

# Customer value and switching costs in business services: developing exit barriers through strategic value management

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## Abstract

**Purpose** – The purpose of this study is to examine the concept of customer value and its role in building switching costs perceptions. The current research develops scales and empirically validates a typology of customer value for business services.

**Design/methodology/approach** – Through an extensive literature review, qualitative interviews, and an empirical investigation, the current study identifies three facets of customer value for business services (i.e. economic value, relational value, and core value) and investigates their relationships with buyers' perceptions of switching costs. Structural equation modeling techniques were used to evaluate a measurement model and structural relationships.

**Findings** – The findings show that economic value and the value obtained from relational and support aspects of a service exert strong positive impact on customers' perceptions of switching costs and thus serve as barriers to exit. Although core service does not seem to have positive impact on switching costs, core value maybe a "hygiene" factor that may promote customers' switching if not properly managed.

**Research limitations/implications** – The results of this study are generated from a single industry; additional studies in other industries may strengthen the generalizability of the proposed constructs and framework.

**Practical implications** – Business suppliers need to build exit barriers through co-creating relational value. Through communications, suppliers may be able to monitor customers' desired value as a proactive action to anticipate changes and to influence positive changes in customer value.

**Originality/value** – The current study sheds some light on how supplier firms can enhance switching costs, and consequently raise exit barriers by better managing various aspects of customer value perceptions.

**Keywords** Customer loyalty, Consumer behaviour, Customer service management, Customer retention, Business-to-business marketing

**Paper type** Research paper

**An executive summary for managers can be found at the end of this article.**

What should business suppliers do to reduce customers' opportunistic switching behavior? How can service providers prevent "subtle switching" where customers gradually shift share of business to competitors? Prior research shows that business suppliers conventionally focus on enhancing customer satisfaction in their defensive efforts to retain current customers (Patterson, 2004; Jones and Sasser, 1995). Although satisfaction building activities are fundamental to repurchase decisions, recent empirical studies suggest that satisfaction often has a modest effect on retention (Gale, 1994). Satisfaction does not convert current customers into long-term loyal customers, nor does it typically prevent customers from switching to alternatives (Woodruff, 1997; Reichheld, 1996). Therefore, in an attempt to discourage switching and to solidify longer-term working relationships with current customers, business suppliers nowadays simultaneously build exit barriers and manage value perceptions to strategically retain buyers.

The increasing importance of business services in today's economy has spurred fierce competition among business services outsourcing firms (Axelsson and Wynstra, 2002). As such, business service marketers have found it advantageous to build "exit barriers" through enhancing customers' perception of high "switching costs". Switching costs are primarily solidified by business suppliers through "hard assets", such as installed proprietary equipment, software programs, etc, that can not be transferred to other exchange relationships (Wilson *et al.*, 1995). These transaction specific investments (TSIs) prevent buyers from easily switching to and from competitors (Heide and John, 1988). However, particularly when looking at providers of business services, many providers often lack the ability to utilize hard assets to lock current customers in for the long haul. As a result, business service providers explore other aspects of their business relationships with their customers in order to establish switching costs.

In exchange relationships where the establishment of hard assets is uncommon, it is often transaction specific "soft assets" such as relational or procedural investments that enhance switching costs perceptions (Wilson *et al.* 1995). Switching costs based on buyers not wanting to relearn business procedures or develop new personal relations, although non-monetary, can prevent buyers from searching for alternatives and from jumping ship (Burnham *et al.*, 2003). Therefore, for business service providers wanting to increase customer retention levels, identifying strategic

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actions that may result in customer perceptions of high switching costs is paramount.

Research in the areas of customer value and service value suggests that superior value maybe an effective predictor of strong customer loyalty, repeat business, and switching behavior (Anderson and Narus, 1998; Grisaffe and Kumar, 1998). Reichheld (1996) argues that it is the value that customers feel they receive, rather than their level of satisfaction, that keeps them returning. As a result, several researchers suggest that customer value may be an important predictor of switching behavior. Although value has repeatedly been conceptualized as being multi-dimensional, little is known regarding how various aspects of customer value impact a customer's perception of switching costs.

The purpose of this study is to examine the concept of customer value and its role in building switching costs perceptions for customers purchasing business services. The primary objectives of this research are to: develop scales and empirically validate a typology of customer value for business services, and assess the predictive effects of various dimensions of customer value on buyers' switching costs perceptions.

## Literature review and hypotheses development

### Customer value literature review

Past research in marketing on the concept of value can be categorized into three areas: research on consumer consumption value; research on perceived value; and research on customer value or relative value. These areas are briefly reviewed to illustrate previous conceptualizations of customer value and to demonstrate how value in a business exchange may be best represented as an organizational buyer's perceived tradeoff comparison among benefits received, costs paid, relative to competitive alternatives.

#### *Consumer consumption value*

In consumer behavior literature, Hirschman and Holbrook (1982) have proposed that a customer's post-purchase consumption experience includes the experiential consumption value (i.e. symbolic, hedonic, and aesthetic nature of consumption), as well as rational consumption value (i.e. problem solving and need satisfaction). Holbrook (1994) has constructed a taxonomic scheme of eight types of customer value (e.g. efficiency, quality, play). Although the taxonomy of consumption value was developed for consumer markets, Holbrook's research suggests that value perceptions are multi faceted and can be derived from varied sources. Thus, the investigation of customer value for business services can benefit from exploring relevant sources of value and underlying dimensions of value.

#### *Perceived value*

Research on perceived value often examines the relationships among perceived quality, and price (e.g. Zeithaml, 1988). Perceived value is often viewed as a customer's overall assessment of what is received and what is given (Zeithaml, 1988, p. 14), and as a tradeoff between perceived quality and its affordability within a choice setting (Monroe and Krishnan, 1985, p. 210). Zeithaml suggests that all costs that are salient to customers, such as monetary price and non-monetary price (e.g. time and effort) should be incorporated as perceived costs, and that the benefit components of perceived value should include perceived quality, and other intrinsic and extrinsic attributes. In general, this stream of

literature suggests that value is a tradeoff between quality and price and that value enhances repurchase intention and discourages switching behavior (Wathne *et al.*, 2001).

#### *Customer value*

Expanding on the idea that value consists of a mental comparison or tradeoff between benefits and costs, recent studies focus attention on the importance of competitive alternatives (e.g., Ulaga and Chacour, 2001; Anderson and Narus, 1998; Grisaffe and Kumar, 1998). Naumann (1995) suggests that as competitive alternatives increase, customers may come to expect more value from a purchase. Likewise, when many substitutes are available, overall value perceptions of a current offer are likely to decrease. Empirical studies have recently shown customer perceptions of an offer relative to competitors' through the development of customer value maps (i.e. plots of relative quality and relative price; Sinha and DeSarbo, 1998; Gale, 1994). The concept of relative value has been investigated and found to have more influence on customers' intention to recommend suppliers than absolute value (Grisaffe and Kumar, 1998). As such, the availability of competition, whether as a reference or a substitute, exerts a strong influence on customer value perceptions. Together with an internal comparison of benefits and costs, the availability of competition provides an external comparison and should be integrated when creating a customer value construct.

### Facets of customer value

To further understand various facets or dimensions of customer value that business buyers perceive, in-depth interviews were conducted with 11 industry managers and business buyers. These initial interviews focused on identifying sources of customer value and addressed issues related to organizational purchasing. Insights from these interviews were later integrated in the development of measurement scales to assess customer value. In particular, three types of customer value were identified from the qualitative interviews: the overall economic value of a supplier, value of the relational/support service, and the value of the technical/core service:

- 1 *Economic value* refers to an organizational buyer's overall benefits and costs assessment of a supplier relative to alternative suppliers. Here, the benefit component is mainly associated with service quality and the cost component includes price or the monetary terms of a service offer. Interviews revealed that quality perceptions usually include: "company reputation", as well as a supplier's ability to "do it right the first time", and "attend to details". One buyer stressed that "reputation and reliability are very important – we only consider the best." Throughout the in-depth interviews, business buyers consistently mentioned that they evaluate economic value of a supplier by mentally comparing a supplier's overall quality to price (or overall value), taking into account other competitive alternatives available to them. One buyer stated that "... better value is better price and higher quality ..." while another: "I will pay slightly more if they have more experience or skills". In all, the economic value construct is similar to the concept of "incentive to purchase" proposed by Anderson and Narus (1998) as well as the concept of "acquisition value" proposed by Urbany *et al.* (1997), where a business buyer compares a current supplier's overall offer to those of

other competitive alternatives to decide if they are getting a good deal.

- 2 *Value of the relational/support service* pertains to how customers assess the benefits and effectiveness of the working relationships with one supplier relative to alternative suppliers. Past research (e.g. Ulaga, 2003; Wilson *et al.*, 1995) shows that relational value is the “interpersonal aspects of a relationship” and is usually derived from social bonds between business buyers and suppliers. During the interviews, many business buyers stressed the importance of enhancing working relationships through communications. To develop working relationships, one buyer mentioned that “a supplier needs to be familiar with the nature of our business and be responsive to our needs.” To enhance relational value, one buyer stated that “... they need to recognize what functions are important to us and specialize in those activities”, while another buyer stressed the importance of “... visiting our locations and tell us what’s happening.” The concept of relational/support service value captures the interpersonal working relationship process where both parties communicate and interact to find effective ways of doing business together.
- 3 *Value of the technical/core service* refers to the technical and professional performances of a service provider relative to alternative providers. Because most business services are implemented individually by technical consultants or service personnel, they are often more difficult to standardize than tangible products. As such, it is important for suppliers to train their service personnel to minimize deviation. One buyer shared her concerns regarding service variation: “... although most of them know their stuff well, they need to follow our procedures and work with our people.” Another buyer noted that “... well-rounded knowledge ..., but they also need to have good attitude.” One buyer suggested that “... variations are inevitable sometimes, but they can be easily spotted if they have some sort of evaluation periodically.” The concept of core service value is similar to the performance factor proposed by Sinha and DeSarbo (1998) where a business customer compares a service provider’s overall performances (e.g. technical, professional, and procedural aspects) to industry standards in order to decide if the service they receive is compatible to those of other competitive alternatives.

These three dimensions of customer value were similar to those proposed by Anderson and Thomson (1997, p. 2) and Anderson and Narus (1998, p. 55). Anderson and Thomson (1997) define value in business markets as “the perceived worth in monetary terms of the economic, technical, service, and social benefits received by a customer firm in exchange for the price paid for a product offering, taking into consideration competing suppliers’ offering and prices.”. As such, customer value for a business service is defined here as an organizational buyer’s assessment of the economic, technical, and relational benefits received, in exchange for the price paid for a supplier’s offer relative to competitive alternatives. These three dimensions represent the essence of many business services, and therefore, will be evaluated independently to strategically identify the critical impact of each on switching costs.

### Perceived switching costs literature review

Perceived switching costs are defined here as an industrial buyer’s perception of the costs associated with terminating a current supplier and establishing a new relationship with the replacement supplier. Since most business functions are essential to a firm’s overall operation, an organizational buyer often needs to pre-select a workable replacement supplier before terminating a current supplier. As such, perceived switching costs should include both past investments lost and the potential adjustment costs in establishing a new relationship with the replacement (Burnham *et al.*, 2003). Heide and John (1988) suggest that idiosyncratic investments that cannot be easily transferred to other service providers can increase exchange partners’ switching costs. From the industrial buyers’ perspective, the established personal relationships, along with familiar procedures, and knowledge of contact persons which are present with a current supplier, may be viewed as perceived switching costs and, hence, create a significant barrier to change suppliers. In addition, because developing a new relationship with another service provider not only requires the sacrificing of past investments, but also requires modifications of the established routines, Jackson (1985) maintains that industrial buyers are often motivated to stay in existing relationships to economize on switching costs. As such, perceived switching costs can be viewed as exit barriers that hold customers in relationships (Jones *et al.*, 2002).

Perceived switching costs indicate the ease or difficulty an organizational buyer has in replacing an existing supplier. From an organizational buyer’s perspective, the replaceability of a supplier decreases dependency on that supplier, and therefore, allows alternative choice decisions (Dwyer *et al.*, 1987). However, the hassle involved in searching and comparing alternatives, the potential monetary and non-monetary loss of past investment, the adjustments to be made in order to establish a new working relationship, as well as evaluations that will need to be implemented to assess the new supplier often generate unsettling sentiment within the buying firm, and therefore, create inertia and dependency with the current supplier. This inertia and dependency consequently enhance perceptions of high switching costs. Empirical studies show that high perceived switching costs will decrease organizational search effort, and will limit a customer’s consideration process (Heide and Weiss, 1995). Additionally, perceived switching costs are found to increase future interactions, commitment (Heide and John, 1990; Anderson and Weitz, 1992), and decrease exit intentions (Ping, 1994).

The concept of economic value focuses on high quality and/or low price compared to alternatives. A price-quality comparison is often viewed as a critical determinant to purchase decisions and switching behavior (Gale, 1994; Wathne *et al.*, 2001), and consequently, can create strong exit barriers. In other words, as buyers perceive that they are getting a better deal (i.e. better economic value, or higher quality, or lower price compared to competitors), they will perceive the costs associated with switching from this supplier as being higher. *H1* is as follows:

*H1.* The higher organizational buyers’ perceptions are of a supplier’s economic value, the higher their perceptions of switching costs.

Relational/support value is generally co-created by both buyer's and supplier's personnel working closely together, investing time, effort, and resources to identify and develop mutual specifications. Through mutual investments, specifications, and adaptation, buyer and supplier are likely to develop interpersonal aspects of the exchange relationship, or social bonds (Wilson *et al.*, 1995). Therefore, successful working relationships are likely to establish a network identity (Anderson *et al.*, 1994; Olkkonen, 2001) that is difficult to replace, hence, increase exit barriers. *H2* is as follows:

*H2.* The higher organizational buyers' perceptions are of a supplier's relational/support value, the higher their perceptions of switching costs.

Core service entails some technical, procedural, and/or professional performance aspects and is often executed by individual service personnel/consultants. Customers who have worked with certain service providers/consultants tend to get accustomed to these people and the way services are performed. As such, reliance on adept personnel or familiar procedures may increase a buyer's dependency on a provider and, consequently, raises the buyer's perceptions of the costs associated with switching. *H3* states:

*H3.* The higher organizational buyers' perceptions are of a supplier's core service value, the higher their perceptions of switching costs.

## Method and results

Guided by insights from the 11 in-depth interviews, primary data were collected within the financial staffing industry to test hypotheses. A national database was compiled using survey responses of business buyers (i.e. senior management) who currently use financial staffing services or have used these services in the past three years. A sample of responses from 206 firms (with an effective response rate of 24 percent) was analyzed regarding buyers' perceptions of value and switching costs.

The financial staffing industry is a highly competitive oligopoly with approximately 80 percent of the market being serviced by six major suppliers. The types of services provided include staffing for accounts payable/receivable, payroll processing, financial analysis, auditing, corporate tax, etc. Many service consultants hold professional accounting and/or financial certifications (e.g., CPA, CFA). On average, business customers reported working with three suppliers at any one time (mean = 3.19, s.d. = 2.19) and the evaluated supplier was an exchange partner for approximately five years (mean = 4.75, s.d. = 4.21 years).

Following scale development procedures prescribed by Anderson and Gerbing (1988), and James *et al.* (1982), support for three distinct types of customer value were found. All scales were multi-item, and items were seven-point Likert scaled; anchored by "strongly disagree" (1) and "strongly agree" (7). Structural equation modeling techniques were used to evaluate a measurement model, structural relationships, and the relative weights of the relationship between perceived switching costs and customer perceptions of economic value, relational value, and core value.

Providing evidence that individual items represent their intended construct, overall fit statistics of a measurement model using confirmatory factor analysis indicated adequate

fit ( $\chi^2 = 234.73$ , 98 d.f., CFI = 0.95, GFI = 0.88, TLI = 0.94, RMSEA = 0.08). Judicious re-specification of measurement constraints was made in order to improve the fit for the measurement model and insure the unidimensionality of constructs (Anderson and Gerbing, 1988; James *et al.*, 1982). As a result, two items were removed (see Table I). The resulting measurement model fit statistics were:  $\chi^2 = 113.71$ , df = 71, CFI = 0.98, TLI = 0.98, GFI = 0.93, RMSEA = 0.05. In addition, all items were found to load strongly on the intended latent construct. The scale reliability for the economic value, relational value, core value, and perceived switching costs constructs were 0.88, 0.85, 0.97, and 0.82 respectively (see Table II).

To test the relationships among latent variables, constraints of the theoretical model were imposed. Structural parameters were allowed to vary freely or were fixed to zero in order to impose the hypothesized pattern of relationships in the proposed model. The results of the structural model showed that the proposed structural model fit well with the data ( $\chi^2 = 113.71$ , 71 d.f., CFI = 0.98, GFI = 0.93, TLI = 0.98, RMSEA = 0.05).

Two hypothesized parameters were found to be significant and positive (see Figure 1). First, economic value was found to be positively related to switching costs (*H1* supported;  $\beta = 0.28$ ,  $p = 0.038$ ). In addition, value of the relational/support service was shown to have a strong positive relationship with perceived switching costs (*H2* supported;  $\beta = 0.43$ ,  $p < 0.01$ ). As such, the findings indicate that economic value (i.e. through comparisons of quality and price), and the perceptions of relational value (i.e. through relationship bonding) are important in building exit barriers for business services. However, findings didn't provide evidence of a relationship between value of the technical/core service and switching costs perceptions (*H3* not supported;  $\beta = -0.04$ ,  $p = 0.70$ ).

## Discussion and managerial implications

In general, this study provides evidence that suppliers can increase the perceived switching costs of buyers by providing a high level of customer value. Specifically, findings suggest that an overall economic assessment of value and an assessment of the value derived from relationships and support services promote feelings among buyers that it is difficult to change or replace a supplier.

In line with previous research (Wathne *et al.*, 2001), economic value was found to exert a strong positive influence on switching costs. Although price alone cannot build a long-term competitive advantage, high value offered by an incumbent firm may create perceptions of high switching costs, hence, deter a customer's exit. It is the higher quality or lower price relative to competitors that helps suppliers create

**Table I** Scale means, standard deviations, and correlations among latent constructs

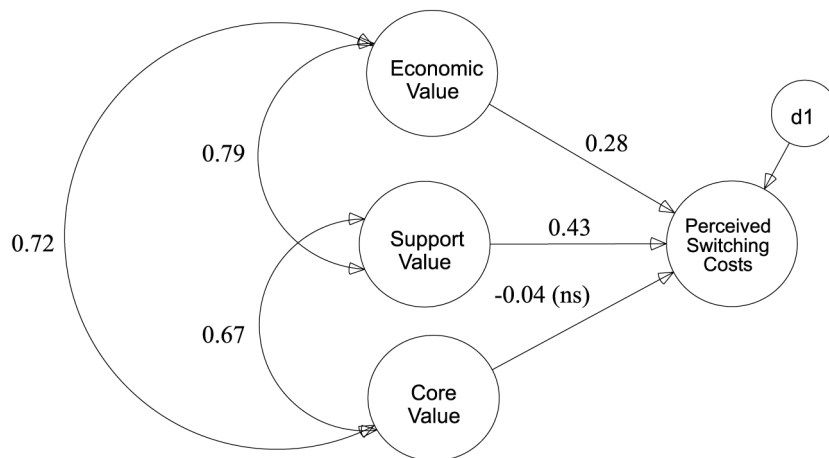
	Mean	Std	1	2	3
1. Value of a supplier's core service	4.94	1.11			
2. Value of a supplier's relational service	4.94	1.06	0.67		
3. Economic value of a supplier	5.06	1.24	0.72	0.79	
4. Perceived switching costs	3.00	1.43	0.25	0.43	0.39

Table II Scale reliabilities and measurement items

Constructs	z-value	Standard estimate	$\alpha^b$
<i>Value of a supplier's core service</i>			0.97
Compared with other suppliers, this supplier's service providers ...			
VC1. ... are more competent	33.22	0.96	
VC2. ... are more professional	30.34	0.96	
VC3. ... have better overall job performance	<sup>c</sup>	0.94	
VC4. ... have better attitudes on the job <sup>a</sup>			
<i>Value of a supplier's support service</i>			0.85
Compared with other suppliers, this supplier's account manager ...			
VS1. ... has a better working relationships with us	15.76	0.82	
VS2. ... responds to our service needs more promptly	16.25	0.91	
VS3. ... visits our location when needed	11.72	0.90	
VS4. ... keeps us better informed of new developments	<sup>c</sup>	0.82	
<i>Economic value of a supplier</i>			0.88
Compared with other suppliers, this supplier ...			
VE1. ... provides the best value	12.13	0.71	
VE2. ... provides better value for the money	11.85	0.89	
VE3. ... provides low quality for the price ( <i>r</i> )	7.04	0.87	
VE4. ... charges a reasonable price for the services provided	<sup>c</sup>	0.76	
<i>Perceived switching costs</i>			0.82
C1. If we decide to stop working with this supplier, it would be time-consuming to relearn new procedures with another supplier	<sup>c</sup>	0.68	
C2. Developing working relationships with other suppliers would be a time-consuming process	7.04	0.71	
C3. Developing procedures to deal effectively with another supplier's account manager would take a lot of time and effort	7.62	0.71	
C4. Our relationship with this supplier is irreplaceable <sup>a</sup>			

Notes: <sup>a</sup> items eliminated through re-specification of the confirmatory factor analysis measurement model; <sup>b</sup> Cronbach alpha is provided for the final scale and does not include the eliminated items; <sup>c</sup> item constrained to unity; (*r*) reverse coded items

Figure 1 Summary of findings



Note: Chi-Square = 113.40, Degrees of Freedom = 71  
CFI = 0.98, GFI = 0.93, TLI = 0.98, RMSEA = 0.05

an “incentive to purchase” (Anderson and Narus, 1998). Customers who receive services with high economic value are less likely to search for or evaluate other alternatives. Often, customers who received high economic value are also hesitant

to switch due to potential loss of accumulated benefits or discounts (Guiltinan, 1989).

Customers may switch when competitors offer higher value; however, when customers perceive that switching costs are

high, they may attempt to re-negotiate terms, instead of switching when competitive offers are present (Sirdeshmukh *et al.*, 2002). For suppliers attempting to lock in their customers for the long haul, findings from this study suggest that introducing relationship-oriented activities and practices may be an effective strategy to manage value perceptions in the competitive market. Qualitative interviews revealed that relational activities such as visiting customers when needed, informing customers of new developments, and being knowledgeable about customers' businesses are ways to enhance relational value perceptions. Perceived switching costs that develop from perceptions of high relational value are not likely to diminish since these costs are associated with personal relationships, and accumulated learning costs and set up costs (Burnham *et al.*, 2003).

Past studies have shown that business customers usually do not switch just for better price, they switch because there are unresolved problems with suppliers (Ulaga, 2003). It is important to note that business suppliers that have utilized "hard assets" as the only means of establishing exit barriers may risk creating resentment from current customers. Business buyers would likely feel "entrapped" or "locked-in" in unwanted or unbalanced dependent relations (Heide and John, 1988). Entrapped customers tend to spread negative word of mouth, or worse, become hostile or problem customers when dissatisfied (Greene, 2000). It seems that the old adage of creating dependence or asymmetric power to build exit barriers may backfire when unsatisfied customers rebel. Therefore, it is wise for business suppliers to build exit barriers through co-creating relational value. Flint *et al.* (2002) suggest that, due to the dynamic nature of customer value, suppliers should monitor customers' desired value as a proactive action to anticipate changes. Through communications, suppliers may be able to influence positive changes in customer value. Qualitative interviews conducted in this study provide anecdotal evidence that customers sometimes "feel guilty" for even checking out alternatives when suppliers have successfully co-created desired services with them. This emotional loyalty is often intensified in longer relationships where buyers and sellers develop special "commercial friendships" that compel buyers to be more forthright and truthful to their suppliers (Liu *et al.*, 2005).

Although in this study the value buyers perceive receiving from the core service does not seem to impact customer's perceptions of switching costs, core value is still believed to be an important factor enhancing customer retention. Core value maybe a "hygiene" factor that may promote customers' switching if not properly managed. It seems that technical performance in the financial staffing industry is perceived as highly standardized. Buyers often expect similar service performance from all suppliers. Thus, while positive core service value may not prevent buyers from exiting; negative value may motivate buyers to look elsewhere. Nevertheless, the importance of maintaining and managing core value should not be de-emphasized.

In all, the current study shows that to build exit barriers, a supplier should combat competitive offers by co-creating stronger relational value to build loyalty, and by providing higher economic value to enhance "incentive to purchase". As such, simultaneously building and delivering various aspects of customer value and integrating value perception

management in strategic decision making will aid suppliers in building exit barriers.

### Limitations and future research directions

The current study sheds some light on how supplier firms can enhance switching costs, and consequently, raise exit barriers by better managing various aspects of customer value perceptions. However, the results of this study must be interpreted in view of certain limitations. This is one of the first studies (see also Ulaga, 2003) to investigate the relationships between organizational buyers' value perceptions and exit barriers. The results of this study are generated from a single industry; additional studies in other industries may strengthen the generalizability of the proposed constructs and framework. Likewise, longitudinal studies investigating the role of customer value may overcome the constraints of multiple cross-sectional studies.

Future research should explore the role of other variables related to value and switching costs. For example, how perceived switching costs influence a buyer's share-of-business allocation intentions, and how secondary suppliers grow to be primary suppliers (e.g. subtle switching behavior). Likewise, the investigation of how perceived switching costs influence relationship stability, willingness to cooperate, willingness to recommend, and complaint behavior would enrich our understanding of business exchange relationships. Similarly, recent research has explored the plausibility of satisfaction and dissatisfaction being distinct constructs (Babin and Griffin, 1998). Thus, research exploring the relative impact of dissatisfaction and the effects of buyer entrapment when dissatisfaction is paired with high switching costs would be valuable (Greene, 2000).

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### Executive summary and implications for managers and executives

*This summary has been provided to allow managers and executives a rapid appreciation of the content of the article. Those with a particular interest in the topic covered may then read the article in toto to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present.*

**Customer satisfaction and customer value**

Business suppliers traditionally focused on improving customer satisfaction in order to try to prevent their customers switching to other providers. But recent research indicates that satisfaction has only a modest effect on retention. Many businesses have therefore moved towards building exit barriers and managing customers' perceptions of value, in order to retain buyers.

Exit barriers can be built by encouraging customers to believe that the costs of switching to another supplier would be high. This can be done by, for example, encouraging customers to believe that installed proprietary equipment, software programs, and so on cannot easily be provided by other potential suppliers. But this option of using hard assets to lock customers in for the long haul is often not readily available to providers of business services. They frequently have to rely on soft assets, such as business procedures and personal relationships between the supplier and customer, to prevent buyers from jumping ship.

Modern research suggests that it is the value that customers feel they receive, rather than their level of satisfaction, that keeps them returning. Liu examines the concept of customer value for a business service and its role in encouraging customers purchasing business services to believe that the costs of switching to another provider would be high. The author defines customer value for a business service as "an organizational buyer's assessment of the economic, technical and relational benefits received, in exchange for the price paid for a supplier's offer relative to competitive alternatives". The economic value refers to the organizational buyer's overall benefits and costs assessment of a supplier relative to alternative suppliers. The value of the relational/support service centers on how customers assess the benefits and effectiveness of the working relationships with one supplier relative to alternative suppliers. The value of the technical/core service refers to the technical and professional

performances of a service provider relative to alternative providers.

**Economic and relational/support value**

Through a survey carried out in the financial-staffing industry, Liu provides evidence that the higher the organizational buyers' perceptions are of a supplier's economic value, and relational/support value, the higher their perceptions of switching costs. Past studies have shown that business customers usually do not switch only for a better price, but because there are unresolved problems with a supplier. Business suppliers that use hard assets as the only means of establishing exit barriers may make business buyers feel "locked in" and resentful. Therefore, business suppliers should build exit barriers through co-creating relational value. Liu suggests that relational activities such as visiting customers when needed, informing customers of new developments, and being knowledgeable about customers' businesses are ways to enhance relational-value perceptions. Suppliers should monitor customers' desired value and try to anticipate any changes. Through communication, suppliers may be able to influence positive changes in customer value.

**Core value**

The author does not find support for the idea that organizational buyers with a higher perception of a supplier's core-service value are more likely to have a higher perception of switching costs. Nevertheless, suppliers do need to maintain and manage core value. It may be a "hygiene" factor that may promote customers' switching if not properly managed.

*(A précis of the article "Customer value and switching costs in business services: developing exit barriers through strategic value management". Supplied by Marketing Consultants for Emerald.)*