# Institut für Marktorientierte Unternehmensführung

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**How to Get Lost Customers Back?**
**A Study of Antecedents of Relationship**
**Revival**

Mannheim 2006

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# ABSTRACT

Most research in the field of customer relationship management has focused on keeping existing customers. However, some companies also systematically address lost customers and try to revive these relationships. This facet of customer relationship management has been largely neglected by academic research. Our study provides a theoretical discussion and an empirical analysis of factors driving the success of relationship revival activities. Drawing on equity theory we find that the customer's perceived interactional, procedural, and distributive justice with respect to revival activities positively affect his or her revival-specific satisfaction which in turn has a strong impact on revival performance. Furthermore, revival performance depends on customer characteristics (variety seeking, involvement, age), and the overall customer satisfaction with the relationship.

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# 1 INTRODUCTION

Understanding how firms can effectively manage their customer relationships has become a very important topic to both academicians and practitioners in recent years. Part of this interest stems from the recognition that attracting new customers is typically much more expensive than keeping existing customers (Reichheld and Sasser 1990). Therefore, companies have increasingly invested in tools and activities to manage customer relationships more effectively.

Activities in the domain of customer relationship management can focus on acquiring, maintaining, and winning back customers. Research on customer relationship management has essentially focused on activities which attempt to *retain* existing customers. Important research issues in this context include the relationship between customer satisfaction and loyalty (e.g., Anderson, Fornell, and Lehmann 1994; Bolton 1998; Kamakura et al. 2002; Mittal and Kamakura 2001; Mittal, Ross, and Baldasare 1998; Taylor and Baker 1994) and profitability outcomes of long-term relationships (e.g., Kalwani and Naryandas 1995; Nelson et al. 1992).

While these research areas are highly relevant for the practice of customer relationship management, there are other important areas which have been largely ignored. Specifically, in business practice it can be observed that companies are increasingly emphasizing activities which aim at winning back lost customers (see the examples provided by Griffin and Lowenstein 2001). A lost customer is one who had established a relationship with the company but now has terminated the relationship. We refer to activities aiming at re-establishing customer relationships which have been terminated as *customer relationship revival activities*. Such activities are particularly relevant when the terminated relationships involved important customers.

The basic logic why past customers are a promising target for revival activities is that (even defecting) customers typically have mixed (i.e., positive and negative) experiences with a company. However, academic research has largely ignored customer relationship revival activities. Since these activities play an important role in business practice this represents a significant research gap. We are aware of only two academic studies which have addressed this phenomenon. A paper by Stauss and Friege (1999) provides a broad conceptual treatment of "regain management" in a services marketing context. Furthermore, a study by Thomas, Blattberg, and Fox (2004) analyzes how firms should price customers in the context of revival

activities and after a successful revival. These authors find that firms should use a low reacquisition price followed by higher prices when customers have been regained.

While the study by Thomas, Blattberg, and Fox (2004) is a very important first step towards a theoretically and empirically grounded understanding of the phenomenon of customer relationship revival, it is focused on one specific instrument that firms can use for recapturing lost customers, i.e., price. Our research adopts a broader perspective on success factors of revival activities. More specifically, we argue that the success of revival activities depends not only on the (financial or non-financial) offer made to the lost customer but also on the interaction with the lost customer during the revival activities and on the process of revival activities. We analyze how these factors influence the success of relationship revival activities. Moreover, we also analyze a number of customer and relationship characteristics as antecedents of revival performance.

Besides being theoretically interesting, such research is also relevant for managerial practice. In many industries, customer defection rates are very high, sometimes adopting values of approximately 25 % (Griffin and Lowenstein 2001; Reichheld and Sasser 1990; Thomas, Blattberg, and Fox 2004). Thus, winning back lost customers becomes a major challenge in companies' customer relationship management. Our research will provide guidance for companies on how to design customer relationship revival activities. Additionally, studying customer characteristics as antecedents of revival activities' success helps companies in the targeting of customers for revival activities.

## 2 THEORETICAL BACKGROUND

Equity theory suggests that individuals determine the fairness of their relationships or exchanges with others by assessing the ratio of what they receive from an exchange (outputs) to what they bring into the exchange (inputs- e.g., Blodgett, Hill, and Tax 1997; Huppertz, Arenson, and Evans 1978). An equitable relationship exists when the inputs are perceived to be equal to the outputs (e.g., Adams 1963, 1965; Swan and Oliver 1991). When the inputs are perceived to be different from the outputs, an inequity exists and the individual is motivated to resolve the inequity by either reducing his or her own input, demanding the exchange partner to increase his or her input, or terminating the relationship (e.g., Goodwin and Ross 1992).

Thus, equity theory explains the termination of an exchange relationship with a company through the fact that the customer has perceived significant inequity in this relationship. Similarly, customer relationship revival activities constitute an approach to re-establishing equity in the mind of the customer. More specifically, if a company contacts a previous customer and tries to win him or her back, the customer will perceive this as an increase of the firm's input into the exchange relationship. As a consequence, a customer might perceive the termination of the relationship as no longer fair given the increased input of the firm. Reviving the relationship therefore may constitute a way of re-establishing equity.

More recent research on equity theory has identified three dimensions of perceived justice or fairness, each of which may influence how customers evaluate exchange relationships (e.g., Blodgett, Hill, and Tax 1997; Smith and Bolton 2002; Smith, Bolton, and Wagner 1999; Tax, Brown, and Chandrashekaran 1998): distributive justice, procedural justice, and interactional justice. In the current study, we apply these three justice dimensions to a new context, that of revival-related activities. The basic logic is that if customers evaluate the interaction, procedures, and outcome of a company's revival efforts more positively, they are more likely to be satisfied with the revival offer and are therefore more likely to start up the relationship again. This notion forms the basis of our theoretical framework which is outlined in the following section.

# 3 FRAMEWORK AND HYPOTHESES

## 3.1 Overview of Framework

Our framework is built of two models (see Figure 1): Model A explains the key construct of revival-specific customer satisfaction through the three justice constructs. Additionally, our model allows for a distinction between direct and indirect effects of individual justice dimensions on revival-specific customer satisfaction which is also a specific and important contribution of model A. Model B aims at explaining revival performance and includes as one of the predictors revival-specific customer satisfaction (i.e., the dependent variable in model A). Thus, the construct of revival-specific customer satisfaction links the two models to each other.

*Revival-related interactional justice* refers to the customer's perceived fairness of the company's employees' interpersonal behavior during the revival effort. Examples include the employees' politeness, empathy, and effort during the revival process. *Revival-related procedural justice* concerns the customer's perceived fairness of the exchange process with respect to the company's revival efforts. It relates to such issues as the possibility for the customer to control the process, the company's responsiveness, as well as the transparency of the revival process. Finally, *revival-related distributive justice* refers to the customer's perceived fairness of the offer provided by a company during the revival effort. As an example, some companies offer money, reduced prices, or free products/services to former customers to motivate them to re-establish the exchange relationship with the company.

As shown in Figure 1 (model A), revival-related interactional and revival-related procedural justice are hypothesized to have a direct impact on revival-related distributive justice. In other words, when customers positively evaluate the procedures and interpersonal interactions associated with a revival offer, they are more likely to perceive the offer as fair in terms of distributive justice. This, in turn, leads to higher levels of satisfaction with the revival activities.

*Revival-related performance* (the dependent variable in model B) relates to the question whether a targeted lost customer re-establishes the relationship with the company or not. It is therefore a binary behavioral variable. In addition to revival-specific customer satisfaction, our framework also incorporates selected customer characteristics (variety-seeking, involvement, and age) and relationship characteristics (age of relationship, overall satisfaction with the previous relationship) which are assumed to affect revival performance.
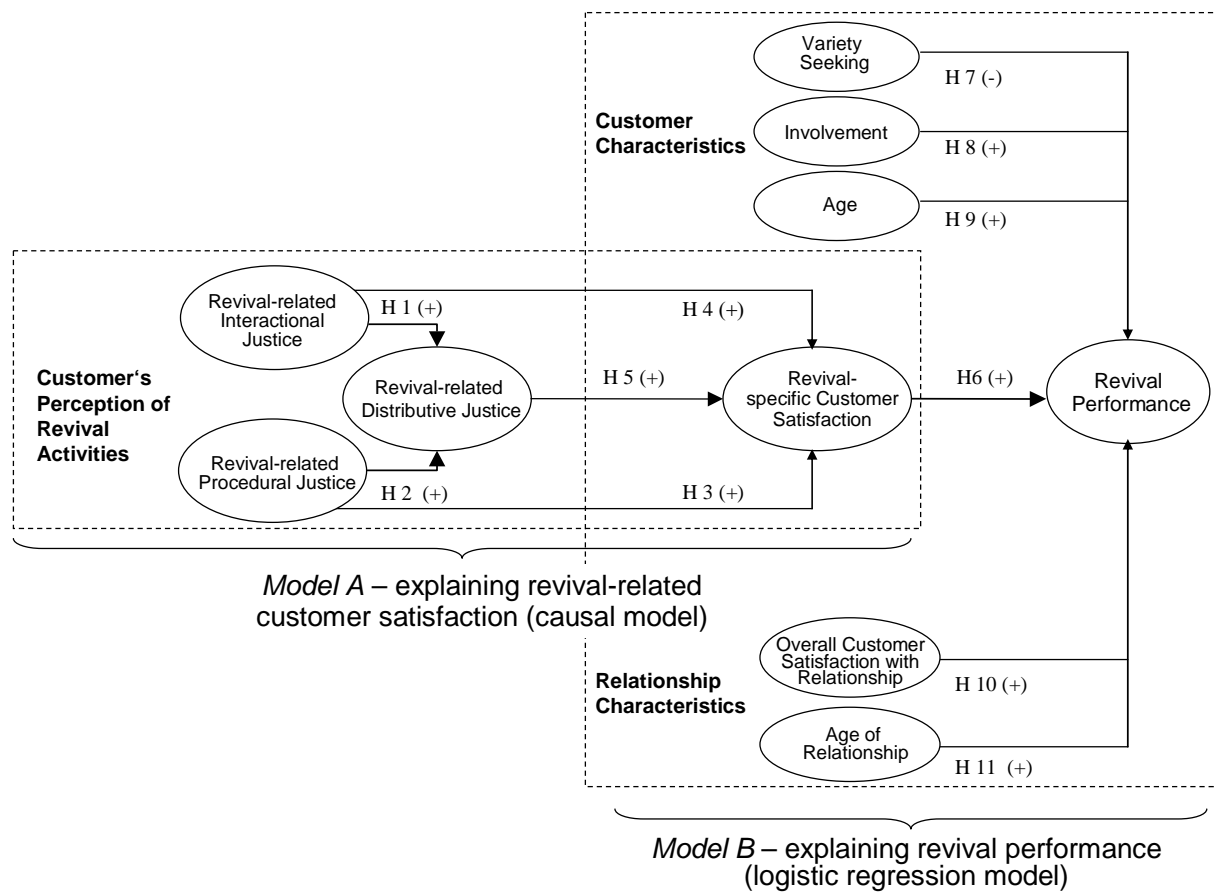
Figure 1: Framework of the Study

A key proposition of our framework is that customer satisfaction plays a two-fold role with regard to the success of revival activities. More specifically, we distinguish between two satisfaction-related constructs in our study (see for this distinction also Olsen and Johnson 2003; Smith and Bolton 2002): *Revival-specific customer satisfaction* refers to the customer's evaluation of the events and behaviors that occur during the revival-related interaction with the company. Thus, this construct refers to *event-specific satisfaction* (see also Bitner 1990; Bitner and Hubbert 1994; Bitner, Booms, and Tetreault 1990; Smith and Bolton 2002). On the other hand, *overall customer satisfaction* with the relationship captures the customer's *cumulative satisfaction* with the company and its products/services in general (e.g., Smith and Bolton 2002).

In the subsequent sections, we develop the hypotheses within our framework. Additionally, we introduce in more detail those constructs which have not been defined thus far (i.e., customer and relationship characteristics).

### 3.2 Hypotheses Related to Model A

We first argue that revival-related distributive justice is positively affected by the two other justice dimensions (i.e., interactional and procedural revival-related justice). The basic theoretical reasoning to support these effects is that a positive evaluation of interactional and procedural justice can help to 'frame' the evaluation of the offer. In other words, distributive justice can be influenced by general perceptual processes such as the 'halo' effect "whereby [customers] bring overall positive or negative biases into the judgment task" (Andreassen 2000, p. 167). Interestingly, research dealing with the 'halo' effect has suggested that interactional and procedural perceptions are very often the major driving forces behind the emergence of positive or negative overall perception biases (e.g., Wirtz and Bateson 1995). The underlying mechanism is described such that individuals strive for consistency in their perceptions and will therefore adjust the perception of the final offer to the perceptions of the interaction and the processes (e.g., Holbrook 1983; Leuthesser, Kohli, and Harich 1995; Wirtz and Bateson 1995).

This proposition is also supported through prior research which has indicated that factors other than the actual offer itself can contribute to perceptions of distributive justice. In particular, interactional and procedural justice can play a key role. For example, according to Tax, Brown, and Chandrashekaran (1998, p. 72), distributive justice can be "… compromised or enhanced by interactions or procedures" (see also Goodwin and Ross 1992). Other studies have found that making excuses or delivering outcomes in a rude or insincere manner affects the perceived outcome (e. g., Bies and Shapiro 1987) and that the manner in which an outcome is communicated influences perceived distributive justice (e. g., Greenberg and McCarty 1990).

Thus, we hypothesize:

*H1: Revival-related interactional justice has a positive impact on revival-related distributive justice.*

*H2: Revival-related procedural justice has a positive impact on revival-related distributive justice.*

Our framework further suggests that all three types of justice impact on customers' satisfaction with revival activities. A number of studies in marketing have proposed or found that perceptions of equity result in satisfaction, while perceptions of inequity lead to dissatisfaction (e.g., Fisk and Young 1985; Oliver and Swan 1989a, b; Swan and Oliver 1991). Additionally, a number of studies in the area of service recovery argue for or provide empirical evidence for the positive influence of the three equity dimensions (interactional, procedural, and distributive justice) on customer satisfaction (e.g., Maxham and Netemeyer 2003; Smith and Bolton 2002; Tax, Brown, and Chandrashekaran 1998). Thus, there is ample evidence supporting the general proposition that equity drives satisfaction.

More specifically, hypothesis justification with respect to procedural justice is based on the distinction between three facets of this construct including process control, responsiveness, and transparency (Tax, Brown, and Chandrashekaran 1998). If customers perceive that they have a high level of *process control* (e.g., because they are included into the company's decision process) this will increase their engagement which should make evaluations of the revival activity more positive (i.e., increase satisfaction with the revival effort). With respect to *responsiveness*, the customer's perception of a flexible and quick response creates the impression that the customer is really appreciated by the company. Further, having *transparent processes* has been emphasized as being important in creating positive company perceptions on the part of the customer (e.g., Lind and Taylor 1988). Essentially, a high level of process transparency can reduce the customer's uncertainty about the company and therefore re-establish trust in the company after relationship termination. We therefore hypothesize:

*H3: The revival-related procedural justice perceived by the customer positively affects revival-specific customer satisfaction.*

Interactional justice includes politeness, empathy, and effort (Tax, Brown, and Chandrashekaran 1998). These three facets should increase the positive affect surrounding the interaction during the revival effort and this should 'add to' the offer in a positive manner, thereby increasing satisfaction. Predicting a positive effect of perceived interactional justice on customer satisfaction with the revival effort is also consistent with research showing that the intensity and quality of customer interaction with employees positively affect a customer's

overall quality perceptions (Mohr and Bitner 1995) and customer satisfaction (e.g., Blodgett, Hill, and Tax 1997; Goodwin and Ross 1992). Thus, we offer the following hypothesis:

*H4: The revival-related interactional justice perceived by the customer positively affects revival-specific customer satisfaction.*

Distributive justice relates to the direct benefit for the customer as a consequence of the company's revival activity. It is therefore straightforward to predict that this key aspect of perceived fairness will have a positive impact on the customer's satisfaction with the revival effort. In order to restore equity, individual customer needs can be fulfilled by the offer, which in turn leads to customer satisfaction (Oliver and Swan 1989a, b; Smith, Bolton, and Wagner 1999; Tax, Brown, and Chandrashekaran 1998). Predicting this effect is also consistent with findings in a different context (i.e., service recovery research) indicating the high relevance of a fair offer in handling problems in a customer relationship (see, e.g., Maxham and Netemeyer 2003; Smith and Bolton 2002). Consequently we hypothesize:

*H5: The revival-related distributive justice perceived by the customer positively affects revival-related customer satisfaction.*

### 3.3   Hypotheses Related to Model B

As mentioned before, model B aims at explaining *revival performance*. In our study, this variable is defined as a yes/no-variable indicating whether or not the customer revived the relationship. Predictors include revival specific customer satisfaction, customer characteristics, and relationship characteristics.

*Revival-specific customer satisfaction:* We propose a positive effect of revival-specific customer satisfaction on revival performance. Support comes from studies which could empirically find a positive effect of customer satisfaction on customer behaviors, especially customer loyalty (e.g., Anderson and Sullivan 1993; Mittal, Kumar, and Tsiros 1999; Patterson, Johnson, and Spreng 1997; Zeithaml 2000). Additionally, Roos (1999) provides a theoretical discussion which shows that satisfaction is an important predictor regarding the reversibility of termination decisions. Against this background, we hypothesize:

*H 6: Revival-specific customer satisfaction has a positive effect on revival performance.*

Customer Characteristics: Based on a review of the literature related to personal determinants of buying behavior, three customer characteristics are predicted to have a direct effect on revival performance. Specifically, we examine variety-seeking, involvement, and age of the customer.

Variety-seeking is defined as "…the tendency of individuals to seek diversity in their choices of services and goods" (Kahn 1995, p. 139). The basic idea behind the concept of variety-seeking is that every person has a need for variety in his or her daily life (Faison 1977). In particular, customers seek variety related to products in order to avoid feelings of monotony and boredom (Menon and Kahn 1995). The strength of this variety-seeking motive varies across customers. A customer with a strong variety-seeking motive would be more open to new brands and/or relationships. Therefore, his or her motivation to re-establish an older, former relationship would be lower. In consequence, relationship revival is less probable for customers with strong variety-seeking motives as opposed to customers with weak variety-seeking motives. In other words, we argue that it is harder to win back customers with a strong variety-seeking motive because such individuals value change on its own. In support of this notion, several studies provide empirical evidence for a negative effect of variety-seeking on customers' engagement within exchange relationships (e.g., Rusbult, Zembrodt, and Gunn 1982). Thus, we hypothesize:

*H 7: The customer's variety-seeking motive negatively affects revival performance.*

Involvement refers to personal relevance or the extent to which a product has a direct bearing or consequence on a customer's life (e.g., Celsi and Olson 1988; Flynn and Goldsmith 1993; Houston and Rothschild 1977). A key consequence of a high level of involvement is a stronger motivation to process either cognitive or affective information related to the specific product. Highly involved customers are more interested in and search more intensively for product related information (e.g., Bloch and Richins 1983; Mittal 1989; Richins and Bloch 1986). Further, highly involved customers would be more interested in activities taken by the company that offers the high involvement products/services. This generally higher interest would also apply to revival activities. In other words, we argue that customers who are highly involved with the product will be more interested in the company's offer and revival efforts

and will be more ready to evaluate the revival offer in detail and to consider re-establishing the relationship.

Thus, we argue for a higher probability of regaining highly involved customers relative to less involved customers (see also Antil 1984; Oliva, Oliver, and MacMillan 1992). This line of reasoning is supported by research in the area of relationship marketing as well as the service recovery literature (e.g., Hoffman and Kelley 2000; Ostrom and Iacobucci 1995; Roos 1999; Webster and Sundaram 1998). Therefore, we propose:

*H 8: The customer's involvement positively affects revival performance.*

The final hypothesis in this section refers to the effect of age on revival performance. Research in social psychology has found that creating new interpersonal relationships becomes more difficult with age (Cumming and McCaffrey 1961; Davies and Griew 1963) and that older individuals are more willing to engage into the continuance of a relationship (even in problem situations) than younger people (e.g., Bloom et al. 1977; Rusbult, Johnson, and Morrow 1986). Furthermore, it can be the case that adjusting to a new product is more difficult for older customers so that they are more willing to return to a known provider. All these findings taken together suggest that older customers may experience more regret after the termination of an existing relationship and, as a result, will be more likely to re-establish the relationship. Thus, we hypothesize:

*H 9: The customer's age positively affects revival performance.*

Relationship Characteristics: As mentioned earlier, unlike revival-specific customer satisfaction which is event-specific in nature, overall customer satisfaction with a relationship captures the customer's cumulative satisfaction with the company and its products in general.

There is empirical evidence for the importance of a customer's satisfaction for the stability of the customer relationship (e.g., Crosby, Evans, and Cowles 1990; Han and Wilson 1992; Han, Wilson, and Dant 1993). High satisfaction with the previous relationship would be the result of numerous positive experiences with the company. Therefore, if customers have been reasonably satisfied with the relationship prior to its termination, this should increase the probability that they would be willing to revive the relationship. The main reason for this effect is

that satisfied customers would be more likely to expect future positive experiences with the company than customers with low satisfaction levels. In other words, the more dissatisfied the customer is with the relationship before termination, the less likely s/he would be to re-establish this relationship. Thus, we hypothesize:

*H 10: The overall customer satisfaction with a relationship (before termination) positively affects revival performance.*

Our final hypothesis deals with the effect of age of relationship on revival performance. The age of the relationship has attracted some research interest in the field of relationship marketing (e.g., Dwyer, Schurr, Oh 1987; Ganesan 1994). Prior research has found that, with increasing age of relationship, personal loyalty to a company becomes stronger, customer trust in the company increases (Ganesan 1994), and communication between the company and the customer becomes more intensive (e.g., Berry 1995; Curran, Rosen, and Surprenant 1998; Moorman, Zaltman, and Deshpandé 1992). There is also a greater familiarity with the company as the relationship matures and research on the mere-exposure effect has taught us that 'familiarity breeds liking' (Zajonc 1978, 1984).

These effects lead to the conclusion that, even after termination of relationship, customers who have had long-term relationships are more committed to the products of the company as opposed to customers who had only had a short relationship. Thus, the probability to gain back customers who have had a long relationship with the company is higher as opposed to customers who have only had a short relationship. Against this background, we put forward the following hypothesis:

*H 11: The age of the exchange relationship positively affects revival performance.*

## 4 METHODOLOGY

### 4.1 Sample and Data Collection

In order to test our hypotheses, we needed data from customers who had terminated their relationship with a company and had subsequently been addressed by the company for revival purposes. To acquire such data, we collaborated with a telecommunication company. This company provided the addresses of 1,000 randomly selected former customers who had been contacted by the company for revival purposes.[1] These individuals were then contacted by telephone and asked to participate in the study. Depending on their readiness to participate, telephone interviews were carried out either immediately or at a later time. This process yielded 110 telephone interviews (representing a response rate of 11.0 %).

During the telephone interviews, the lost customers were essentially asked about their perception of the company's revival activities. Additionally, the customer and relationship characteristics in our framework were assessed. An objective measure of revival performance obtained from the company (a yes/no-variable indicating whether or not the customer had revived the relationship) was matched with the data collected during the telephone survey. Among these 110 lost customers, 62 % of the relationships had been successfully revived by the telephone company.

In order to explore the presence of a non-response bias (Armstrong and Overton 1977), the 110 respondents were compared with the initial sample of 1000 lost customers. Comparison was based on the following criteria: age of the customer, gender of the customer, and age of relationship. No significant differences were observed between the respondents and the initial sample so that there is no indication of a non-response bias in the data.

### 4.2 Measure Development and Assessment

Multi-item scales were developed based on the procedures outlined by Anderson and Gerbing (1988). Whenever possible, existing measures of the constructs were used. However, as the duration of the telephone interviews had to be restricted to a maximum of ten minutes, we

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[1] Focusing on a single company and its lost customers is consistent with the empirical approach taken by Thomas, Blattberg, and Fox (2004). Since there is evidence that only a small number of firms engage in systematic activities to recapture lost customers (Stauss and Friege 1999) there is probably no alternative to a single-company approach in the context of data collection. In addition, we made sure to select a time period for analysis where there were no major changes in the telecom provider's service offerings.

were limited in terms of the number of items that could be included in the scales. We therefore typically used shortened versions of existing scales.[2]

The scales were pretested in a series of iterative personal interviews with 14 lost customers. Each participant in the pretest answered the questionnaire as s/he read the questions and verbalized any thoughts that came to mind (including ambiguities, inapplicable questions, interesting issues etc.). The items were revised following each personal interview until no further changes were suggested. The actual measures used for the constructs in the framework are presented in the Appendix.

Our scales for measuring the three dimensions of revival-related justice cover the facets of these three dimensions identified by Tax, Brown, and Chandrashekaran (1998). They include politeness, empathy, honesty, and effort in the case of *revival-related interactional justice*, flexibility, time/speed, and process control for *revival-related procedural justice*, and appropriateness and fairness of the provided offer for *revival-related distributive justice*. We used shortened versions of the scales developed by Tax, Brown, and Chandrashekaran (1998), thus measuring the three constructs with nine, six, and six items, respectively.

The first customer characteristic, *age of the customer*, was captured by an objective measure. The corresponding information was obtained from the customer data base of the cooperating company. The scale for *variety-seeking* was adapted from Homburg and Giering (2001) and contained two items. The third customer characteristic, *involvement*, was measured with three items adapted from Homburg and Giering (2001).

The first relationship characteristic, *overall customer satisfaction* was assessed using an item developed by Bolton (1998). *Age of relationship*, was captured by an objective measure. This was computed as the time span between the contract starting date and the termination date based on information obtained from the company's customer data base.

The first revival-related outcome, *revival-specific customer satisfaction*, was originally measured on the basis of four items adapted from Tax, Brown, and Chandrashekaran (1998). Based

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[2] Market research experts of the company familiar with customers' response behavior to telephone surveys indicated that ten minutes of duration for the telephone interviews was an absolute maximum and that average duration should be no more than seven minutes. Having short interviews was particularly important for those interviewed previous customers who had not revived the relationship since some of them still had a fairly negative attitude towards the company.

on the assessment of the scale's psychometric properties, two items were removed so that the final scale included two items.

*Revival performance* was measured on the basis of internal records of the company with an objective yes/no-effectiveness measure related to the question whether the customer revived the relationship or not. The variable was coded as "1" if the customer had renewed the contract with the company and as "0" if this was not the case. This information was also validated in the customer interviews. The accuracy was 100 % (which is not surprising given the contractual nature of the relationship).

Confirmatory factor analysis was used to assess the measurement scales. The corresponding statistics are also shown in the Appendix. On an overall basis, they indicate acceptable psychometric properties of the measurement instruments. More specifically, the values of coefficient alpha ($\alpha$), factor reliability (FR), and average variance extracted (AVE) all exceed the threshold values of .7, .6, and .5, respectively, that are suggested in the literature (Bagozzi and Yi 1988; Baumgartner and Homburg 1996; Nunnally 1978).

Discriminant validity between the three constructs of interactional justice, procedural justice, and distributive justice was tested using the procedure suggested by Fornell and Larcker (1981). For each pair of factors, the squared correlation was less than the average variance extracted for each of the factors. Thus, according to the criterion established by Fornell and Larcker (1981), these three constructs demonstrate discriminant validity and do appear to measure different facets of revival-related perceived justice. Additionally, we find support for discriminant validity between all the other variables in our framework. In particular, discriminant validity between revival-specific customer satisfaction and overall customer satisfaction was also established based on a Chi-square difference test comparing a model where the two constructs are allowed to correlate freely with a model where their correlation is fixed to unity. A factor correlation matrix is shown in Table 1.

| Factors | M | S | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Interactional Justice (IJ) ** | 2.56 | .64 | | | | | | | | | | |
| 2 Procedural Justice (PJ) ** | 2.73 | .77 | .41* | - | | | | | | | | |
| 3 Distributive Justice (DJ) ** | 3.15 | .74 | .47* | .59* | - | | | | | | | |
| 4 Variety Seeking (VS) ** | 2.53 | .61 | .01 | .14 | .16 | - | | | | | | |
| 5 Involvement (I) ** | 2.71 | .79 | .09 | -.05 | -.06 | -.17 | - | | | | | |
| 6 Customer Age (CA) | 32.99 | 9.91 | -.01 | .05 | .16 | -.15 | -.13 | - | | | | |
| 7 Overall Customer Satisfaction (OCS) ** | 2.23 | .73 | -.04 | .10 | .09 | -.12 | -.09 | -.03 | - | | | |
| 8 Age of Relationship (AR) | 6.19 | 2.97 | .10 | -.05 | -.02 | .05 | -.02 | .01 | .01 | - | | |
| 9 Revival Specific Customer Satisfaction (RCS) ** | 2.01 | .71 | .21* | .50* | .52* | .16 | .11 | .05 | .23* | .10 | - | |
| 10 Revival Performance (RP) | - | - | .36* | .31* | .53* | -.26* | -.19* | -.43* | -.29* | -.05 | .24* | - |

* p < .05; M = Mean Value; S = Standard Deviation
** = 5-point Likert-type scales were employed from 1 (strongly agree/very satisfied) to 5 (strongly disagree/very dissatisfied)

Table 1: Descriptive Statistics, Reliabilities, and Intercorrelations Among Refined Measures

# 5   RESULTS

## 5.1   Results Related to Model A

Since model A contains direct and indirect effects, structural equation modelling is particularly appropriate in this context. The structural equations for the two endogenous constructs distributive justice (DJ) and revival-specific customer satisfaction (RCS) are

$$DJ = \gamma_{11} \cdot IJ + \gamma_{12} \cdot PJ + \zeta_1$$

$$RCS = \gamma_{21} \cdot IJ + \gamma_{22} \cdot PJ + \beta_{21} \cdot DJ + \zeta_2.$$

In these equations IJ and PJ denote the two exogenous constructs in model A, i.e., interactional justice and procedural justice. $\zeta$ is the residual term. We used LISREL VIII for model analysis.

The overall fit measures for the causal model representing this part of our framework suggest that the model fits the data reasonably well. The goodness-of-fit index, adjusted goodness-of-fit index and comparative-fit index (GFI = .98; AGFI= .97; CFI = .98) clearly meet the criteria recommended in the extant literature (Bagozzi and Yi 1988; Kelloway 1998). Furthermore, the ratio of $\chi^2$ over df is 2.67, which also indicates a good fit of the model (Baumgartner and Homburg 1996). Table 2 shows the parameter estimates and information on significance for the relationships in our model.

Hypotheses H 1 and H 2 stated that perceptions of revival-related interactional and procedural justice have a positive impact on revival-related distributive justice. As can be seen from the parameter estimates in Table 2, both of these hypotheses are supported by our findings. Thus, when customers have a positive evaluation of the interactions involved in the revival effort and view the procedures employed in the revival effort in a positive light, they are more likely to perceive the revival offer as fair.

| Independent Constructs | Dependent Constructs | |
|---|---|---|
| | Revival-related Distributive Justice (DJ) | Revival-specific Customer Satisfaction (RCS) |
| Revival-related Interactional Justice (IJ) | $\gamma_{11} = .31**$ | $\gamma_{21} = .41**$ |
| Revival-related Procedural Justice (PJ) | $\gamma_{12} = .58**$ | $\gamma_{22} = .01$ |
| Revival-related Distributive Justice (DJ) | -- | $\beta_{21} = .59**$ |
| | $r^2 = .67$ | $r^2 = .69$ |

Notes: Standardized parameter estimates are shown; $**$ = $p < .01$

Table 2: Results of Causal Model (Model A)

Hypotheses H 3, H 4, and H 5 dealt with the effects of the three revival-related justice dimensions on revival-specific customer satisfaction. Three positive effects were predicted in these hypotheses. As shown in Table 2, we find positive effects of interactional and distributive justice on revival-specific customer satisfaction. Thus, H 4 and H 5 are supported by our findings. However, we fail to find support for H 3 since the parameter estimate related to the direct link between procedural justice and revival-related customer satisfaction is non-significant.

Taking the results related to model A together, a number of findings are worth mentioning: First, it is interesting to note that interactional and procedural justice together explain 67 % of the variance of perceived distributive justice. In other words, the customer's perception of what s/he gets depends largely on how s/he feels treated during the firm's revival activities. Furthermore, these three justice dimensions explain 69 % of the revival-specific customer satisfaction. Distributive justice has the strongest impact on revival-specific customer satisfaction. It is also interesting to note that interactional justice, besides having an indirect effect (through distributive justice) on customer satisfaction, also directly affects customer satisfaction. This is not true, however, for procedural justice which affects satisfaction only indirectly. In other words, process-related justice per se does not directly lead to satisfaction.

## 5.2   Results Related to Model B

The dependent variable in model B (revival performance) is dichotomous. Thus, a logistic multiple regression model was used for the analysis of model B. All independent variables were standardized before entering the data analysis. As shown in Figure 1, our analysis includes as independent variables revival-specific customer satisfaction, three customer characteristics, and two relationship characteristics.

Additionally, we considered it as important to control for the reason for defection as a potential determinant of revival performance. Following a typology of defectors suggested by Reichheld and Sasser (1990), we distinguish between three reasons for defection: service defection (poor service by the telecommunication provider), product defection (dissatisfaction with the mobile phones provided by the telecommunication company), and price defection (better price offered by a competitor). It is worth mentioning that about eighty percent of the customers in our sample classified themselves as service defectors. We used price defection as the default category and included service defection and product defection as additional independent variables in our model. Thus, our model has the following form:

$$p_i = 1/(1 + e^{-(\beta_0 + \beta_1 * RCS_i + \beta_2 * VS_i + \beta_3 * I_i + \beta_4 * CA_i + \beta_5 * OCS_i + \beta_6 * AR_i + \beta_7 * SD_i + \beta_8 * PD_i)})$$

In this equation, $p_i$ denotes the revival probability for the i-th subject in the sample (i. e., the probability that the dependent variable revival performance assumes a value of 1) and $\beta_1$, $\beta_2$, ... $\beta_8$ are the regression parameters describing the effects of the eight independent variables (see Table 3 for the abbreviations) on revival probability. These parameters were estimated via the maximum likelihood method. The corresponding results are shown in Table 3. Additionally, it is worth mentioning that the logistic regression analysis yielded a $\chi^2$-statistic which was significant at the .001 level. This result indicates that our model has significantly more explanatory power than a baseline model containing just the intercept term.

| Independent Variables | Parameter Estimate |
|---|---|
| Revival-Specific Customer Satisfaction (RCS) | $\beta_1 = .37^{**}$ |
| *Customer Characteristics* | |
| Variety Seeking (VS) | $\beta_2 = -.19^{**}$ |
| Involvement (I) | $\beta_3 = .14^{*}$ |
| Customer Age (CA) | $\beta_4 = .29^{**}$ |
| *Relationship Characteristics* | |
| Overall Customer Satisfaction (OCS) | $\beta_5 = .16^{*}$ |
| Age of Relationship (AR) | $\beta_6 = -.06$ |
| *Reason for Defection*[1] | |
| - service defection (SD) | $\beta_7 = .03$ |
| - product defection (PD) | $\beta_8 = -.01$ |

Note: ** = $p < .01$, * = $p < .05$;  1) Price defection as reference category

Table 3: Results of Logistic Regression Analysis (Model B)

Hypothesis 6 dealt with the influence of revival-specific customer satisfaction on revival performance. We find strong support for this hypothesis. Thus, in the context of customer revival activities, a defected customer's satisfaction with these activities strongly affects the customer's behavior.

Hypotheses 7 – 9 dealt with the impact of three customer characteristics (variety seeking, involvement, and age) on revival performance. All three hypotheses are confirmed by our findings, as can be seen in Table 3. Thus, the variety seeking motive has a negative impact on revival performance, while involvement and age positively affect revival performance. It is

interesting to note that, among the customer characteristics, age seems to have a particularly strong effect on revival performance.

The remaining two hypotheses (H 10 and H 11) examined the impact of two relationship factors (overall satisfaction with the relationship and age of the relationship) on revival performance. While we find a significant positive impact of overall customer satisfaction on revival performance (which supports H 10), the effect of age of relationship on revival performance is non-significant. Thus, we fail to find support for H 11.

A possible explanation could be that there are both positive and negative effects of age of relationship on revival performance. On the one hand, as argued before, increasing age of relationship leads to more familiarity and higher personal loyalty to a company and, in consequence, to a higher revival performance. On the other hand, there is evidence in the literature that customers that have gained more experience in a long-term relationship over time, evaluate the exchange relationship more heavily based on prior assessments related to a company, thus putting less weight on new information (e.g., Bolton 1998), such as a company's revival effort. This effect associated with age of relationship would imply a negative link between age of relationship and revival performance since defected customers which have had a long relationship with the company would be less interested in the company's revival effort. Thus, these two counter forces may lead to a neutralization of the effect of age of relationship on revival performance.

This reasoning suggests a positive moderating effect of age of relationship on the impact of overall customer satisfaction on revival performance and a negative moderating effect of age of relationship on the link between revival-specific satisfaction and revival performance. More specifically, if customers with a long experience in a relationship evaluate the relationship more heavily based on prior assessments (Bolton 1998) than on new information, the impact of overall customer satisfaction on revival performance should be stronger in older than in younger relationships, whereas the impact of revival-specific satisfaction on revival performance should be weaker in older as opposed to young relationships. To test this reasoning, we introduced two interaction terms between age of relationship and the two satisfaction constructs into the logistic regression model. We found significant effects associated with the two interaction terms and the signs of the parameter estimates supported the above reasoning.

It also interesting to note that our control variable, reason for defection, does not significantly affect revival performance. In other words, the likelihood of reviving a customer relationship does not depend on the reason for which the customer terminated the relationship with the company.

# 6  DISCUSSION

There is increasing evidence in business practice that well managed customer revival activities can be highly effective and efficient (Griffin and Lowenstein 2001). However, marketing research has largely neglected this phenomenon.

## 6.1  Research Issues

From a theoretical perspective, our findings suggest that applying equity theory is a useful approach for understanding customer revival. In particular, 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. Thus, it is clear that the perceptions of equity play a pivotal role in explaining the success of revival efforts.

Furthermore, we feel that our study adds to our theoretical understanding of the relationships between the three fairness dimensions typically distinguished in equity theory. It is worth noting that previous work has essentially focused on independent main effects of these three justice dimensions on some outcome variables (e.g., Maxham and Netemeyer 2003). Our theoretical discussion and empirical findings show, however, that there are interrelations between these three dimensions.

Our findings related to customer characteristics as drivers of relationship revival performance are of fundamental relevance since they show that individuals differ systematically in terms of their responses to relationship revival activities. Specifically, revival performance is lower in the case of a strong variety-seeking motive and higher in the case of highly involved customers. It is interesting to find that among all the customer and relationship characteristics, age of the customer seems to have a particularly strong effect on revival performance. While the effect of age on customer behavior has been discussed controversially in the literature (see Phillips and Sternthal 1977), we find a very clear pattern in the context of relationship revival: older customers are more likely to respond positively to a company's revival activities than younger customers.

## 6.2 Limitations and Avenues for Future Research

Inspite of these contributions, several limitations of our study need to be mentioned. These provide avenues for future research.

First, our study focuses on cognitive factors (i.e., perceived interactional, procedural, and distributive justice) as drivers of revival performance. It may well be the case that emotional factors (such as mood, emotional stability etc.) are also relevant. The relevance of such emotional factors for customer behavior has been shown in other contexts (e.g., Bougie, Pieters, and Zeelenberg 2003; Smith and Bolton 2002). Thus, future research might study the role of emotional vs. cognitive factors in the context of customer reactions to corporate revival activities.

Second, it would be interesting to study direct effects of the three revival-related justice dimensions on relationship performance.

Third, we consider it relevant to study the customer's attribution for the defection as a driver of relationship revival performance. Customer attributions could be analyzed in terms of locus (Who is responsible for the termination of the relationship?), stability (Is the cause likely to reoccur?), and controllability (Did the responsible party have control over the cause?). One might hypothesize that revival activities are unlikely to be successful if the customer believes that the cause for relationship termination is stable (i. e., very likely to reoccur).

Fourth, it might be interesting to analyze whether the effect of variety seeking on revival performance depends on the time since relationship termination. If the time period since relationship termination is short, the effect of variety seeking on revival performance would be negative (as we suggest and find). However, if the time period since relationship termination is very long, the opposite (i. e., a positive effect) may occur.

Finally, future research should study the phenomenon of customer relationship revival in other contexts. It might be particularly interesting to study this phenomenon in other B2C-contexts (related to tangible products and services) and in a business-to-business context.

## 6.3 Managerial Implications

A first important managerial implication of this study is that it provides evidence that revival performance can be explained systematically. Thus, whether a customer is won back or not is not essentially a matter of luck. Rather, it depends strongly on how managers design the re-

vival activities. The key information for managers is that perceptions of equity are crucial to the success of revival efforts. Customers must perceive the revival offer as fair. Additionally, they should be treated well and perceive the processes as smooth.

Second, it is highly relevant for managers that the perceived quality of the revival offer is strongly influenced by the soft factors of the revival process and revival interaction. This becomes particularly visible in the fact that 67 % of the perceived distributive justice are explained by perceived interactional and procedural justice. That means that managers in charge of revival activities should focus not only on what is offered to the customer but also on how the customer is treated. A systematic training of customer contact personnel and clear process definitions are keys to successful revival management. We feel that this implication is of particular relevance since many revival activities in business practice seem to be strongly focused on material aspects (Griffin and Lowenstein 2001).

Third, our study shows that the success of revival activities depends not only on their design but also on customer and relationship characteristics. Therefore, careful targeting of customers who are to be addressed with revival activities is an important success factor for relationship revival management in business practice. Our research also provides information on customer characteristics which managers should use for targeting. In particular, targeting activities are especially promising for older customers, highly involved customers, and customers who are known to have been highly satisfied with the previous relationship. These findings underline the importance of using not only demographic and socio-economic variables for customer segmentation. Ideally, this would involve the development of a customer data base which contains key psychographic variables (such as customer satisfaction and involvement).

Fourth, our findings concerning variety seeking and involvement can have important implications for communication strategy. In particular, it would be important to ensure that the message addressed to defected customers addresses the needs and interests of highly involved customers.

# 7   CONCLUSION

As Thomas, Blattberg, and Fox (2004, p. 31) have noted, "loyalty and retention have been the dominant themes among scholars interested in customer relationship management". However, customer relationship management deals with acquiring new, retaining existing, and regaining lost customers (Reinartz, Krafft, and Hoyer 2004). Against this background, customer relationship revival is a neglected area of research in the field of customer relationship management. Following the pioneering study by Thomas, Blattberg, and Fox (2004), this study provides a broad treatment of factors driving relationship revival performance. We hope that this work will stimulate further research on customer relationship revival so that academic understanding of customer relationship management will become more complete.

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# Appendix

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**Measures and Items**

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**Revival-related Justice Dimensions**

*Revival-related Interactional Justice (IJ)\** ($\alpha$ = .92; FR = .95; AVE = .67)

The company's employees were very politeness.

The company's employees tried to create a comfortable atmosphere when interacting with me.

The company did appear to be telling me the truth.

The company's employees were highly empathic towards my needs.

The company's employees could take in my perspective very well.

The company's employees were highly engaged in solving my problem.

The company's employees seemed to be highly engaged in general.

The company's employees gave a reasonable account as to why the organizational problem occurred.

The company's employees had a high level of autonomy with respect to customer-related decisions.

*Revival-related Procedural Justice (PJ)\** ($\alpha$ = .88; FR = .91; AVE = .63)

The company reacted very quickly to my termination.

During the telephone call with the company clear agreements were made.

The company's readiness to provide information was very high.

I was involved in the company's decisions.

The company was willing to adapt their revival procedures to satisfy my needs.

The company was very open toward my suggestions.

*Revival-related Distributive Justice (DJ)\** ($\alpha$ = .97; FR = .98; AVE = .89)

The company's offer was generous.

I assessed the company's offer as appropriate.

I perceived the company's offer as fair.

The company presented an offer that met my expectations.

This company considered my personal needs in providing this offer.

The solution offered has high value for me.

## Customer Characteristics

*Variety-Seeking (VS)\** ($\alpha$ = .76; FR = .--; AVE = .--)
I really like to try new things.
I am always searching for changes.

*Involvement (I)\** ($\alpha$ = .75; FR = .82; AVE = .63)
Mobile calling is important to me.
Compared to other products/services, mobile phone service is highly important to me.
I am well informed about mobile telephoning.

*Customer Age (CA)* (objective measure) (.--;.--;.--)

## Relationship Characteristics

*Overall Customer Satisfaction (OCS)\*\**
Overall, how satisfied you are with the products/services you receive from the company? Are you very satisfied, somewhat satisfied, neither satisfied or dissatisfied, somewhat dissatisfied, or very dissatisfied?"

*Age of Relationship* (objective measure)

## Revival Satisfaction and Revival Performance

*Revival-Specific Customer Satisfaction (RCS)\** ($\alpha$ = .94; FR = --; AVE = --)
I am very satisfied with the efforts made by this company.
I was happy how the organization handled my termination.

*Revival Performance (RP)* (objective measure)

*Reason for Defection*
How strong affect the following criteria the termination of the relationship with this company? Please distribute 100 points according to the impact of the following three criteria.
… product-related issues.
… price-related issues.
… service-related issues.

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\* = 5-point Likert-type scales with "strongly agree" and "strongly disagree" as anchors were employed
\*\* = 5-point Likert-type scale with "very satisfied" and "very dissatisfied" as anchors was employed