

Impact of Switching Costs on the Tripartite Model – Third Party Logistics

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Abstract A multitude of companies today has already identified the need to create a loyal customer base and acknowledged that maintaining existing customers and extending business with them are significantly less expensive than acquiring new customers (e.g.[17]). Therefore this paper describes the development of a conceptual model to investigate several factors affecting customer loyalty towards the service provider involving factors such as logistics service quality, customer satisfaction and switching costs. The eventual research using this conceptual model would reveal logistics service capabilities that can be leveraged to create customer and supplier value through service performance (e.g.[44]); increase market share (e.g.[36]); enable mass customization (e.g.[75]); create effective customer response-based systems (e.g.[103]); positively affect customer satisfaction and in turn corporate performance (e.g.[76]); provide a differentiating competitive advantage (e.g.[5],[25],[103]); and segment customers (e.g.[77]). This conceptual model has switching costs as a moderator between customer satisfaction and loyalty relationship. Therefore the research using this model would also reveal the extent switching costs affect the relationship between customer satisfaction and loyalty.

Keywords 3PL, Logistics Service Quality, Customer Satisfaction, Attitudinal Loyalty, Behavioral Loyalty, Switching Costs

1. Introduction

Globalization has emerged in recent years as a major force shaping business policy and strategy. To effectively compete in an increasingly challenging globalized market, companies must find ways to position themselves in ways that would allow them to take advantage of the emerging opportunities and neutralize the potential impending threats (e.g.[74]). Several companies today has already identified the need to create a loyal customer base and acknowledged that maintaining existing customers and extending business with them are significantly less expensive than acquiring new customers (e.g.[17]). According to reference[78], it costs more than five times as much to get new customers than to hold on to old ones. In addition, references[80] and[104] highlighted that a five percent decrease in customer attrition will lead to 25 to 85 percent increase in profit. Reference[79] also pointed out that a five percent increase in customer loyalty would lead to 30 percent increase in profit.

Researchers found the service sector continues to grow in importance and there are also increasing irritations, frustration, and dissatisfaction of customers towards service providers (e.g.[1],[81]). Therefore, researchers and service

providers look for better ways to understand how customers perceive the quality of service and how the perception of service quality translate into customer satisfaction and customer loyalty (e.g.[105]). Besides service quality, customer satisfaction is an important key point for customer-oriented business practices across a large number of companies in different industries. This is because customer satisfaction is the state of mind that customers have about a company when their expectations are met or exceeded over the lifetime of the product or service. The achievement of customer satisfaction is expected to lead to company loyalty and product repurchase. Management should focus on gaining customer loyalty by enhancing customer perceptions of service quality. Empirical proof of the proliferation of customer loyalty efforts in the business world come in different forms such as loyalty programs, which many companies have installed during the past years (e.g.[106]). However the loyalty programs are still not applied in the logistics field.

By engaging in efforts aimed at creating customer loyalty, which in turn fosters financial success (e.g.[18]), firms react to increasing competitive challenges. In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy. Business enterprises that are prospering in the new global economy recognize that measuring customer satisfaction is an important activity. Satisfying customers is the way to hold

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on to the customers they have and to attract new customers. The companies that are successful recognize that providing customer satisfaction is a critical strategy to increase market share and increase profits.

Global expansion is increasingly complex as new markets open up and developing countries mature. Many companies are exploring to find strategies to reduce risks, manufacturing lead times, reduce total costs, and increase market responsiveness. The logistics industry is not insulated from the issues of service quality, customer loyalty, and the influence of switching costs in customer retention. Global expansion even for logistics has become increasingly complex as new markets open up and developing countries mature. Many companies explore strategies to reduce risks, manufacturing lead times, total costs, and to increase market responsiveness as cited earlier (e.g.[82],[83]). The development in logistics sees third-party logistics (3PL) provider takes over supply chain functions of businesses and manages them better than what the companies could do on their own. This would allow businesses to shift the logistics risks that come with global complexity to 3PL and therefore would free company resources to concentrate in other core business activities.

A 3PL provider is a firm providing outsourced or “third party” logistics services to companies for some portion or all of their supply chain management functions. 3PL typically specializes in integrated warehousing and transportation services that can be scaled and customized to customer needs based on market conditions and the demand and delivery service requirements for their products and materials (e.g.[29]). 3PL evolves from a predominantly transactional role to one that is more strategic in nature. The 3PL industry evolved in the 1970s during a time of expanding globalization and an increasing use of information technology (e.g.[30]). This development resulted in increased demand on firms, and created possibilities for companies to operate more competitively in the marketplace. The first generation 3PL (1970-1980) offered services such as transportation, brokerage, and shipping. The second generation 3PL (1980-1990) were mostly asset or non-asset based companies with increased service offerings. The third generation 3PL (year 2000 onwards) is mostly web-based 3PL with increased supply chain integration (e.g.[30]).

Malaysia is one country in the Asia-Pacific region that has the potential to grow in logistics (e.g.[84]). According to the Malaysia Economic Report 2011/2012, the service sector is the largest contributor of growth (e.g.[85]). The Malaysian logistics industry is expected to grow 10.3 percent to RM129.93 billion in 2012 compared to RM117.8 billion in 2011 and RM 108.5 billion in 2010 (e.g.[86],[87]). While logistics in Malaysia is growing rapidly, there has been very little research in the area of logistics (e.g.[88]). The growth of the logistics industry and the lack of research in logistics in particular 3PL present an opportunity to analyze the relationship between 3PL service quality and customer satisfaction with the latter affecting customers loyalty.

1.1. Problem Statement

The development of 3PL market in Malaysia has not paralleled the growth of logistics industry. The growth of logistics industry in Malaysia is hampered by a lack of logistics professional, the fragmented nature of the logistics industry and a lack of value-added services by logistics service providers (e.g.[86]). Therefore firms should improve their respective 3PL services. As cited earlier, reference[88] indicated an absence of a comprehensive study and literature regarding the extent of the development of 3PL firms in Malaysia. Reference[84] also indicated a lack of literature in the 3PL industry in Malaysia though the logistics industry in Malaysia has developed and grown rapidly.

3PL providers must not only care and focus on their customers' current expectation or satisfaction but also to develop the capability to motivate customers to repurchase or maintain a long-term relationship with them. The 3PL industry is characterized as “undergoing constant change” and deserving greater study (e.g.[89]). According to (e.g.[35]), the trend towards the development of a longer term partnership is increasing. 3PL providers should take this as a challenge to provide better service to meet customers' requirement and exceed their expectation to keep existing customers and attract new ones. Interestingly, exceeding customers' expectation would lead to levels of performance that are increasingly more difficult to achieve in the future (e.g.[8]).

Current literature focuses on relational exchanges, with less attention on relationship power and dependence (e.g.[21]). However, with a significant literature base addressing dependence asymmetry in supplier-customer relationships (e.g.[22],[23],[107]), there is sufficient evidence to suspect that it does affect even the most successful supplier customer relationships. Although understanding how or why a sense of loyalty develops in customers remains a crucial management issue, the psychology behind the development of customer loyalty is not well understood (e.g.[24]). Previous studies by references[6],[108],[109] identified perceptions of supplier performance may differ between that of the supplier and customer. This would make the research even more complex, as judging an individual service is already a subjective matter. Neither does this research dwell on power and dependency relationships nor the psychology of customer loyalty. Instead it focuses upon logistics service quality and how it influences customer satisfaction with the sequential effect upon loyalty with switching costs as a moderator.

2. Literature Review

The following sections describe the literature related to logistics service quality, customer satisfaction, loyalty and switching costs.

2.1. Logistics Service Quality (LSQ)

Relying on empirical research, logistics excellence is recognized as an area that firms can create competitive advantage (e.g.[2],[5],[27],[25],[103]) because of its visible service to customers (e.g.[2],[28],[31],[32]). In order to successfully leverage logistics excellence as a competitive advantage to customers, logisticians must coordinate with marketing departments (e.g.[2],[5],[33],[34],[70]). The quality of logistics service performance is therefore also a key marketing component that helps create customer satisfaction (e.g.[2],[4],[28]). Service quality has been recognized as a priority theme in marketing and logistics research, running parallel to the interest in quality, quality management and satisfaction in companies (e.g.[37],[38],[39],[47]).

LSQ has been studied from two different perspectives that of objective quality and subjective quality. The first perspective relates quality to adapting the service to service provider defined specifications (e.g.[39],[49]). This industrial perspective of service also sees quality as an accurate evaluation of all the stages and operations necessary to deliver the service, likening the process to that of manufacturing a product by considering the service as a physical object which can be observed and with attributes that can be evaluated (e.g.[41]). On the other hand, subjective quality is transferring the evaluation of quality to the customer. Based on this perspective, service quality is “a global judgment or attitude, concerning the superior nature of the service” (e.g.[39],[110]).

References[6] and [2] have identified service quality as an effort to understand customer satisfaction from the perspective of the differences between customer perceptions and actual customer service on various attributes. Reference [111] initiated to examine whether service quality model can be applied to measure logistics service. They have modified the original service quality model by developing logistics attributes that fit into the previous customer-defined dimensions and identifying additional gaps that could be applied to the logistics service context (e.g.[2],[42]). These views of logistics service provide the building blocks to create a customer-based foundation for better definitions and measures of LSQ (e.g.[5]). In the early development stage of the LSQ concept, reference[4] found LSQ elements does not comprise only of the physical distribution aspects of service but should also include other customer elements which they termed “marketing customer service” (e.g.[43]).

Reference[2] developed the most detailed and relevant identification components of LSQ. Analysis of these components and other significant contributions of references[44],[18],[45],[46],[47] and [43] have allowed the identification of a set of dimensions for measuring LSQ. LSQ has nine different components which are personnel contact quality, order release quantities, information quality, ordering procedures, order accuracy, order condition, order quality, order discrepancy handling, and timeliness. These nine components are divided into two different groups which are technical quality and functional quality. Technical quality refers to service outcome and functional quality

refers to process of service delivery. Physical distribution service quality is the technical component of logistics service quality and the process of delivery is the functional component (e.g.[43]).

Timeliness is the most important component in the LSQ (e.g.[2],[7],[28],[39],[44],[48]), and is understood to mean reception of the order placed by the customer at the agreed moment (e.g.[2]). Based on reference[49] study, the results show that the most important component is “on time delivery.” But reference[43] found functional quality (ordering process) is of critical importance rather than technical quality (timeliness) of LSQ.

2.2. Customer Satisfaction

Most researchers realized the importance of satisfaction and looked into the importance of customer satisfaction. Customer satisfaction is often defined as the customers’ post-purchase comparison between pre-purchase expectation and performance received (e.g.[5],[50],[52]). Reference[53] contended that satisfaction is the emotional reaction to a specific product/service experience, and these emotional reactions come from disconfirmation of a consumer’s perceived performance of product or service and his or her expectations of performance (e.g.[54],[55],[56]). Reference [112] defined satisfaction as “a person’s feeling of pleasure or disappointment resulting from comparing a product’s perceived performance (or outcome) in relation to his or her expectations”. Reference[57] said that satisfaction can be associated with feelings of acceptance, happiness, relief, excitement, and delight. According to reference[58], customer satisfaction is defined as the perceived value acquired by a consumer in purchasing a particular product, as well as the satisfaction level with service during the trading process (e.g.[58]). Customer satisfaction lies at the core of a sequence of relationships, including the antecedents of customer satisfaction like perceived quality and perceived value with the consequence of customer satisfaction (e.g.[59],[60]).

Customer satisfaction level is an integrated assessment response which represents the summation of customers’ subjective responses to different attributes of a product (e.g.[58],[61]). Reference[62] disagreed with the idea that the best method of measured customer satisfaction level is evaluating the product overall integrated satisfaction level and thought that using this kind of evaluation method to ask customers to make a quick response while they are facing complex circumstances would result in the loss of relevant information. Therefore, many scholars measure the customer satisfaction level on each attribute of a product in addition to the integrated satisfaction level (e.g.[58]).

Several researchers have studied the relationship between quality perceptions and satisfaction towards service quality. Although, some inconsistency exists across these findings, there is considerable evidence that service quality perception is among the antecedent factors that influence customer judgment of satisfaction (e.g.[6],[16],[18],[59],[63],[64],[65],[66],[67],[68],[69]). This theoretical perspective

portrays customer satisfaction as a holistic construct resulting from judgment about a variety of factors (e.g.[69]).

In addition, an array of effort in service quality research explored its relationship with satisfaction in logistics environment. These researches include research on physical distribution service quality (e.g.[28]), the logistics services and satisfaction relationship (e.g.[32]), and the expanded LSQ framework and logistics customer segments and satisfaction (e.g.[2],[3]). More recent efforts examined the relationship between LSQ, satisfaction, customer loyalty, and market share (e.g.[21],[46],[143]).

2.3. Loyalty

The concept of loyalty is widely analyzed in literature, especially from a marketing perspective (e.g.[71],[72],[73],[8]). A review of recent empirical articles published in leading marketing journals shows that within both business-to-consumer (B2C) and business-to-business (B2B) research, no standard for the measurement of customer loyalty has emerged (e.g.[10],[11],[12],[9]). Although the multidimensional nature of customer loyalty has been acknowledged for years (e.g.[13],[14]), no consensus is reached regarding the dimensions to be incorporated in its measurement. Although many definitions exist, reference[19] provided a better explanation of loyalty (e.g.[15]). According to reference[16], loyalty reflects a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, thereby causing repetitive same-brand or same brand-purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior. This in simple terms means loyalty shows consumer giving preference to a particular brand or company, although satisfactory alternatives may exist (e.g.[15]).

There are two main streams of research in loyalty consisting of behavioral loyalty and attitudinal loyalty (e.g.[71],[90],[91],[92],[93]). Many researchers view customer loyalty as either repurchase behavior or repurchase behavior combined with attitudinal component (e.g.[71],[94],[95],[113],[114],[115],[116],[117],[144],[145]). The behavioral loyalty approach is based on aspects of probability of purchase, purchase frequency, purchase amount, repeat purchase behavior, purchase sequence, brand switches over time and multiple aspects of purchase behavior (e.g.[72],[118],[119]). On the other hand, the attitudinal loyalty approach emphasizes customer psychological disposition towards building loyalty and reflecting customer action, involving the measurement of customer purchase attitude (e.g.[72],[118],[119]). The attitudinal loyalty approach mainly focuses on brand recommendations, resistance to superior products, willingness to pay a price premium and repurchase intention (e.g.[63],[93],[113],[120],[121],[142]).

Reference[96] proposed that loyalty be evaluated with both behavioral and attitudinal component. This is because purchase decision in loyalty does not distinguish between

true or “intentional” loyalty and spurious loyalty (e.g.[96]). Spuriously loyal customers lack attachment to brand attributes. They would buy other brand products if there are better promotions or offer (e.g.[96]). While reference[71] theorized loyalty consists of attitudinal loyalty and behavioral loyalty with the former leading to the latter, it was reference[122] which empirically tested reference[71] theoretical framework and proved that to be true. The theory (e.g.[71]) and the empirical findings (e.g.[122]) practically reinforced the tripartite attitude model (e.g.[123]). Therefore this paper takes the position that attitudinal loyalty leads to behavioral loyalty.

2.4. Switching Costs

Switching costs generally is defined as costs to prevent customers switch from one product or service to a competitor's product or service. Reference[97] defined switching costs as the costs involved in changing from one service provider to another. According to reference[98], there are three categories of switching costs customers might face when they want to switch service provider. These are procedural switching costs, financial switching costs, and relational switching costs (e.g.[98],[99]). Relational switching costs consist of personal relationship loss and brand relationship costs, which involves psychological or emotional discomfort due to loss of identity and breaking of bonds (e.g.[98]). Procedural switching costs consist of economic risk, evaluation, learning, and setup costs which involve expenditure of time and effort (e.g.[98]). However, financial switching costs consist of benefits loss and financial loss costs; this type of switching costs involves the loss of financially quantifiable resources (e.g.[98]).

Reference[100] reported switching costs are identified as playing a key role in the process of creating strong customer loyalty. Many scholars also argued switching costs is a moderator in the satisfaction-loyalty linkage (e.g.[19],[80],[130],[132]). A moderator variable is defined as a variable that systematically modified either the form and/or strength of the relationship between a dependent variable and independent variable (e.g.[20],[138],[139],[140],[141]).

3. Modeling

A model is used to support this research to investigate the conceptual framework of logistics service quality and customer satisfaction leading to attitudinal loyalty and behavioral loyalty.

3.1. Tripartite Attitude Model:

Cognitive-Affective-Conative

Many researchers have used the established tripartite attitude model for consumer behavior research (e.g.[19],[123],[124],[125],[126],[127],[136],[137]). The tripartite attitude model composes of three elements which are cognitive, affective and conative (e.g.[123]). The development of tripartite attitude model starts from cognitive

to affective and then to conative. Many scholars also found that cognition (positive perception towards the brand) might influence affect (positive feelings and attitudes towards the brand) through to conation (intention purchase and actual purchase behavior) (e.g.[123],[128]).

According to reference[19], cognitive structure of attitude can be based on a customer prior or vicarious knowledge or their latest experience-based information. The affective component of attitude is referred to as a person's overall feelings of like or dislike towards a situation, object, person, or concept (e.g.[129]). According to reference[125], affect is "attached" towards brand and the feelings or emotions that will influence preference to a brand. Conative attitude is the final component of the tripartite attitude model (e.g.[19],[123],[124],[125],[126],[136],[137]). Generally, conative attitude is an outcome of cognition and effect of the attitude model. Conative response is described as intention and actual behavior of consumer towards an object (e.g.[123],[125],[124],[126],[127],[128],[135]).

3.2. The Conceptual Model

This study builds on the satisfaction-loyalty pattern in service management research (e.g.[80],[101]). The purpose

of the study using this model is to identify the impact of LSQ upon 3PL satisfaction and loyalty of users.

Based on earlier research in the logistics industry, perceived LSQ in 3PL has two central dimensions with nine sub-dimensions (e.g.[2],[3],[43],[39]). The two central dimensions containing sub-dimensions are technical quality (order quality, order condition, order accuracy, order release quantities and timeliness) and functional quality (personal contact quality, information quality, ordering procedures and order discrepancy handling). The general structure of satisfaction-loyalty model pointed out that LSQ will positively relate LSQ to customer overall satisfaction, and LSQ will also indirectly influence customer loyalty (e.g.[39],[43]).

Next, there are two main components of loyalty in research. They are attitudinal loyalty and behavioral loyalty (e.g.[71],[90],[91],[92],[93]). It is posited that attitudinal loyalty precedes behavioral loyalty. Similar to other research, switching costs is a moderator in the relationship between customer satisfaction and loyalty (e.g.[130],[131],[132]). The existence of switching costs affects the relationship of customer satisfaction and customer loyalty to 3PL providers (e.g.[80],[133],[134]). Hence, the following conceptual model (Figure 1) is developed for this paper and will be used in the authors' subsequent research.

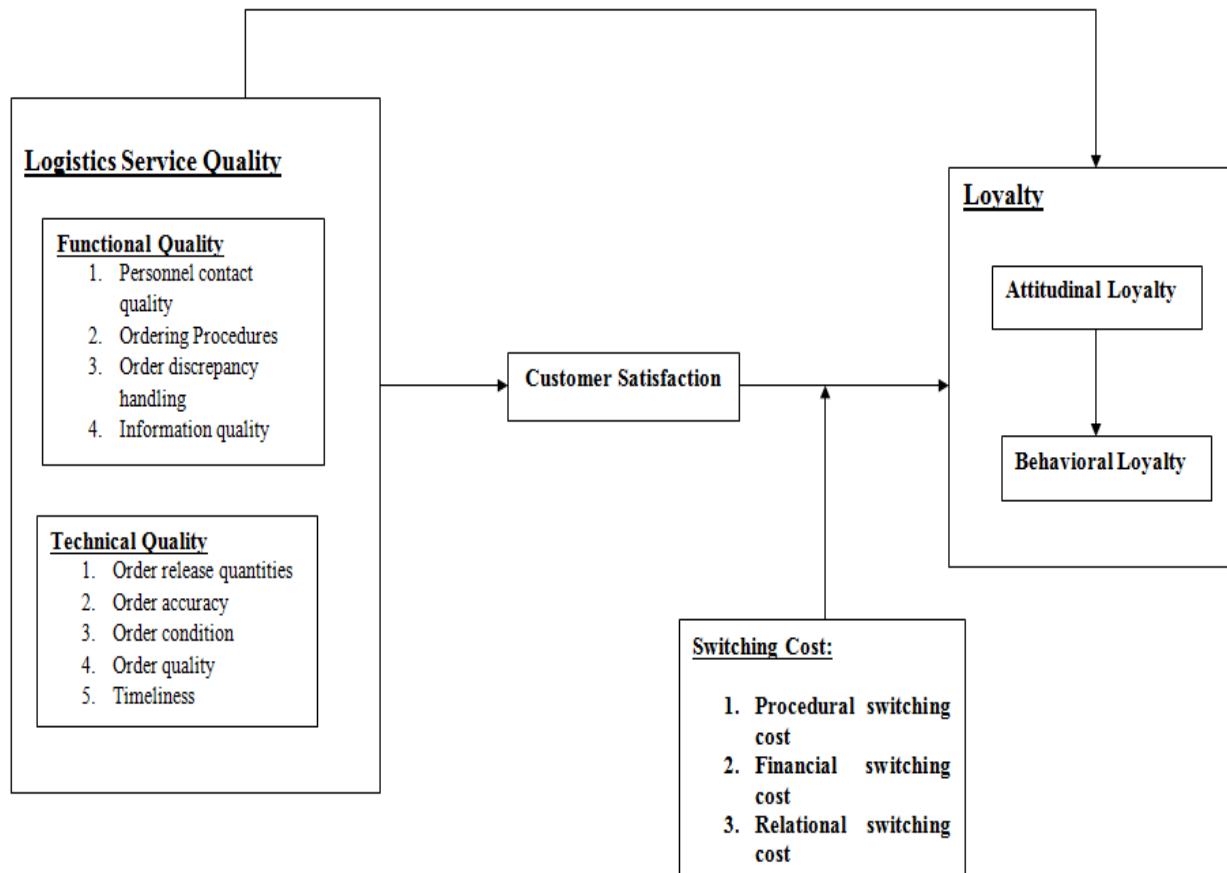


Figure 1. Conceptual model

Note: The authors reserve all rights to the contents of this paper including the proposed conceptual model or subsets contained therein for its ongoing research and subsequent use.

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