

**Customer relationship reactivation in the telecommunications sector**

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Overall there has been a scarce focus on why customers come back after the relationship ended, when customer regain and win-back are an important part of a customer relationship management strategy. Determinants of customer relationship reactivation are addressed. A theoretical framework is proposed based on ending literature and equity theory. A case study, of a telecommunications company delivering a mix of goods and services, is described in order to illustrate the value of the framework. It includes interviews in the marketing and customer service departments and with customers. Telecommunications explore reactivation possibilities mostly on the relationship's rupture phase and with a retention focus. The most relevant reactivation determinants are considered to be customer characteristics (as age, involvement and variety seeking), cognitive factors (as offer's value, procedures and satisfaction), reasons to switch and alternatives. The contribution of this empirical study is to advance knowledge about antecedents (as inertia, emotional factors and relationship characteristics) of successful reactivation.

**Keywords:** relationship reactivation; recovery; win-back; customer relationship management; services marketing.

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## **Introduction**

Research has shown that there is a negative correlation between the number of "lost customers" and business income (Reichheld & Sasser, 1990). Customers who remain with a business, whether through retention or by defection and subsequent reactivation are potentially interesting when, in addition to contributing to revenue contribute to reduce costs by being less expensive (Ganesh, Arnold, and Reynolds, 2000), to reduce the costs of attracting new customers through positive word of mouth referrals (Keaveney & Parthasarathy, 2001) and to decrease the uncertainty of exchange through the experience accumulated during the relationship (Heide & Weiss, 1995). Customer win-back is an important part of a customer relationship management strategy. Stauss and Friege (1999) have found that the net return on investment from a new customer is 23% compared to a 214% return on investment from the reinstatement of a customer who has defected. Customer win-back focuses on the re-initiation and management of relationships with customers that have lapsed or defected from a firm (Thomas, Blattberg, and Fox, 2004). The present research explores situations where relationship end is unplanned and unexpected and is initiated by the customer. Along with literature suggestions (Stauss & Seidel, 2008; Strandvik & Holmlund, 2000; Tähtinen & Halinen, 2002), this research aims to investigate ended relationships and not just intentions. The research question is: Why do some ended relationships reactivate?

This paper is organized in four main sections. The section which follows this introduction discusses the problem and setting of our research and presents the literature review on relationship reactivation. After this, a theoretical framework is proposed for the understanding of the phenomenon. Finally, conclusions and implications for further research are draw.

## **Literature review**

### ***Theoretical background and problem formulation***

The threat of "churn"<sup>1</sup> is a growing concern of consumer-oriented businesses. A competitive environment, price and tariffs wars, increasingly educated consumers and, in many situations, the progressive deterioration of customer service explains why national and international organizations are dealing with customers who are increasingly more difficult and "promiscuous", i.e. willing to switch providers (Rojas, 2007). In mature markets, potential growth deceleration combined with the current economic environment and with the differential cost between keeping and winning a customer boosted the importance of managing churn. Havila and Wilkinson (2002) propose the analysis of ending relationships as a continuous and dynamic process, suggesting that the energy of the relationship that continues to exist between the parties after separation can awaken opportunities for reactivation. This study is interested, from a holistic perspective, in a dual analysis relating relationship dissolution and reactivation in B2C services. With few exceptions (Blömeke, Clement, and Bijmolt, *in press*; Michalski, 2002; Pick, 2010; Roos, 1999), most studies have examined these processes in isolation, either in terms of switching process (e. g. Bansal, Taylor, and James, 2005; Coulter & Ligas, 2000; Keaveney, 1995; Roos, Edvardsson, and Gustafsson, 2004; Stewart, 1998; Wieringa & Verhoef, 2007) or in terms of customer regain (e. g. Griffin & Lowenstein, 2001; Helfert, Herrmann, and Zellner, 2003; Homburg, Hoyer, and Stock, 2007; Krafft & Pick, 2007; Stauss & Friege, 1999; Thomas, et al., 2004; Tokman, Davis, and Lemon, 2007). Moreover, in recent years, CRR has assumed more importance as the concept of regain management complements relationship marketing theory by focusing loyal customers that, for some reason, ended their relationships with the firm (Hennig-Thurau

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<sup>1</sup> Churn rate or defection rate measures, on percentage, the customer's proportion that defects the firm relatively to the total number of customers.

& Hansen, 2000). The existing research studied value determinants of the regain offer and price strategies in this offer (e. g. Thomas, et al., 2004; Tokman, et al., 2007) and did not relate them to the process of dissolution after elapse an, to the best of our knowledge, only a few studies have focused the key drivers of win-back success (Homburg, et al., 2007; Krafft & Pick, 2007; Tokman, et al., 2007).

### ***Theoretical framework***

The paper proceeds with a presentation and discussion of the proposed model and related concepts. Relationship dissolution is the process that tends to end or extinguish an existing relationship between a customer and a service provider, considering that the final decision may either be consummated or inverted. CRR is conceptualized as the process that leads to a lost customer recovery. Reactivation or regain management includes customers that are inactive or lost whenever they either cease to purchase or explicitly terminate the relationship. Also, includes customers who give notice of termination but are legally still tied to the firm, these will be considered as lost, rather than current, because they decided to cease the relationship and took all steps necessary to do so (Stauss & Friege, 1999). Win-back determinants are determinants that make a customer patronize the switched-from firm, considering that the success of reactivation activities depends not only on their design but also on other elements. CRR looks to resume relations of interest for both parties which have ended. Once the dissolution process is started, its subsequent path can be better described in terms of process, attributes, phases and types (Michalski, 2002). Rupture designates the end of the switching process. At this point exchange starts to decline and resource ties begin to weaken, still interaction may temporarily intensify to adjust the terms of decline in exchange activities (Halinen & Tähtinen, 2002). On this stage, called pos-dissolution,

the customer reflects on the return possibility, sometimes in the future (Coulter & Ligas, 2000). After rupture happened, one can distinguish between relationships that can and cannot be reactivate – meaning that the implementation of customer recovery strategies is in some cases feasible (Michalski, 2002; Stauss & Friege, 1999). Roos (1999) enhances that managers should be aware of two customer groups with different expectations that require different training and diversified measures of damage repair: irrevocable-path and revocable-path.

#### *Customer characteristics*

Customer characteristics as drivers of relationship revival performance are of fundamental relevance (Homburg, et al., 2007). Some studies concerned with win-back determinants suggest some customer characteristics as variety seeking (Homburg, et al., 2007; Krafft & Pick, 2007; Roos, 1999), perceived importance of the service (Tokman, et al., 2007), customer involvement and age (Homburg, et al., 2007), switching experience, customer expertise, and perceived control over behavior (Krafft & Pick, 2007). Customers that regard offered services as being important to them are, at least, more likely to evaluate the win-back offer closely and realize the benefits it may offer (Tokman, et al., 2007). Revival performance is lower in the case of a strong variety-seeking motive and higher in the case of highly involved customers and it is interesting to find that among all the customer and relationship characteristics, customer's age seems to have a particularly strong effect on revival performance (Homburg, et al., 2007).

### *Relationship characteristics*

Characteristics of the former relationship between customer and service provider have an impact on the end of that relationship. Social bonds that exist between actors and that last after exit may be transformed and transferred to other relationships providing opportunities for the same relationship to be reactivated at a later time (Havila & Wilkinson, 2002). Literature also holds that the conditions under which a customer-provider relationship is developed are likely to play an important role in the maintenance of long-term relationships (Ganesan, 1994), influencing those relationships duration and the subsequent customers switching decisions in a decisive way (Reinartz & Kumar, 2003). Relationship characteristics (such as overall customer satisfaction with the relationship, duration, quality of the relationship and commitment) may influence win-back results (Homburg, et al., 2007; Krafft & Pick, 2007). Thomas et al. (2004) examine the effects of the relationship between the time elapsed since the last purchase and customer recapture likelihood and show, using quantitative research, that the probability of a firm reacquiring a customer is higher if the lapse duration is shorter and/or if the first tenure is longer.

### *Reasons for switching*

Interestingly, it appears that most of the literature on regain highlights the importance of understanding and exploring ex-client motives for leaving (Griffin & Lowenstein, 2001; Stauss & Friege, 1999; Tokman, et al., 2007) but does little to investigate them or just considers price and quality (e. g. Stauss & Seidel, 2008). Effective reacquisition requires firms to track the defected customers reasons for switching (Griffin & Lowenstein, 2001; Helfert, et al., 2003; Stauss & Friege, 1999; Tokman, et al., 2007). Based on research focus frequency, literature suggests that the most relevant reason(s)

for switching are price perceptions (12 studies), quality (11 studies), alternatives/competition (11 studies), service failure and recovery (9 studies), inconvenience (8 studies), (dis)satisfaction (7 studies), trust (7 studies), commitment (5 studies), involuntary switching (5 studies), switching costs (4 studies) and service policy and personnel (4 studies). Besides knowing the reasons and origin of switching, literature (Homburg, et al., 2007; Krafft & Pick, 2007) suggests, according to the attribution theory (Weiner, 2000), the study of customer's attribution for defection in terms of locus, stability and controllability. For instance, the more a person attributes the reason for failures to its own, the more this person is willing to purchase again at the supplier (Richins, 1983) as if a customer attributes his/her defection to the supplier, the intention to recommend the firm is lower (Pick, 2010).

#### *Cognitive factors*

Homburg et al. (2007) suggest that applying equity theory is a useful approach for understanding customer reactivation in a way that distributive, procedural and interactional justice are to be considered. The way dissolution occurs seems to influence win-back activities and results. Some researchers emphasize the importance of the type of communication strategies (direct or indirect) used during the dissolution process as having implications on the (ir)revocability of the ending decision (Giller & Matear, 2001; Pressey & Mathews, 2003). Helm (1998, cit in Michalski, 2002b) points some significant dissolution attributes, namely: directly or indirectly articulated dissatisfaction of the customer with a firm's products/services, very strong emotions, complaints, and efforts at holding a dialog or negative worth-of-mouth communication with third parties. Those may influence negatively the reactivation process. About reactivation influencing drivers, Bolton, Kannan and Bramlett (2000) conclude that a

price gain (decrease in price) has a significant impact on repatronage, but a price loss (a price increase) does not. But is it just a question of money and financial incentives? Essential elements of regain actions are the customer specific dialogue and the related customer-specific regain offer, as long as the customer value is previously considered (Stauss & Friege, 1999). Price (Thomas, et al., 2004) and win-back offer worth (Homburg, et al., 2007; Tokman, et al., 2007) are considered relevant for reactivation success. Moreover, Sieben (2002, cit in Krafft and Pick, 2007) points out that the quality of the recovery process, the offer and interaction will have a direct impact on customers satisfaction with the recovery process. Homburg et al. (2007) state that the perceptions of equity play a pivotal role in explaining the success of revival efforts. According to them a perception that the offer is fair (distributive justice) has a significant influence on revival-specific customer satisfaction which, in turn, strongly affects revival performance.

#### *Emotional factors*

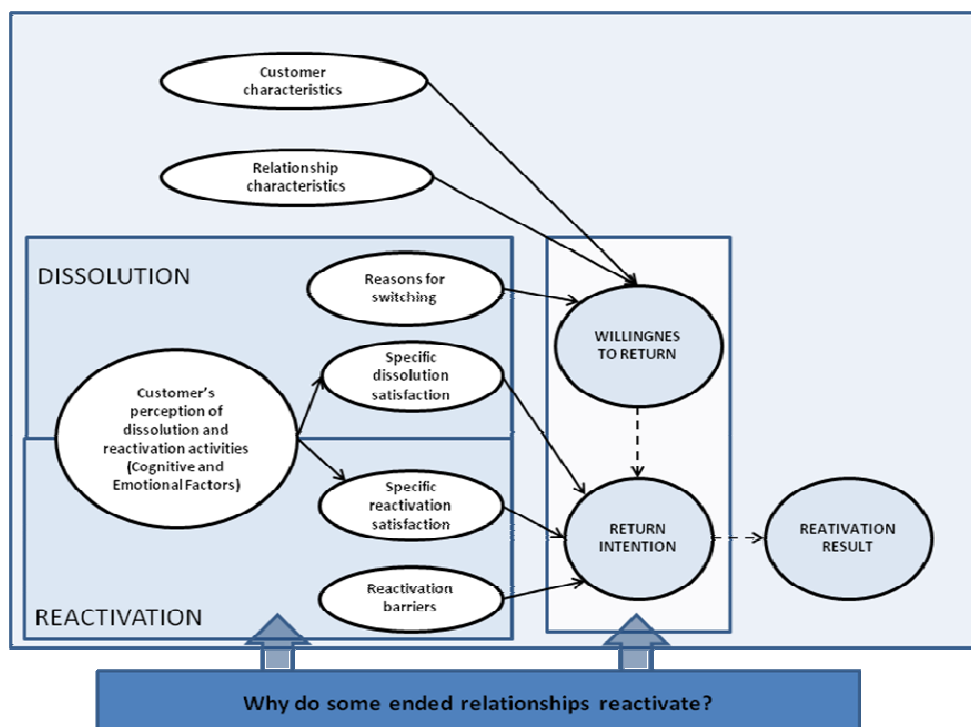
The strength of the reaction refers to the “*customer’s attitudes towards returning and their activities (e. g. worth-of-mouth behavior) after exiting*” (Roos & Strandvik, 1997: 7). Roos and Strandvik (1997) suggest that a customer that shows a weak reaction may reconsider the exit decision while a customer exhibiting a strong reaction (has strong opinions about not returning and may be engaged in negative word-of-mouth) probably will not return. Roos (1999) confirms that strong emotions and reactions are associated with irrevocable switching decisions, while weak emotions are associated with revocable switching paths. Concerning repurchase behavior, Dick and Basu (1994) had already suggested that emotions have more importance than cognitive evaluation does.

*Reactivation barriers*

Translating the concept of switching cost into reactivation barriers (e.g. time, effort and cancelling of new relationship) one can expect that customers terminating a contract experience some kind of costs when rebuilding the former relationship (Krafft & Pick, 2007). Sacrifices made in respect of reactivation may be measured in terms of alternatives attractiveness (Krafft & Pick, 2007). Moreover, it is important to recognize that, in the services context, customers have prior experiences that may influence their perceptions of the win-back offer and their intentions to switch-back to their original provider (Tokman, et al., 2007). Tokman et al. (2007) enhance that social capital (implicit within the customer' past experience) plays an important role on the customers return intentions. In those cases where customers feel high levels of gratitude, the assessment of service benefits provided by the win-back offer may play a lesser role in forming an intention to switch-back.

An illustration of the proposed conceptual framework is presented (Figure 1).

Figure 1 - Model of customer relationship reactivation (CRR)



## **Methodology**

### ***Research setting***

We have chosen an empirical context where switching is common and where the customers have several and similar alternative service providers and service offerings to choose from, namely the telecommunication market in Portugal. The traditionally monopolistic market situation has changed dramatically for the majority of the Portuguese telecommunication companies during the past decade. They now face keen competition, where the most important strategic issue is to keep the existing customers happy and prevent them from switching as well as attracting new customers. As a result, this industry was highly competitive during the years (2011-2012) in which the data were gathered. As a result of industry deregulation in 2000, no fewer than five major groups with offers on all segments (PT Comunicações, ZON, Optimus, Vodafone, Cabovisão) were competing for the same customers in 2011 (ANACOM, 2012).

The overall research project that provides the context for this article employs a two-part data collection process. Quantitative and qualitative data are connected during the phases of research, yet a predominantly explanatory qualitative methodology is adopted following a case study approach. As a mixed method approach, it was a two-phase project beginning with a quantitative phase, where the analysis of the data and its results were used to identify participants for qualitative data collection in a follow-up phase (Creswell, 2009).

### ***Data collection***

The First Part of the Study. The first part of the study consisted of, in October 2011, an exploratory survey conducted on the Portuguese biggest firms using transactions

volume as selection criteria (n=42) with commercial, marketing and other managers. This procedure does not conflict with the case study methodology since data diversity and triangulation strengthens constructs and hypotheses (Eisenhardt, 1989).

The Second Part of the Study. The second part of the study consisted of interviews with 18 employees who deal with retention and reactivation practice inside the Company and in a telemarketing partner (win-back campaign). Another vague of interviews was conducted with 20 customers who had contacted the Company to defect. Interviews were taped, transcribed and analyzed.

### ***Data analysis***

All of the interviews were transcribed verbatim. Data were categorized and transcripts repeatedly read during this analysis. As a result, employees opinions and narratives and customers dissolution/reactivation processes were described, identified and categorized in terms of reactivation determinants (customer and relationship characteristics, reasons for switching, procedure, distributive and interaction justice, satisfaction, barriers, willingness to return...).

### **Results**

Results from the exploratory survey suggest that services B2C firms have higher levels of churn, yet B2B firms offering tangibles are working ending and win-back activities on a higher level. The highest churn rates are on automobile, telecommunications, information technologies, retail, food and insurance sectors. Outcome put forward, as Griffin and Lowenstein (2001) found on their study, that most companies are not informed about customer loss and do not have strong win-back policies, programs and

monitoring systems. At this point firms doing churn management, also manage win-back but in a poorer manner.

Afterwards, based on the literature review and the exploratory survey, we selected, as said before, telecommunication services, an industry with high churn and with reactivation practices. With moderate contact, semi-customized and non-personal service in a market that is highly competitive and transparent, this set seems adequate for further research. We included business units of contractual and non-contractual nature (mobile telecommunications, mobile internet and fixed telephone). The empirical study was carried out in a large Portuguese telecommunication company—in this study referred to as The Company—and two different data collection techniques were chosen. Firstly, interviews were made with employees and, secondly, additional and separate interviews occurred with customers who had called the Company to end the relationship were analyzed. The qualitative study included 18 in dept-interviews with key informants (from marketing, retention, customer service departments and telemarketing partners) and with 20 customers with the purpose of knowing the influencing determinants and the complexity of the CRR process.

In interviews with experts, we questioned them regard to dissolution aspects, win-back activities and about customers' profile and relationship characteristics. Telecommunications explore reactivation possibilities mostly on the relationship's rupture phase and with a retention focus. Here reactivation relevant determinants are considered to be some customer characteristics (as involvement and service perceived importance) and cognitive factors (as offers value and procedures), reasons to switch and available alternatives. Yet, these firms are fairly suspicious about win-back cost-benefit ratio.

## **Conclusions and implications**

### ***Major conclusions***

It is possible to apply the theoretical framework in telecommunications companies delivering a mix of goods and services. Telecommunications explore reactivation possibilities mostly on the relationship's rupture phase and with a retention focus. Here, the relevant reactivation determinants are considered to be some customer characteristics (as age, involvement and service perceived importance) and cognitive factors (as offer's value and procedures and satisfaction), reasons to switch and available alternatives. The framework has proven to be useful in suggesting approaches to CRR. This is a promising side-effect of this study, at least from a managerial point of view. The contribution of our empirical study is to advance knowledge about the antecedents of successful reactivation strategies.

### ***Limitations and future research***

Several limitations are acknowledged in this study. First, the qualitative data were obtained from only one industry in one country. However, the fact that it included three different services compensates (at least in some degree). It would, nevertheless, be interesting to have examined other industries and socio-cultural contexts. Further research should also study this phenomenon in the perspective of the regain customer's value (decreased), since there are some doubts about this negative consequence of the reactivation efforts.

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