only buy tangible products- they buy more and more services. Services, which comprise of Transport, Health, Education, Beauty parlour, Internet browsing centers, Petrol pumps, etc., play a dominant role in the daily chores of human life. These services have more dominance, particularly, in urban centers. Hence, there is more number of service providers in each of these segments. Each service provider would be trying their best to acquire and retain more and more customers. In the light of the above factors, these four service sectors namely, Beauty parlours (B.P), Browsing Centers (B.C), Hospitals (H.P) and Petrol Pumps (P.P), as they play a significant role in day to day activities of human beings in general and urban elites in particular, were chosen for the study.

✿**Sample Design And Sample Size:** Random sample procedure was followed to select sample respondents. From each of the service sector, looking into the convenience, fifty respondents were selected. Thus, the total number of respondents from the above four sectors were 200.

✿**Data Collection Procedure:** Data were collected from the above respondents by using interview schedule specifically designed for the purpose. It was used to elicit factors being considered by respondents to stay with the existing service providers or hop to new ones. The important variables incorporated in the interview schedule as identifying factors attributable for switching behavior comprise of **1) Price, 2) Core Quality Service Failure, 3) Inconvenience, 4) Relations Service Encounter Failure, 5) Ethical problems and 6) Response to Service Failure.**

✿**Analytical Technique:** Tabulated data were analyzed with the help of simple percentages to know the extent of switching behavior of the respondents in different service industries. Based on the literature survey and experts opinion, variables which are supposed to influence the switching behavior were selected. The extent to which a particular variable influenced to switch over was worked out for different service industries. In order to evaluate the degree of association between the impact of selected variable on the switching behavior and the different service industry, the Chi-Square ( $\chi^2$ ) was employed. The formula used for this purpose is

$$\chi^2 = \frac{(O_i - E_i)^2}{E_i}$$

Where,

$O_i$  = Observed frequency

$E_i$  = Expected frequency

The value obtained from the above procedure was compared with the table value at (r-1) x (c-1) degrees of freedom. Here r and c refer to the number of rows and columns respectively. If the calculated value is greater than the table value, it would be inferred that the impact of the variable on the switching behavior depends on the nature of service industry. Otherwise, the impact of the variable on the switching behavior and the nature of the service industry are said to be independent of each other.

## RESULTS AND DISCUSSION

From each service segment, fifty respondents were contacted and ascertained how many of them switched over to new service providers in the last six months' period and how many had not switched over (Table 1).

**Table 1: Distribution Of Respondents By Switching Behavior**

| Service provider | Consumers switched over | Consumers not switched over | Total consumers surveyed |
|------------------|-------------------------|-----------------------------|--------------------------|
| Beauty Parlors   | 35(70.0)                | 15(30.0)                    | 50(100.0)                |
| Browsing Centers | 29(58.0)                | 21(42.0)                    | 50(100.0)                |
| Hospitals        | 23(46.0)                | 27(54.0)                    | 50(100.0)                |
| Petrol pumps     | 31(62.0)                | 19(38.0)                    | 50(100.0)                |

Note: Figures in parenthesis are the percentages to Total consumers Surveyed in the respective service sector.

It is found that switching over is quite common in all the four service segments of the study. But switching rate is high in case of beauty parlours (70%) and low in case of hospitals (46%). This rate is 62% and 58 % in respect of petrol pumps and browsing centers respectively. It clearly indicates that customers of nursing homes (Hospitals) could not

simply hop from one to another very frequently like the customers of other service segments. Of the respondents, in each of the service segment, who have shifted their service providers in the recent past expressed the variables, which strongly influenced them to do so are given in Table 2 and discussed hereunder:

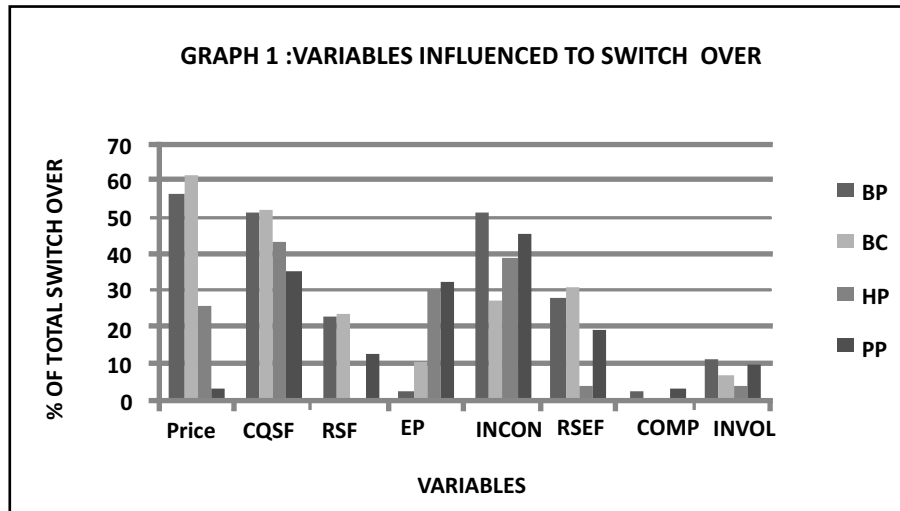
**Table 2: Variables That Influenced To Switch Over**

| Variable                           | Service Industry | Influenced | Not- Influenced | Total       | Chi-Value |
|------------------------------------|------------------|------------|-----------------|-------------|-----------|
| Price                              |                  |            |                 |             | 29.829*   |
|                                    | B P              | 20(57.14)  | 15(42.86)       | 35(100.00)  |           |
|                                    | B C              | 18(62.07)  | 11(37.93)       | 29(100.00)  |           |
|                                    | H P              | 6(26.09)   | 17(73.91)       | 23(100.00)  |           |
|                                    | P P              | 1(3.23)    | 30(96.77)       | 31(100.00)  |           |
|                                    | Total            | 45(38.14)  | 73(61.86)       | 118(100.00) |           |
| Core Quality Service Failure       |                  |            |                 |             | 2.235     |
|                                    | B P              | 18(51.43)  | 17(48.57)       | 35(100.00)  |           |
|                                    | B C              | 15(51.72)  | 14(48.28)       | 29(100.00)  |           |
|                                    | H P              | 10(43.48)  | 13(56.52)       | 23(100.00)  |           |
|                                    | P P              | 11(35.48)  | 20(64.52)       | 31(100.00)  |           |
|                                    | Total            | 54(45.76)  | 64(54.24)       | 118(100.00) |           |
| Response to service failure        |                  |            |                 |             | 7.217**   |
|                                    | B P              | 8(22.86)   | 27(77.14)       | 35(100.00)  |           |
|                                    | B C              | 7(24.14)   | 22(75.86)       | 29(100.00)  |           |
|                                    | H P              | 0(0.00)    | 23(100.00)      | 23(100.00)  |           |
|                                    | P P              | 4(12.90)   | 27(87.10)       | 31(100.00)  |           |
|                                    | Total            | 19(16.10)  | 99(83.90)       | 118(100.00) |           |
| Ethical Problem                    |                  |            |                 |             | 13.381*   |
|                                    | B P              | 1(2.86)    | 34(97.14)       | 35(100.00)  |           |
|                                    | B C              | 3(10.34)   | 26(89.66)       | 29(100.00)  |           |
|                                    | H P              | 7(30.43)   | 16(69.57)       | 23(100.00)  |           |
|                                    | P P              | 10(32.26)  | 21(67.74)       | 31(100.00)  |           |
|                                    | Total            | 21(17.80)  | 97(82.20)       | 118(100.00) |           |
| Inconvenience                      |                  |            |                 |             | 3.957     |
|                                    | B P              | 17(51.43)  | 17(48.57)       | 35(100.00)  |           |
|                                    | B C              | 8(27.59)   | 21(72.41)       | 29(100.00)  |           |
|                                    | H P              | 9(39.13)   | 14(60.17)       | 23(100.00)  |           |
|                                    | P P              | 14(45.16)  | 17(54.84)       | 31(100.00)  |           |
|                                    | Total            | 49(41.53)  | 69(58.47)       | 118(100.00) |           |
| Relation service encounter failure |                  |            |                 |             | 6.555     |
|                                    | B P              | 10(28.57)  | 25(71.43)       | 35(100.00)  |           |
|                                    | B C              | 9(31.03)   | 20(68.97)       | 29(100.00)  |           |
|                                    | H P              | 1(4.35)    | 22(95.65)       | 23(100.00)  |           |
|                                    | P P              | 6(19.35)   | 25(80.65)       | 31(100.00)  |           |
|                                    | Total            | 26(22.03)  | 92(77.97)       | 118(100.00) |           |

Note: Figures In Parenthesis Are The Percentages To Total Consumers Switched Over In The Respective Service Sector.

## VARIABLES CAUSING SWITCHING AND RESULTING IN DEFECTORS

❖ **Core Quality Service Failure Resulting In 'Service Defectors':** What is expected of in any service sector is core service and that is given utmost importance by the customers. If it is not taken care of by the respective service providers, they have to face higher customer turnover. It is proved in the study that in all service segments, the strong reason attributed by the majority of respondents for shifting their service provider is failure of core quality service. It is 51.73% in browsing centers, 51.43 % in beauty parlours, 43.48% in hospitals and 35.48% in petrol pumps. The Chi-Square test revealed that the influence of Core quality service failure is independent of nature of the service industry. Thus, irrespective of the nature of the service industry, consumers' hop from one to another service provider, when there is failure of core quality service.



❁ **Inconvenience Resulting In Service 'Inconvenience Defectors':** Between acquiring tangible goods and services, generally, customers look into factors of convenience more for services than for tangible goods. The study too comes out with the same analysis. These are the customers who switched to other services as a result of inconvenience caused to them by these service providers. Inconveniences caused the customers, to a great extent (51.43%) in the category of beauty parlours, to move over to new service providers. Switching behavior, because of inconvenience, is found relatively in lesser degree in petrol pumps (45.16 per cent), hospitals (39.13 per cent) and browsing centers (27.59 per cent). The range of switching behavior from one to another service industry is low i.e. 27.59 to 51.43 percent. The Chi-square results, therefore, also prove that the nature of the service industry and inconvenience variable are not heavily depending on one another with regard to switching behavior.

❁ **Services Relations Encounter Failure Resulting In 'Relation Defectors':** One of the prominent non-price competitive factors that rules the roost in present day business is relationship. If the relationship is good, business will have longevity. This has been emphasized by one of the authorities in marketing management, Philip Kotler, as there is shift from transactional marketing to relationship marketing. Recent developments in the arena of business provide more scope for Customer Relationship Management (CRM). Though the concept of CRM is not very popular in the Indian context like in developed countries, it has made its presence felt. Hence, relations account for around 31.03% in browsing centers, 29.57% in beauty parlours, 19.35% in petrol pumps and very low i.e. 4.35% in hospitals, with regard to hopping decisions of customers. The association between the influences of service relations encounters failure and nature of service industry proved only at 10 per cent probability level as per Chi-square results.

❁ **Response To Service Failure Resulting In 'Service Failure Defectors':** This is the high-tech age; everybody is busy in his/her own way. If the service provider fails to respond to customers in a desired way, they might feel insulted and neglected and switch over to another service provider. This tendency is said to be high in busy cities and towns. However, customers in the study area also feel it. The rate of influence on switching behaviour is as follows: 22.86% in beauty parlours, 24.14% in browsing centers, 12.90% in petrol pumps and is zero in hospitals. It is inferred through Chi-square test that there exists a close relation between the influence of response to service failure and the type of service industry. This is obvious from the study that customers rarely bother to notice service failure, when they are happy with quality of core service.

❁ **Pricing Failure Resulting In 'Price Defectors':** These are the days of non-price competition; accordingly, the respondents' expressed mixed response as to price is an important variable for their hopping behaviour. In case of petrol pumps, price per unit being uniform one at all service providers, the respondents opined that price is not at all a factor to be considered for shifting behaviour. But, at the same time, price per unit of service varies in case of the other service segments. To this, the respondents in hospital category attach not much importance. Whereas, in case of beauty parlours and browsing centers, price factor played a dominant role with regard to switching behavior. The degree of importance that is being shown for price factor in service segments is as 3.23% in petrol pumps, 26.09% in hospitals, 57.14% in beauty parlours and 62.07% in browsing centers. The Chi-Square results endorse the above view by proving

the close degree of association between influence of the price variable on the switching behavior and the nature of the service industry.

✿**Ethical Practices Resulting In 'Principled Defectors':** Business houses should give priority, besides the above factors, to ethical practices too. Every business house should have its own ethical code of conduct with respect to the dealings with customers. If they undermine its importance, there are chances of customers moving away from them. It is evident in the study. Among the four service segments of the study, customers (32.26%) of petrol pumps are more prone in this regard. Next to that, it is hospitals (30.43%), browsing centers (10.34%) and very low (2.86%) in beauty parlours. The test results disclosed that the impact of ethical practices on the switching behaviour depends on the kind of service industry. Generally, customers don't tolerate unethical practices in petrol pumps and hospitals for obvious reasons. However, this kind of impact is not that apparent in other service industry.

✿**Involuntary Switching Resulting In 'Market Defectors':** There are chances of either migration of customers or shifting of service providers from one to another place. In both the cases, customers are forced to hop the service providers. This also appears to be a reason for switching behaviour in the study area. It is in higher side (11.43%) with regard to beauty parlours, followed by petrol pumps (9.68%), browsing centers (6.90%) and hospitals (4.35).

✿**Competition Resulting In 'Hi-tech Defectors':** Undoubtedly, business houses are through cutthroat competition. Satisfied customers of the service provider do not take this into cognizance. It is proved clearly in the study. It has least impact on switching behaviour. Degree of impact comes to 2.86% in beauty parlours, 3.23% in petrol pumps and nil in case of browsing centers and hospitals.

## FINDINGS

**1. Switching Behavior Is Low (46%) With Hospital And High (70%) With Beauty Parlour Respondents:** Generally, patients (respondents in the hospital category) don't wish to change their doctors (nursing homes) very easily and often as it very delicate thing to do so. Whereas customers of beauty parlours don't have such sensitivity in going for new service providers. Next to beauty parlours the rate hopping is high in case of petrol pumps (62%) and browsing centers (58%) respondents respectively.

**2. Core Quality Service Impacts Between 38.48 And 51.47 Per Cent In Switching Behaviour:** Its impact in browsing centers is 51.73%, 51.43 % in beauty parlours, 43.48% in hospitals and 35.48% in petrol pumps.

**3. Browsing Centers Lose Customers To Their Counter Parts Very Heavily On Price Front:** Though price factor has no role to play in losing/getting customers at petrol pumps, it has much to do in case of browsing centers (62.07%).

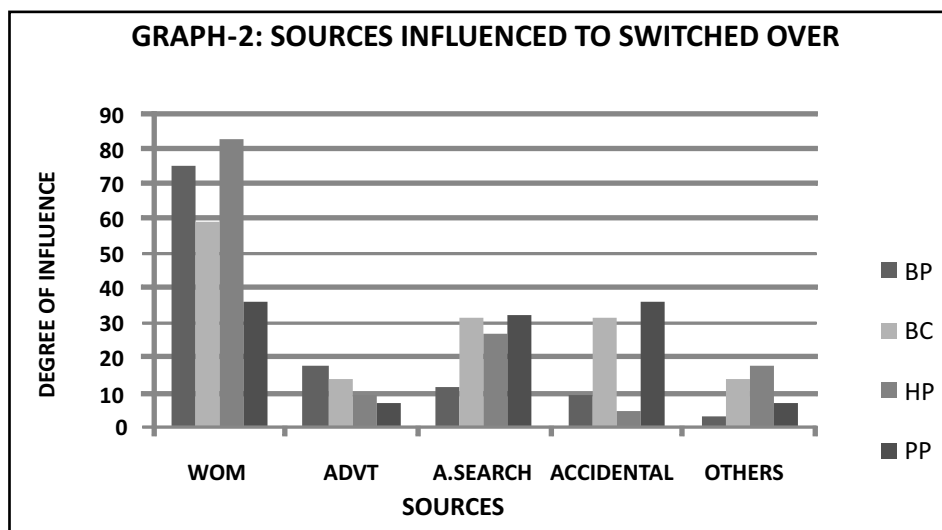
**4. Word Of Mouth (WOM) Is The Major Influential Source For Switchover :** Even though many studies suggest that informal referrals from others account for three times as many purchases as advertising (cf. Morin 1983), is twice as effective as radio advertising, four times more effective than personal selling, and seven times as effective as newspapers and magazines (Katz and Lazarsfeld 1955), retailers and service providers seems to pay less attention towards this factor. The study revels that positive WOM plays a dominant role in attracting new customers, in case of hospitals, it works out to be 83% followed by beauty parlours (74%) and browsing centers (59%) but petrol pumps (35%) are least affected by it.

Active search helps the people to locate best service providers next only to word of mouth. Though companies knowingly spend huge outlays on advertising, perhaps its not the driving engine in service industry in the study area.

**Table No. 3: Sources Influenced To Switch Over To The New Service Providers**

| SERVICE PROVIDER | T C S | W O M   | ADVT.   | ACTIVE SEARCH | ACCIDENTLY | OTHERS  |
|------------------|-------|---------|---------|---------------|------------|---------|
| B P              | 35    | 26      | 6       | 4             | 3          | 1       |
|                  | (100) | (74.29) | (17.14) | (11.43)       | (8.57)     | (2.86)  |
| B C              | 29    | 17      | 4       | 9             | 9          | 4       |
|                  | (100) | (58.62) | (13.79) | (31.03)       | (31.03)    | (13.79) |
| H P              | 23    | 19      | 2       | 6             | 1          | 4       |
|                  | (100) | (82.61) | (8.70)  | (26.09)       | (4.35)     | (17.39) |
| P P              | 31    | 11      | 2       | 10            | 11         | 2       |
|                  | (100) | (35.48) | (6.45)  | (32.26)       | (35.48)    | (6.45)  |

Source: Field data



## STRATEGIES FOR ACQUISITION AND RETENTION

The firms seeking to grow their profits and sales have to spend considerable time and resources searching for new customers. Customers' acquisition requires substantial skills in lead generation, lead qualification, and account conversion. Unfortunately, most marketing theory and practice concentrate on the art of attracting new customers rather than on retaining existing ones. The emphasis traditionally has been on making sales rather than building relationships; on pre-selling and selling rather than caring for the customer afterward. Some companies, however, have always cared passionately about customer loyalty and retention. The key to customer retention is customer satisfaction. Many companies are aiming for high satisfaction because customers who are just satisfied still find it easy to switch when a better offer comes along. Those who are highly satisfied are much less ready to switch. High satisfaction or delight creates an emotional bond with the brand, not just a rational preference. The result is high customer loyalty. Xerox's senior management believes that a very satisfied customer is worth 10 times as much to the company as a satisfied customer. A very satisfied customer is likely to stay with Xerox many more years and buy more than a satisfied customer will. In overall service industry in the study area, respondents are retained more in hospitals (54%) followed by browsing centers (48%). It is very low in petrol pumps (38%) and Beauty Parlours (30%). Service industry in general, should follow the strategy of maintaining quality of the core service for retaining and acquiring the customers. Convenience matters more in service sector next only to quality of core service. So, the strategy should be making the services available to the needy at their convenience. It is particularly with regard to Beauty parlours and petrol pumps. Service providers should consider pricing strategy too. Price is not a very significant variable with hospitals and petrol pumps. However, it matters a lot in other service sectors of the study. Service relations are equally important in service industry; particularly, its presence has more value in Browsing centers and Beauty parlours. Service providers in the area of Hospitals and Petrol pumps should have more ethical practices than in other areas.

## CONCLUSION

Studies show that although customers are dissatisfied with one out of every four purchases, less than five percent of dissatisfied customers will complain. Most customers will buy less or switch suppliers. *"Relationship with a customer doesn't end with the first sale- It actually starts"*. This study endorses the above statements.

## BIBLIOGRAPHY

1. DeSouza Glenn (1992), "Designing customer retention plan", The Journal of Business Strategy, March/April 1992, PP: 24-28.
2. Katz, Elihu, and Paul Lazerfield (1955), Personal Influence, Glencoe, IL: Free Press.
3. Lees Gavin, Garland Ron, Wright Malcolm (2007), "Switching banks: Old bank gone but not forgotten" Journal of Financial Services Marketing Vol. 12, 2 146-156.

(Contd. On Page 35)

## BIBLIOGRAPHY

- 1) Abdul Haneef, M., Abdul Karim, B.A and Edwin Gnanadhas, M (April 2006), "Consumer buying behaviour of two wheelers in Tirunelveli City, Tamil Nadu", Indian Journal of Marketing. Volume xxxvi. Number 4.
  - 2) Ambler, T and Styles, C (1996), "Brand development versus product development: toward a process model of extension decisions", Journal of Product Brand Management, 6 (4): 223-234.
  - 3) Broadbent, K and Cooper P (1987), "Research is good for you", Marketing Intelligent Planning, 5:3-9.
  - 4) Dorsch, M.J., Grove, S.J. and Darden, W.R. (2000), "Consumer intentions to use a service Category", Journal of services marketing, 14 (2), 92-117.
  - 5) Doyle, P. (2002), Marketing management and strategy, Pearson Education: England, 3rd Edition.
  - 6) Karjauloto, H., Karvonen J., Kesti M., Koivumaki T., Manninen M., Pakola J, Ristola A and Salo J (2005), "Factors affecting choice of mobile phones: Two studies from Finland", Journal of Euro marketing, 14 (3): 59-82.
  - 7) Keller K (2002), "Branding and brand equity", Handbook of Marketing, Sage Publications, London, pp. 151-178.
  - 8) Mason CH (1990), "New product entries and product class demand", Marketing Science, March, pp. 58-73.
  - 9) Menon, A. et al. (1999). "Antecedents and Consequences of Marketing Strategy Making". *Journal of Marketing* **63**: 1840.
  - 10) Park C, Jun S, Shocker A (1996), "Composite brand alliances, an Investigation of extension and feedback effects", Journal of Marketing Research, 33: 453-466.
  - 11) Phillips (1988), "Buying a brand: what you can't see can hurt you", Design Management Journal, Winter, pp. 43-46.
  - 12) Ravichandran K, Narayanarajan S (2004), "Factors determining the brand preference of TV with special reference to Thoothukudi District in Tamil Nadu", Indian Journal of Marketing, Volume xxxiv, Number 4, April.
  - 13) Ramanuj Majumdar (2007), Product management in India, Prentice-hall of India (P) Limited, New Delhi, 3rd Edition, 15th print.
  - 14) Rogers EM (1995), Diffusion of Innovation, 4th edition, Free Press, New York.
  - 15) Smita Sharma (2006), "Celebrity endorsement is it the only survival recipe for marketers?", Indian Journal of Marketing, Volume xxxvi. Number 10, October.
  - 16) Sooraj Bhat and Puneet Dhamija (1999) "The Indian passenger car market: Outlook for Maruti", Management Review, December.
  - 17) Suresh A.M, Raja K.G (2006), "Measuring customer satisfaction for small cars- An empirical study", Indian Journal of Marketing, February, pp. 3-8.
  - 18) Tan Tsu Wee T (2003), Factors affecting new product innovation in the Consumer electronic industry- Singapore, Management Review.
  - 19) Tickwell Paul M, Horgon, Dainne D and Keeny Charless (1993), "Relationship between self-images, brand image, and brand loyalty and whether people use products to enhance self Image", Research and Review, Vol.22, July Issue.
- 

## (Contd. From Page 27)

4. Morin, Stephen P. (1983), "Influential's Advising Their Friends to Sell Lots of High-Tech Gadgets", Wall Street Journal (February 28), 30.
5. Palmatier W. Robert (et al) (2007), "Customer loyalty to whom? Managing the benefits and risks of salesperson-owned loyalty", Journal of Marketing Research, Vol. 45, May 2007, PP: 185-199.
6. Reichheld, Fredrick F. and Thomas Teal (1996), "The Loyalty Effect". Boston Harvard Business School Press.
7. Rust, Ronald T., Valarie A. Zeithaml, and Katherine N. Lemon (2000), "Driving customer equity" New York: the Free Press.
8. Tax, Stephen S. and Stephen W. Brown (1998), "Recovering and Learning from Service Failure." Sloan Management Review, 40 (1), 75-88.