A Conceptual Model of Customer Recapture

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***Abstract*—Traditionally, attracting new customers and retaining the current ones have been the center of focus in many studies. Research shows that only half of the customers that are satisfied with the service recovery, planned to return. Since service failure is inevitable in service contexts, this finding means even though customer retention strategies are in place some customers will defect. Therefore, it is more than ever important to understand the mechanisms of regaining lost customers. In this study, the importance of customer recapture efforts is first discussed and the existing research on customer reacquisition is reviewed. Next, the gaps in the literature are presented. Proposition towards a model of customer recapture are then laid out based on support from relevant literatures such as switching behaviors and barriers, emotion/affect, service failure and recovery, equity / customer lifetime value, and customer defections. Finally, concluding remarks and future research directions are put forward.**

***Index Terms*—Switching behavior, customer recapture, fairness of the offer, customer lifetime value, comeback incentives.**

I. Introduction

In today's competitive markets, customer retention efforts are not hundred percent successful. Customers are offered an unlimited array of choices. While some customers remain loyal due to their relationship orientation [1], some take advantage of the choice potential [2]. In some cases customers are not happy with the services they receive and they quit the relationship with the service provider. Some estimates about acquiring new customers suggest that it costs about five times more to obtain a new customer than it does to retain one [3]. These estimates shifted the attention to customer retention strategies. Customer retention strategy is especially profitable when the cost of acquiring new customers is higher than the cost of retaining them. Now both scholars and managers are realizing that the opportunity costs of losing a customer are too important to ignore.

Customer defection occurs when the customer decides to no longer use the service. In this case customers may chose to let the firm know that they are leaving or stay silent and stop patronizing (silent attrition) [4]. The former usually happens in contractual service contexts where customer is locked in for a predetermined period of time. In both cases the service provider loses business. However, the impact of defection may go far beyond the loss of the person's future revenue stream [5]. Angry customers often engage in negative word of mouth and tell their problems to other customers [6]. Results of previous research show that 75% of customers told their experience to at least one person, and usually several others [7]. Since word of mouth is a critical factor impacting a firm's reputation [8], negative word of mouth can have one of the most detrimental effects on businesses [9].

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II. Recapturing Customers

Initiated in the early 90s, efforts to understand the mechanisms of customer defections and ways to recapture lost customers have been mostly managerial and conceptual [8], [10], [11]. Literature on recapturing defected customers is based on the well-known argument that acquiring new customers is more expensive than recapturing the old ones and older customers generate more cash flow. Built on these arguments, researchers focus on why it is important to recapture lost customers, which segments of customers are more profitable to recapture, what should be done to recapture lost customers and what managerial actions should be taken to successfully manage the recapturing process.

A comprehensive outline for winning back lost customers is introduced by [12]. In their book, they also give managerial suggestions in order to help make the company free of customer defections. Within a conceptual effort on customer recapture, researchers [11] focus their efforts on determining which customers defect (and why), what the recapture actions are and how firms control the outcomes. The latest progress, not only conceptually but also empirically, in understanding how customer recapture mechanisms work, comes from prior research [13]. They focus solely on the impact of pricing strategies as a means to recapture customers. They also contribute to the literature by quantitatively testing the relationship between the price used to recapture the customer and its impact on the management of the customer's second lifetime value.

Despite its managerial importance, there is very little empirical research that explains the antecedents and consequences of recapturing lost customers. It is apparent that literature on customer recapture is in its infancy. There is an imperative need for an empirically testable model of customer recapture. This study attempts to fill the preceding gap by examining the antecedents and consequences of customer recapture. The objective of the study is to investigate the mechanisms that facilitate or hamper customer recapture. Additionally the moderating factors that set boundaries to these mechanisms are investigated. Some questions that are going to be investigated are: Which strategies are more appropriate for different customer attitudes at the time of switching? When are they effective? How do the perceptions about fairness influence the recapturing of customers with different attitudinal levels? How does customer lifetime value (CLTV) influence the relationship between customer recapturing and profitability? What is the role of switching costs in a model of customer

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recapture?

In that respect, in the following sections, the impact of customer attitudes, switching behaviors, perceived fairness of the offer and switching costs on customer recapture are first discussed and relevant propositions are stated. Then, strategies that are used to regain customers and length of lapse time are examined. Next, customer second lifetime value and firm profitability are included in the model. Finally, the model (Fig. 4) and conclusion remarks as well as future research directions are presented.

III. Switching Behavior and Switching Costs

Consumer experiences significantly influence consumer judgments and future behavioral intentions [14], [9]. One of the behaviors customers engage in when they defect is switching. Eighty five percent of all customers who defect find a new service provider [7]. Firms that aim to win these customers back should first understand the customer's future intentions and the factors affecting them in order to implement an effective recapturing strategy [4].

Post-switching behaviors are related to the reasons that cause the switching in the first place [7]. Previous research on customer defections and switching behavior has identified many underlying reasons for this behavior (see Table I and II). When the underlying motives are scrutinized, although the triggers of switching behavior may change, dissatisfaction seems to be the major factor that leads to defection.

TABLE I: Cost of a Lost Customer

Lost customer	
1 unhappy customer spending $200/month defects	$2400 rev. lost/year
Lost business due to negative word of mouth	
The unhappy customer tells on average 11 other people	11*
These 11 people tell 5 others	55*
Total people 1 lost customer influences	66
Assume 25% of those 66 people will not do business with you	17
Amount of lost opportunity from 17 people who would likely spend $200/month	$40,800 rev. lost/year
Total business forfeited	
Due to 1 lost customer and associated negative word-of-mouth	$43,200 rev. lost/year
	$432,000 lost over 10 years

*Research by Technical Assistance Research Programs has found that an upset customer tells an average of eleven people about an unhappy experience and that those eleven people tell five others [12].

Customers may be dissatisfied with the service itself, the service employee or the pricing strategies of the firm; however, the crucial determinant is the extent to which they are dissatisfied. Additionally, research on emotions in marketing literature suggests that specific emotions that occur as a result of the relationship between the firm and the customer have idiosyncratic behavior and behavioral tendencies associated with them [6]. Like negative word of mouth, complaint behavior and third party complaining, switching behavior is a behavioral response. Despite the best intentions and efforts of service providers to keep customers from having negative emotions (like anger), the intangible and inseparable nature of services make it inevitable [6] to satisfy all customers hundred percent.

Prior research [15] suggests that dividing customers into attitudinally homogenous groups will help better understand their future actions. Accordingly, for the purposes of this study, customer attitudes, specifically dissatisfaction is conceptualized as a determinant of their future behavior of switching back. Since the emotional outcomes of the service experience influences future customer behavior, defectors would be less likely to switch back to a service provider if the dissatisfaction they experienced at the time of switching is high. Supporting this argument, researchers [16] found out that customers who switch because they are dissatisfied are the ones who are the most satisfied with the services of the switched to firm. Additionally, they exhibit active loyalty behaviors. Thus, when customers have negative emotions at the time of switching, the likelihood of recapture (switching back to the service provider) will be lower. Therefore, the following argument is proposed.

P1: *Customer's level of dissatisfaction at the time of switching is negatively related to customer recapture*

TABLE II: Sources of Switching Behavior – Evidence from Previous Research

Groups	Definitions
Reasons to switch [7]	
Pricing	Includes incidents that involved prices, rates, fees, charges, surcharges, service charges, penalties, price deals, coupons or price promotions. Sub categories are; high prices, price increases, unfair pricing and deceptive pricing practices.
Inconvenience	Includes incidents where customer feels inconvenienced by the service provider's location, hours of operation, waiting time for service, or waiting time to get an appointment.
Core Service Failure	Includes incidents that are due to mistakes or other technical problems with the service itself.
Service encounter Failure	Includes incidents attributable to some aspect of service employee's behavior or attitude, such as being uncaring, impolite, unresponsive or unknowledgeable.
Employee Responses to Service Failure	Includes incidents in which customers switched, not because of a service failure, but because service provider failed to handle the situation properly. Subcategories are reluctant responses, failure to respond, and patently negative responses
Attraction by competitors	Includes incidents in which customers switched to a *better* service provider rather than from an unsatisfactory provider.
Ethical Problems	Includes incidents that described illegal, immoral, unsafe, unhealthy, or other behaviors that deviated widely from social norms. The sub categories are; dishonest, intimidating r, unsafe or unhealthy behaviors and conflicts of interest
Kinds of defectors [12]	
Intentionally pushed away Customers	Customers that are unprofitable to serve, and for that reason the firm does little to encourage their ongoing patronage.
Unintentionally pushed away customers	Customers that the firm wants to keep but who leave because the company's performance does not meet their expectation. For example, unhappiness with product delivery, installation, service, or price; improper handling of a complaint; disapproval of changes; feeling taken for granted.
Pulled away customers	Customers pulled away by a competitor by offering a better value, an advantage that often goes beyond price. Perhaps service was more personable or more reliable, or product quality was higher, or the product was more innovative.
Bought away customers	Defecting customers are considered bought away customers when they are attracted by introductory pricing offers.
Moved away customers	Customers that drift away from the consumer-oriented service provider because they have relocated or because their needs are different due to age, life cycle changes, or a change in geography
Types of switchers [16]	
Dissatisfied switchers	Customers who switched be
Satisfied switchers	Customer who switched for reasons other than dissatisfaction (i.e. job related relocation).

Although the level of dissatisfaction has a negative impact on recapturing defectors, another important factor to consider is the customer's propensity to accept duality. Emotion/affect literature suggests that individuals with lower versus higher propensity to accept duality have more negative attitudes towards things that cause mixed emotions [17]. Additionally, conflicts related to past or present outcomes of decisions cause duality [18], and avoidance and reinterpretation of anticipation may be the coping strategies used by consumer depending on their propensity to accept duality. Thus defectors may be less likely to return if they have low propensity to accept duality. This is because they have decided to switch before and switching back again creates conflict and two different assessments about the previous firm, first one being negative and causing the switch and second being positive and tempting the customer to switch back. From this regard the level of dissatisfaction at the time of switching becomes important. If the defections occurred because of a highly dissatisfying incident, customers will be less likely to come back if they have low propensity to accept duality. Conversely, if the customer has high propensity to accept duality, high levels of dissatisfying experiences with the first firm will not have as much negative influence on customer's likelihood of switching back (see Fig. 1(a)). Hence, the next statement is proposed.

P2: *Defected customers' propensity to accept duality moderates the relationship between dissatisfaction as a reason to switch and recapturing*

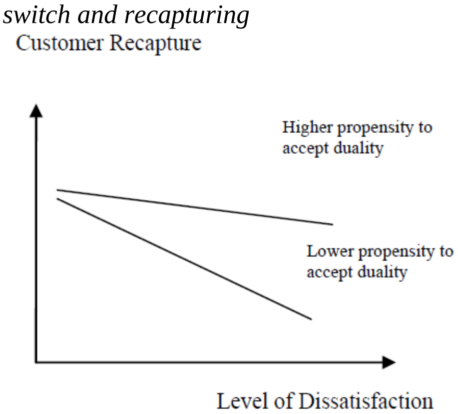

Fig. 1(a). Influence of propensity to accept duality on level of dissatisfaction customer recapture relationship.

In switching situations, there are always costs attached. The importance of switching costs in consumer markets has been emphasized by both academics and practitioners [19], [7], [16]. Switching costs are the perceived economic and psychological costs associated with changing from one alternative to the other. Understanding the role of these costs is critical since they play an imperative role in predicting customer recapture. Because the majority of customers that defect switch to another service provider [7], switching back costs are in play when a firm tries to win the defectors back. Switching costs provide a source of differentiation for otherwise homogeneous services [20]. For defectors, switching costs to the previous firm is lower than patronizing a brand new firm. However, the switched to firm holds the advantage. Customers who switch to other provider exhibit higher levels of loyalty to the new firm than the patrons who never experienced another service provider [16]. This is due to lack of experiential knowledge about other service providers, which lead to perceptions of higher switching costs.

As has been proven in the literature, managing customers' perceptions of the switching costs is a powerful tactic in customer retention strategies [21]. When service providers aim to recapture defected customers these costs play a negative role. Although search costs are a type of switching costs that potentially can cause lock-in to the switched to firm [22], unlike prospective customers, defected customers have already experienced and learned about the services of the previous service provider. Therefore, costs related to learning such as pre-switching search and evaluation costs, post switching behavioral and cognitive and setup costs will be lower [19]. Thus, if the customers' perceptions of switching costs (other than learning), such as continuity and sunk costs, are higher, they will be less likely to switch back. Additionally, switching back costs have an indirect negative effect on customer recapture through customer's loyalty to the switched to firm. Prior research [22] found out that when consumers select among alternatives with costs and benefits over time, they focus on the current higher utility and are insensitive to the effects of their own choices on the relative utility of options in the set. Since the current provider is the switched to firm, higher switching back costs will be positively related to customer's loyalty to that firm and consequently this loyalty will negatively impact customer recapture. Thus the following is proposed.

P3: *Loyalty to switched-to-firm partially mediates the relationship between switching costs and customer recapture.*

P4: *Switching costs (continuity and sunk costs) are negatively related to customer recapture.*

P5: *Switching costs (learning, continuity and sunk costs) are positively related to defectors loyalty to the switched to firm.*

P6: *Loyalty to switched-to-firm is negatively related to customer recapture*

IV. Customer Recapturing Strategies

Value is the foundation of the customer's relationship with the firm [23] (p. 69). If the customer does not receive value, the strongest recapture strategies will have little or no effect. In some cases customers defect due to some external event (i.e. moving geographically). In those cases, there is not much the firm can do. On the other hand some defections are salvageable through serious effort on the part of the service provider. One of the most discussed strategies in customer recapture literature is pricing [13]. The basic premise is that offering lower price levels to defectors provides additional value that compels them to switch back. Prior research [2] argues that monetary savings is the primary reason for engaging in relational exchanges. Parallel to this view, recent research findings show that the probability of a firm recapturing customers is higher if the recapture price offer is lower [13].

There are other paths a firm can take in order to recapture customers other than offering price discounts. Some kind of specialized service (such as closer personal service through sales force, customized service offers or apology) which researchers [4] (p. 154) address as "apology rewards" would also generate an extra value for the customer. Here, these offers are referred to as "come back incentives". Since the service provider has knowledge about defectors, customizing services according to their preferences would be a viable strategy. Offering an apology or a customized service would be a more effective strategy to recapture customers especially for customers who defect as a result of high levels of dissatisfaction. For example, if a customer has defected due to his/her sufferings of poor quality and later poor handling of his/her complaints, a lower priced offer would signal lower quality and would not make up for his/her dissatisfaction caused by the unsuccessful service recovery actions. In this case an apology from the service provider accompanied by special treatment would be a more effective customer recapture strategy compared to price cuts. Thus, for customers whose dissatisfaction level at the time of switching was high, "come back incentives" is a more effective recapture strategy (compared to lower prices), while lower prices more successfully attract customers whose primary reason for switching is not high levels of dissatisfaction (See Fig. 1(b)). Hence, next statement is proposed.

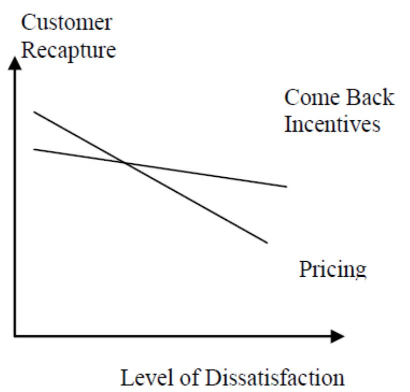

Fig. 1(b). Influence of come back offers on level of dissatisfaction customer recapture relationship.

P7: *Recapturing strategies (offering low prices vs. come back incentives) moderate the relationship between dissatisfaction level at the time of switching and customer recapture.*

V. Fairness of the Offer

Equity theory suggests that customers' evaluations of fairness of transactions are based on the ratio of outcomes to inputs [24], [25]. Accordingly, dependence on the relationship is affected by the perceived cost benefit ratio of the service provider relative to competitors [21]. The inputs here are affected by the perceptions of switching back costs that customers would bear if they were to decide to go back to the firm. If customers sense that the offer (output) does not match the customers' inputs (switching costs) they are likely to negatively perceive the recapturing efforts of the firm [23].

On the other hand, if the offer compensates for the loss of the customers, the future purchase intentions will be positively affected. Efforts to resolve a problem, perceived as fair by the customers, are more effective [26]. For example, a customer who switched due to a service failure followed by a poor handled recovery situation is offered a lower price to come back. Unless he/she perceives that the offer is fair (in other words it compensates both for the service failure that caused the switching and the switching back costs) the customer will not be responsive to it (See Fig. 1(c)). Accordingly, even though higher levels of dissatisfaction will be related to lower levels of customer recapture, if customer perceives the come back offer as being fair, the negative effect of dissatisfaction on recapture will be less prevalent. In other words, fairness of the offer will lessen the negative impact of customer dissatisfaction that existed at the time of switching. Thus, the following is proposed,

P8: *Customers' perceptions of the fairness of the offer will moderate the relationship between dissatisfaction level at the time of switching and customer recapture.*

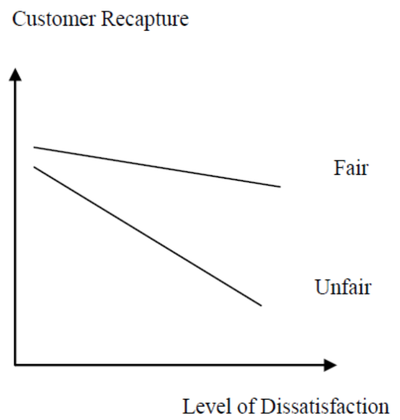

Fig. 1(c). Influence of fairness on level of dissatisfaction customer recapture relationship.

VI. Lapse Time and Customer Second Lifetime Value

Becoming a customer of a service provider and developing a relationship allows the firm to gain knowledge about the customer [27], and the customer to develop relational assets with the firm. The success rates of recapturing are more successful than with prospecting [12] because firms benefit from knowing their customers [28]. However, not much is known about the longevity of the impact of previous relationship. Prior research [16] found out that the differences between switchers and stayers (those who did not experience another service provider before) tend to decrease with increasing tenure with the switched to firm. With the passage of time, all customers who stay with the same firm begin to employ a similar set of expectation. This may imply that defectors may lose the impact of their relationship with the previous firm as the lapse length increases (See Fig. 2.A). Additionally the switched to firms holds the advantage of having the most recent experience and as time passes and the relationship grows longer the cumulative affect of satisfaction increases [29].

Additionally, a longer relationship with the switched to firm leads to lower perceived losses associated with the service transactions. Customers make repatronage decisions on the basis of their prior repatronage intentions or behavior [30]. This suggests that as time lapses increase the salience of the attitudes towards the previous firm diminish. Even though customers forget negative experiences as well as the positive ones, loss of positive attitudes would mean that the original firm loses the advantage of being patronized at one point in time. All these evidence combined suggests that, the lengthier the lapses are the higher the loyalty to the switched to firm and the less likely the customer's recapture will be. It is also important to note that the impact of these lapses may be nonlinear, meaning that the most crucial time when most of the experience with the previous firm is forgotten, is the first period of switching (See Fig. 2(b).). Thus the following are proposed.

P9: *There is a (nonlinear) negative relationship between lapse length and customer recapture.*

P10: *There is a (nonlinear) positive relationship between length of lapses and loyalty to the switched to firm*

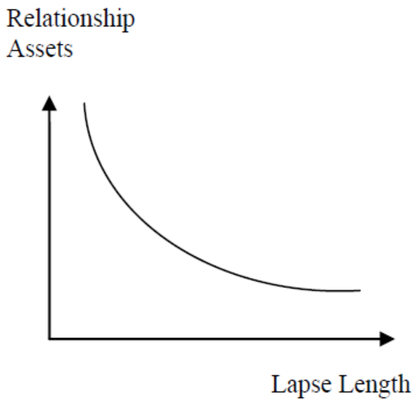

Fig. 2(a). The 'impact of lapse length on relationship assets.

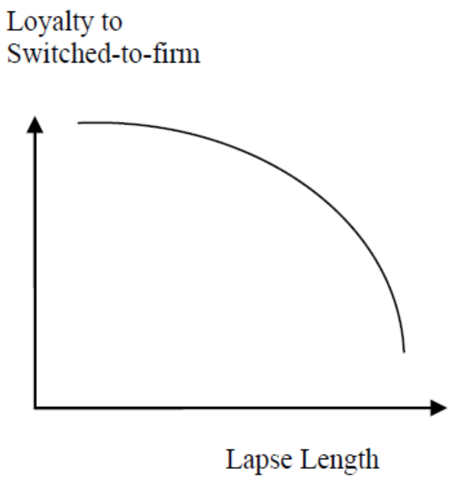

Fig. 2(b). The 'impact of lapse length on loyalty to switched to firm.

VII. Firm Profitability

A customer centric approach that focuses on not only acquiring and retaining but also recapturing customers can form a basis of sustained competitive advantage. As shown in many industry reports, retaining customers that are profitable, increases firm profitability. Likewise, if firms manage to recapture their customers who have defected for various reasons, the profitability will improve. However, there are others factors that put contingencies over this relationship, one of which is the competitive intensity of the industry within which the service firm operates in.

The competitive intensity of the industry often determines the cost of new customer acquisition [31]. In highly competitive markets, firms spend more money on promotions, advertising and sales force so that they can aggressively compete for market share. This intense competition increases the cost of acquiring new customer. Thus, firm profitability will be higher if switchers are recaptured compared to new customer acquisition. This is particularly true in mature markets with little or no growth. Here, new customers are acquired at high costs and any loss of customers weakens one's own business and strengthens a competitor's [11]. On the contrary, lower levels of competition provide firms with lower incentives to improve quality [32]. These firms need to spend more to be able to recapture their old customers instead of targeting new ones. Hence, in highly competitive markets the relationship between customer recapture and firm profitability is stronger (have a larger β, see Fig. 3(a)) compared to firms in less competitive markets.

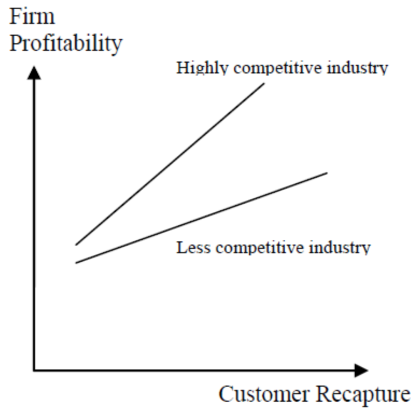

Fig. 3(a). Moderation of competitive 'intensity on customer recapture and firm profitability.

P11: *As customer recapture increases firm profitability increases*

P12: *Industry competitive structure moderates the relationship between customer recapture and firm profitability*

It is well known that not all customers are alike [15]. Different customer segments may exhibit different patterns of acquiring, switching and recapture. Research [13] shows that recapturing customers is worthwhile spending money on only if they are "attractive" (depending on the prior relationship characteristics) [33], [34]. "*When attractive customers have been recaptured their behavior is such that the firm can recoup the losses from reacquisition"* [13] (p. 43). In this regard, the second contingency on the customer recapture – profitability relationship is customer second lifetime value (CSLTV).

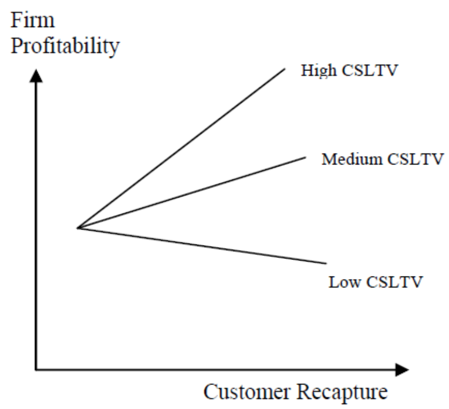

Fig. 3(b). Moderation of customer life-time value on customer recapture and firm profitability.

Life time value of a customer for a firm is the net of the revenues obtained from that customer over the lifetime of transactions with that customer minus the cost of attracting, selling and servicing that customer [35]. For example, McDonald's planned its marketing efforts according to customers (males aged 18 to 34) who eat there an average of three to five times a week because this segment accounts for 77% of sales [15]. CSLTV value, on the other hand, is the future value of a recaptured customer taking into account the costs of recapturing and expected revenues from that customer [11]. Firms that recapture customers with higher SLTV will improve their profitability more than the ones that recapture customers with medium (average) SLTV. Moreover, if firms spend more to recapture customers than the revenue generated by them, there will be a negative relationship between customer recapture and profitability (See Fig. 3(b)).

Thus, the following is proposed.

P13: *Customer second life-time value moderates the relationship between customer recapture and firm profitability*

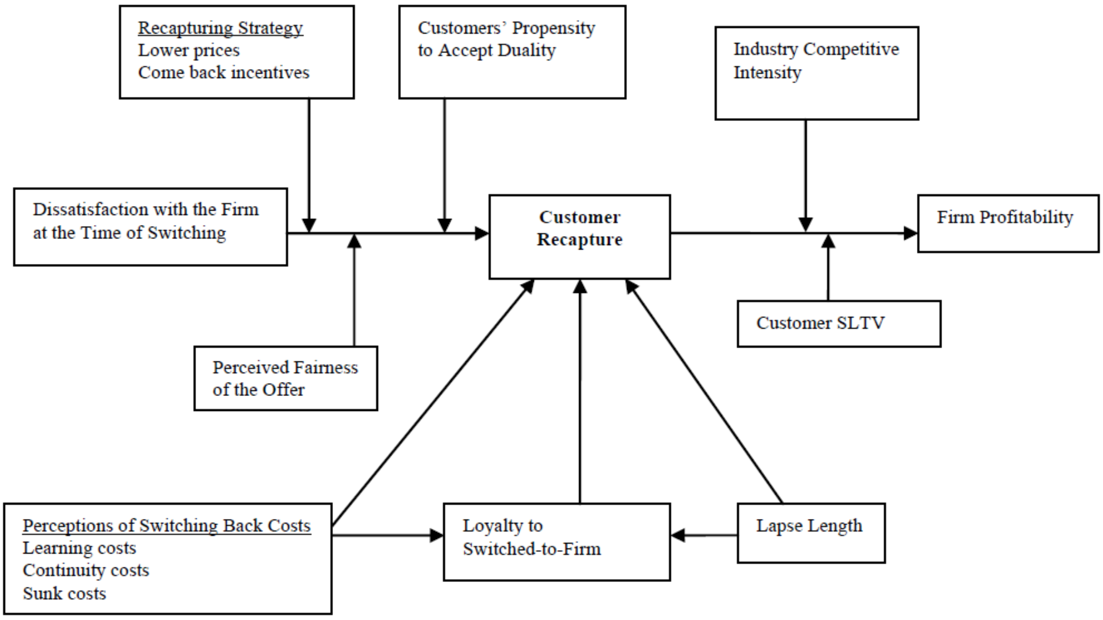

Fig. 4. A model of customer recapture.

VIII. CONCLUSON AND DISCUSSION

This study proposes an integrative framework (see Fig. 4) of customer recapture that includes the impact of dissatisfaction, switching barriers and allows for discussion on the contingencies that limit the model. Additionally, the link between customer recapture and profitability is established. Although the previous work on customer defections and recapture emphasizes the critical impact of customer recapture on firm profitability, there is an imperative need for empirical evidence that supports it.

Research [15] suggested that firms should build two marketing organizations (one for retaining and one for acquiring customers). Taking a step forward, firms may need a third marketing organization to recapture defectors because this process requires different kinds of research and marketing strategies. The customer recapture process does not only entail attracting the defectors but also taking decisions that involve industry characteristics, competitors' switching barriers and customer characteristics. All evidence suggests that customer recapture is an ongoing effort that needs full commitment of the service firm and understanding the underlying mechanisms proposed by this study.

IX. FUTURE RESEARCH

Customer recapture and its relationships with other areas in marketing are still open for researchers (for exceptions see [36] - [39]). Previous literature on adolescent influence in family decision making suggests that teen's knowledge is a factor in the family decision process about certain products [40]. Additionally, researchers [41] show that intergenerational influences are important source of brand equity in today's market place. However, the intergenerational and adolescent influence on customer defections and in turn on the effectiveness of firm's customer recapture efforts is still not known. Therefore research is needed on this topic.

Consumer information search also has implications on the effectiveness of recapturing strategies. Prior studies [42] have identified the two distinct types of information search for purchase decisions. Their argument is that consumers search for information purchases sometimes in a task specific manner while other times information search is used to build a bank of information or just for recreational purposes. The influences of these two types of information search behaviors on customer's future behavior are also unknown in the customer defections and recapture literature. All these issues that need further clarification are intriguing and would open up new grounds in consumer behavior literature.

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