Uncovering Antecedents of Client Retention in the South African Advertising Industry

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All my colleagues from the Department of Business Management, Directors, Heads and colleagues from other Departments in the College of Economic and Management Sciences and the wider Unisa community; esteemed colleagues from other universities, industry representatives and the members of my family and my dearest friends: Good Evening!

Thank you for honoring me with your presence at this pivotal moment of my life and academic career. Before I present my inaugural lecture, please allow me to express my sincere thanks and appreciation to the following persons who all contributed in some way to this situation where I have the honour to present my inaugural lecture:

My sincere thanks and gratitude goes to my husband, Willem; my sons Hannes and Franco; my parents Neels and Linette Engels and Hans and Susan Jansen van Rensburg. Your support, understanding and motivation inspire me. I also want to acknowledge and thank four of my five sisters that are attending tonight. Corlea, Anel, Linette and Santi thank you for being here. Annelien lives in England but assured me that that her thought will be with us.

My gratitude also goes to colleagues that have been my research supervisors, collaborators, mentors and friends and although I cannot acknowledge all the important people in this room I want to thank Prof Peet Venter, Prof Johan Strydom, Prof Dorette van Ede, Ms Annemarie Davis, Prof Elmarie Sadler, Prof Kobus Wessels, Prof Elana Swanepoel and Mr Piet Loedolff thank you for your collegiality and support.

You are all very welcome at my inaugural lecture, entitled: Uncovering Antecedents of Client Retention in the South African Advertising Industry.

Introduction

In the good old days, when the people of central Johannesburg needed to borrow money, they went to see their friend, the local bank manager, at the local branch where he greeted them by name. Those names were written down in a book, and they were given a slip of paper along with their cash to remind them of the debt. It is quaint to look back on it now, but banking was once that simple – money in, money out; interest paid, interest collected. The same story line also applied to other professional services. Indeed, relationships were built on good personal service, sound advice and trust, and friendship often followed. Clients and service providers transacted on a first-name basis and once loyalty was earned it became non-exchangeable. Those were the good old days....

Today, we can switch our banking accounts in less than ten minutes, online; we don't meet with our brokers but rather we call the friendly call centre operator; and names of service providers have become that of retailers or franchises where competent professionals take turns to offer a standardised service. However, the more things change the more it stays the same as contemporary business thought appears to converge on the principle that understanding and retaining customers is critical for a firm's long-term survival, innovativeness and bottom-line results.

Retention – A strategic imperative

Although customer retention is mostly seen as an outcome of loyalty and is often used as a proxy or substitute word for loyalty, it is not the same. Retention is considered as the choice to continue business with a supplier (an action). Loyalty, on the other hand, implies not only repetitive purchases but also commitment (a positive attitude). Some say that true loyalty in the 21st century is a myth, and the debates about the merits and flaws of this concept provide for some very controversial reading. Customer retention and customer relationship management, on the other hand, are at the forefront of management concerns.

The importance of these concepts is driven by reduced regulation, increased price competition, and diminished consumer loyalty. Literature further suggests that customers have become much more powerful than they were before and much more willing to switch suppliers and experiment. In the business-to-business context, the continuing effects of the

economic crunch, increasing competitive pressures, rapid technological changes and shorter product lifecycles also call for more interactive, collaborative and long-lasting approaches to buyer-seller relationships. In addition, we cannot ignore the fact that customer retention can yield several economic and non-economic benefits. The overwhelming argument for customer retention is, in fact, that it is cheaper to retain than to acquire new customers. Lindgreen and colleagues (2000: p295), for example, calculated that "it can be (up to) ten times more expensive to win a customer than to retain a customer – and the cost of bringing a new customer to the same level of profitability, as the lost one, is up to 16 times more". As customer tenure lengthens, the volumes purchased grow and customer referrals increase. Simultaneously, relationship maintenance costs fall as both customer and supplier learn more about each other. Finally, retained customers may pay higher prices than newly acquired customers, as they are less likely to receive discounted offers that are often made to acquire new customers.

Yet, despite this emerging consensus about the importance of retention, the discipline remains divided by the critical factors that can help a firm maintain and enhance customer retention. Indeed, Han and colleagues (2008) found that studies that focus on customer retention tend to use subsets of factors that are theoretically related but rarely examined together. This approach presents a challenge for managers, as survival and success hinge on making effective judgments about the holistic approach customers employ in supplier selection and evaluation decisions. Models are thus needed that represent the interrelated effects that engender retention, especially for services, whereby evaluative as well as relational factors can influence buyer responses. I will address this gap by describing the construct of retention to provide a better understanding of professional services relationships. I will also present an integrated and empirically tested model that illustrates the appropriate criteria clients apply when evaluating the renewal of advertising agency's contracts.

The advertising industry is most suitable as the size of contracts is typically substantial with high transactional value, and relationships between agencies and clients tend to have a long term focus. Take for example DraftFCB Johannesburg, the advertising agency appointed by Unisa, and the Financial Mail's 2011 AdFocus Advertising Agency of the Year. Although

DraftFCB Johannesburg has an impressive client list of 49 accounts the loss of any major account would have a significant influence on both the reputation and revenue of this company. To quantify this statement it would be worthwhile to consider the media spending of some of the major accounts served by this agency. In the period between January and August 2011, Vodacom spent R348,8 million, Distell spent R199 million, Tiger Brands spent R169,6 million, Old Mutual spent R87,2 million and Beiersdorf spent R77,3million. It would also be of interest to note that this agency has served Toyota the past 50 years, has been with Tiger Brands and Adcock Ingram for 34 years, and served Vodacom for the past 17 years.

Needless to say, client retention is seen as a critical success factor for this agency. Other agencies are even more dependent on client retention as small client numbers are indicative of this industry and agency reputation is built on the profiles and successes of clients. Income distribution of agencies mostly adheres to the Pareto Principle as a few customer accounts represent a high concentration of revenue. Commercial reality thus demands long and lasting relationships that are beneficial to both agencies and their clients. Advertiser retention is thus considered as a strategic imperative.

Uncovering the antecedents of client retention

To uncover the antecedents of client retention, I will focus deliberately on renewal decisions as the choice criteria applied for these decisions can be used to explain retention or defection. Unlike the decision to appoint a new agency, a client's renewal decision is much less likely to depend on contract specifications, marketing communications or other competitive offerings. Given the history and existing relationship between clients and their appointed agencies, an investigation of inter-organisational behaviour could be used to explain client retention.

Inter-organizational behaviour

In this context, Lawler (2001) suggested an effect theory of social exchange. The social exchange theory (SET) offers a social psychological perspective on organisational behaviour and argues that attitudes and behaviours are determined by the rewards of interaction, minus the penalty or costs of that interaction. Social exchanges are considered under three

fundamental ideas namely the rules and norms of exchange, the resources or offer exchanged and the relationship that emerges. These ideas, complemented by economic behaviour and motive stemming from economic and management theories, have the potential to provide a framework to explain inter-organizational behaviour in a holistic manner. Applied to client-agency relationships, one would expect that if the sum of the rewards of social and economic exchanges is greater than the costs, the client would renew the contract. I will now expand on each of the three fundamental ideas of SET.

Rules and norms of exchange

One of the basic tenets of SET is that relationships evolve over time into trusting, loyal and mutual commitments if parties abide by certain rules. These rules are important as clients and agencies are dependent on each other's efforts to reach mutual goals. Indeed, the client and the agency need to work closely together as the client depends upon the agency's best efforts to provide materials and recommendations that will enable them to achieve their marketing goals whereas the agency depends on information, direction and endorsement of the advertiser to enable them to do their best work. This involves mutual and complementary arrangements, which are defining characteristics of social exchanges. Business and economic literature relate these social exchanges to the level of power present in a relationship. The level of power, or dependency, is determined by the extensiveness of the choice set and the importance of the purchase. A party with a greater relative dependence has, by definition, a relatively greater interest in sustaining the relationship, whilst the party with the power has the ability to command favourable outcomes in the supply market. Power is often managed by means of negotiated agreements that detail duties and obligations that could be bounded by legal or contractual sanctions.

Although agencies are contractually hired to serve their clients' needs in the hope of reaching mutually beneficial arrangements, this may not always be the case. Terminating the relationship could, however, be problematic due to imposed contractual sanctions or high anticipated switching costs. Davies and Prince (2011:147) define switching cost, in the context of agency-client relationships, as "the time, effort, money and psychological burden involved in setting up a relationship with a new agency or the benefits lost from terminating an agency from an existing relationship." These 'costs' can be financial and/or procedural in

nature. As switching barriers make customer defection difficult or costly, it could foster greater retention.

Offer of exchange

The SET views the offer of exchange in terms of economic value as well as symbolic relevance. This view is complemented by the transaction cost economics theory and the distributive justice theory of equity. These theories claim that clients should respond in proportion to the expected value from their future exchanges attributed to their agencies. In short, agencies that disappoint on quality encourage client perceptions of agency opportunism or incompetence. Clients would as a result question the value of future exchanges. However, when agencies deliver consistent service quality, clients often expect future value from the relationship that can help to reduce switching. It is thus important to determine factors which clients use to evaluate quality and performance of appointed agencies. A de facto standard for monitoring progress is customer satisfaction. Motivated by the belief that customer retention and profitability will follow client satisfaction, firms around the world have adopted this measure to monitor core services provided by suppliers. Core services for advertising agencies include an appropriate range of services that are valued by clients; the successful management of their account teams; and competitive rates charged (Palihawadana & Barnes, 2005). However, given the interactive nature of services provided by agencies, overall agency performance is furthermore dependent upon the client. In both the domains of conceptualisation and production of the service, the client and the agency need to work closely together. Performance is thus measured against satisfaction with service output and quality as well as interactive performance dimensions. Value is furthermore determined by the relationship which will be considered next.

Exchange relationships

The development and maintenance of client relationships are some of the most critical elements in service markets. This is even more profound in the advertising industry given the complexity of products and services and the long-term relations. Indicators of relationship strength comprise of commitment, trust, and collaboration. Relationship commitment exists when a partner believes the relationship is important enough to warrant

maximum efforts at maintaining that relationship in the long term. The motive underlying commitment is a generalized sense of positive regard for the other party. Because commitment entails vulnerability, parties will seek only trustworthy partners. Trust thus indirectly influences commitment. The social exchange theory explains this causal relationship through the principle of generalized reciprocity, which holds that "mistrust breeds mistrust and as such would also serve to decrease commitment in the relationship and shift the transaction to one of more direct short-term exchanges"(McDonald, 1981). A client's trust is focused on expectations of an agency's trustworthiness in a stream of future episodes and is an important element of the perceived quality of the service. The more the client trusts an agency, the higher the perceived value of the relationship by the client; consequently, one can expect a higher probability that the client will remain in the relationship.

Relationships are also often built as a result of collaboration between companies to facilitate and improve both strategic and operational focus. In a service context much emphasis has been placed on the importance of account support, communication, and conflict harmonization to enhance collaboration. For example, results of a study conducted by Cagley and Roberts (1984) indicated that "quality of people assigned to the account" was the most critical attribute in the overall agency evaluation process. De Ruyter and colleagues (2001) found communication to be an important consideration during the evaluation of relations. Conflict, on the other hand, can have a negative effect on relationships, but solving conflicts constructively may actually strengthen inter-organizational relationships and lead to greater trust and affective commitment.

Considering the preceding literature review it could be proposed that advertisers could evaluate agency reappointment (retention) against the constructs of 'rules and norms of exchange', the 'offer of exchange' and the 'relationship of exchange'. Using this framework and considering the identified antecedents, I will now present a model that represents the interrelated effects that engender retention. Before doing so, I want to comment on the methodology employed to develop this model.

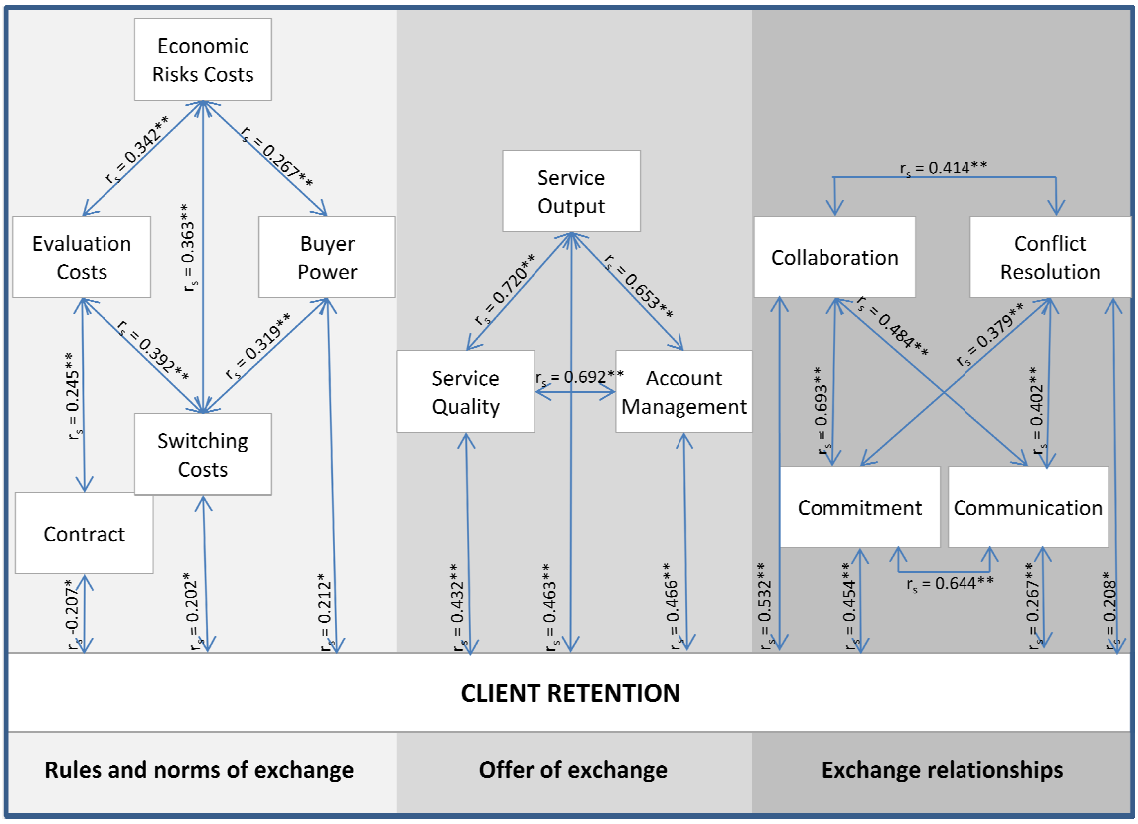
Research Methodology

Following a positivistic paradigm, quantitative research methods were employed. South African advertisers' perspectives were obtained by means of a survey approach. All advertisers that spend more than R500 000 annually on advertising activities were invited to partake in the survey. A hundred and sixteen (116) respondents submitted suitable surveys online resulting in a response rate of 17.8%. Analysis of the data revealed that the majority of respondents were appointed in a senior marketing position and have been employed in that position for an average period of five years. Most of the respondents (62%) were involved in the appointment of the current advertising agency. Given the opportunity to renew the contract with their current agency, 38.3% of respondents strongly agreed that they would renew the contract, 46% of the respondents showed some uncertainty whilst 16% strongly agreed that they would not renew the contract.

Data analysis

The survey used four-point Likert rating scales to obtain opinion data. Factor analysis was used to identify representative factors to present a consideration set appropriate for client retention. In order to measure the strength of the relationship between the newly calculated factors and retention propensity, Spearman's RHO correlation coefficients were calculated. Only variables with significant relationships which displayed internal reliability were considered. During this address I will not review the statistical analysis in detail but rather focus on the factors that explain client retention. It is adequate to say that the data analysis requirements were met. Subsequently, I will report on underlying antecedents within each of the reviewed fundamental ideas of SET.

The results - Client Retention Model



Rules and norms of engagement

Findings from the factor analysis suggest that rules and norms of engagements could be explained by five factors. These factors were labelled as economic risk cost, evaluation cost, switching cost, buyer power and contract. Economic risk cost is the result of four variables that measure the costs of accepting uncertainty that could have a negative outcome when appointing a new agency. The second factor, evaluation cost, is the result of three variables that consider the time and effort associated with the research and analysis needed to make a switching decision. Although both factors displayed inter-correlations with some of the other factors they did not show a significant association with retention, suggesting that these costs did not provide enough reason to deter clients from defection.

The remaining three factors showed significant association with retention but displayed a small effect size. The small effect size could be explained by the long-term focus of agency-client relationships resulting in clear terms of engagement. Rules are thus well established and considered to be a pre-requisite of retention. It was no surprise that switching cost, the

result of four variables that consider financial, learning and set-up costs, was positively correlated with retention. Buyer power also displayed a positive association with retention. This factor is the result of four variables that confirm the competitive nature of the advertising industry where the balance of power favours clients. Clients are spoilt for choice and as a result have bargaining power when agreements are negotiated. However, clients consider their current arrangements with agencies as valuable and this perception contributes to their retention propensity. Of note was the negative correlation between the contract and retention. The contract is the result of one variable that required clients to indicate whether they stay with the agency due to contractual obligations. The negative correlation suggests that clients will not retain agencies on the basis of contractual agreements.

Offer of exchange

Findings from the factor analysis suggest that the offer of exchange could be explained by three factors that were labelled as service output, service quality and account management. Service output is the result of eight variables that measured satisfaction with the nuances of agency services, including pro-activity in generating new ideas, the level of creativity, integrity, strength in strategic thinking, access to creative teams, empathy to creative changes, professional/technical skills and client care. The second factor, service quality, is the result of five variables that dealt with features and characteristics of services provided, such as consistent work processes, the stability of the key account management, compatibility of working styles, the correct interpretation of briefings and overall quality. The third factor, account management, is the result of three variables that dealt with financial aspects related to the service including satisfaction with price, the compliance with the budget limitation and the provision of constant information on the account status. Each of these factors displayed significant inter-correlations and association with retention with a large effect size. The findings confirm that retention propensity increases if clients are satisfied with the service output, service quality and account management. Retention propensity is thus positively associated with the offer of exchange and these factors play a significant role in the advertiser's decision on whether to renew the contract.

Relationship of exchange

Findings from the factor analysis suggest that the relationship of exchange could be explained by four factors that were labelled as collaboration, commitment, communication and conflict resolution (the four Cs). Results from the correlation analysis indicate inter-correlation between factors with a large effect size. All factors are also correlated to retention. The strongest association was found between collaboration and retention propensity. Collaboration is the result of 10 variables that considered the working relationship between staff members from the agency and the client. This finding confirms the importance of the human element in relationships. The second factor, commitment, is the result of four variables that measured the belief of the client that an ongoing relationship with the agency is important enough to warrant maximum effort to maintain the relationship. The third factor, communication, is the result of four variables that measured the extent and frequency of communication. The last factor, conflict resolution is the result of three factors that consider how parties deal with disagreement. These findings confirm the importance of good client-agency relationships in the renewal of contracts.

Conclusion

To conclude, academics and practitioners generally agree that customer retention is vital to business success. There is however, less agreement on factors that determine customer retention, particularly in service contexts. In this address, I presented a multi-dimensional model of retention that was tested within the South African advertising industry.

From a practitioner's perspective, it should be noted that agencies are naive to think that clients will be retained once a contract is signed. The South African advertising industry is considered to be a buyers' market and clients expect nothing but the best. Should their expectations not be met, they would go ahead to identify suitable alternative service providers. Switching costs may initially deter defection but if the discontent is not resolved, the agency might not be able to retain the client. Although clients are well aware of the uncertainty, effort and time involved in switching findings suggest that they are willing to make such sacrifices.

True to the nature of services, clients are retained on the basis of evaluative as well as relational factors. Clients are retained if they are satisfied with the services provided by the agency, the quality of those services and the agency's ability to manage their accounts within budget limitations. The working relationship between the staff members from the agency and those from the client remain however, fundamental to explain why clients retain agencies. Collaboration between these parties was the factor that displayed the largest effect size on retention propensity. This finding emphasize that client retention is not only an outcome based on agency effort and performance but rather the result of interactional effort. Commitment to the relationship and clear communication were further requirements for retention. In addition, conflicts should be resolved in a cordial manner. The model presented illustrates that retention can and should not be measured by single dimensions. To measure, manage and improve business relationships advertisers and agencies need to consider a spectrum of factors. A holistic perspective can improve the business relationship for both parties and can be used to strengthen and build long-term relationships.

From an academic perspective the results offer insights into the structure of client retention for services by means of a comprehensive theory-driven retention model. This module supports that retention is multi-dimensional and highlights the limitations of research that measures single factors related to retention. The model therefore contributes to the literature by providing a more complete, integrated view of customer retention and its determinants in service contexts. Future research would be useful to extend the model to other service industries both locally and globally as the generalization of this model would be enhanced by replication in other settings.

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