LINKING A MULTI-COMPONENT MODEL OF COMMITMENT TO CUSTOMER PROFITABILITY

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SUMMARY

Firms heavily invest in Relationship Marketing (RM) activities in the belief that such programs initiate a chain of effects leading to enhanced commitment and customer profitability (Palmatier, Gopalakrishna, and Houston 2006). This applies especially to service firms where relational variables like commitment are in focus as service delivery constitutes an interactive process (Verhoef, Franses, and Hoekstra 2002). However, researchers have begun to question the relationship between commitment and the bottom line. Moreover, studies find that more intensive and longer relationships do not necessarily result in loyal customers costing less to serve and paying higher prices (Reinartz and Kumar 2000). One explanation may lie in the fact that measuring commitment as a monolithic construct may be a gross oversimplification. Bansal, Irving, and Taylor (2004) emphasize that the psychological states underlying commitment need to be considered in order to understand customers' behavior, hence proposing a three-component conceptualization of commitment. Thus, examining the link between the multiple commitment construct and profitability could be a much more fruitful avenue for investigating the patterns of leveraging profits in RM. However, this has not been studied so far. A next unresolved issue is how the impact of commitment constructs on profitability evolves over time. To our knowledge no study has addressed the issue of dynamics between multiple commitment constructs and profitability measures so far. This is crucial for adapting RM efforts to the specific drivers of value creation for novice vs. long-term customers. The issue of relationship stage-specific RM activities lead directly to the question on how the commitment constructs can be managed effectively by specific RM instruments like special treatments and brand communications.

We estimated our structural equation model using data from a service context, i.e., hair salon customers (n = 695). In this way, we succeeded in linking a four-component model – consisting of affective, calculative, locked-in, and normative commitment – to customer profitability in terms of willingness to pay more (revenue-increasing) and co-production (cost-reducing) as the main drivers of customer profitability for service providers. Thereby, we demonstrate differential profitability impacts of the commitment constructs. We show that commitment-related investments are a double-edged sword: While affective commitment enhances the willingness to pay more, it inhibits co-production at the same time. This is because customers may feel emotionally kidnaped by the service employees. Further, locked-in customers are willing to pay more due to a lack of switching options, however, they refuse to co-produce. In this way they avoid to get proactively engaged in the relationship with the service provider in order to keep the option to have an easier exit. Contrary, normative and calculative commitment drives both profitability measures.

Further we reveal a moderating effect of relationship age on each commitment construct. Most strikingly, value consciousness becomes dominant as relationships evolve, i.e., customers are only willing to pay higher prices or to co-produce if they get more "bang for the buck," The ability to calculate the value of the relationship increases as customers learn about the company's procedures and offers; they are better able to precisely judge the economic trade-off between benefits and costs leading to the dominance of calculative commitment in driving purchase behavior. As the importance of cognitions increases, the influence of affect on profitability measures diminishes. In addition, normative commitment's influence on willingness to pay more declines the longer the customers do business with the service provider. Concerning locked-in commitment, the importance is diminishing over time from a strong to a non-significant effect on profitability constructs. Obviously, in later stages, the drivers of willingness to pay more and co-production shift from locked-in commitment to the calculative and normative counterparts.

Finally, as drivers of profitability vary across the relationship stages, we provide implications for the selection of appropriate RM instruments in both relationship stages. For novice customers special treatments have the highest total effect on willingness to pay more as this instrument positively influences both affective and normative commitment. However, managers of service providers must be aware that there are dark sides of investing in special treatments as this also strongly enhances affective commitment which in turn declines co-production. For long-term relationships special treatments also appear

to be the major instrument for boosting profits. In later stages our results imply a clear prioritization of special treatments, while for novice customers firms have to assess the trade-off between the positive effect of special treatments on willingness to pay more and the negative effect on co-production. Thus, for the early stage brand communication may be appropriate as the negative impact is smaller compared to special treatments.

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