

# “Echo Generation”: switching costs and the relational approach in the banking industry”

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## “Echo Generation”: switching costs and the relational approach in the banking industry

### Abstract

Consumption behavior with respect to financial products has often been studied in marketing literature. However, segmentation by age bracket has rarely been used, except for the baby boomer segment, which studies have often focused on. There have also been very few studies done on the various customer retention alternatives. Certain authors have concentrated on switching costs, whereas others have concentrated on a relational approach. In this study, we consider the alternative means of securing customer loyalty in the 18-30 age bracket, a segment that is part of the so-called “Echo Generation”.

We chose a descriptive and confirmatory design and opted for a cross-sectional research approach. The data collection method was a structured telephone questionnaire. Several major financial institutions participated in the survey by providing a list of their customers, thereby allowing for a random sampling.

We found that all of the variables – i.e., satisfaction, trust and average perceived costs – help account for the development of loyalty, but that their impacts vary widely. Satisfaction came first, followed by trust, with switching costs a distant last. A relational approach should therefore be favored, even though this concept still remains vague in the minds of some financial institution administrators.

**Keywords:** switching cost, trust, satisfaction, loyalty, echo generation, banks.

### Introduction

As mentioned by Kroft (2005), Corporate America, Hollywood, Madison Avenue, and the media seem obsessed with youth culture. The reason is simple – the largest generation of young people since the 1960s is now coming of age. These “echo boomers” are the genetic offspring and demographic echo of their baby boomer parents.

In the U.S. alone, nearly 80 million individuals born roughly between 1982 and 1995 are significantly influencing entire segments of the economy. As they get older, they will become North America’s next dominant generation.

They are called “echo boomers”, “Generation Y”, or “millennials”. The oldest members of this cohort are barely out of college, and the youngest are still in grade school. Together, they already make up nearly a third of the U.S. population and spend \$170 billion a year of their own and their parents’ money – almost none of it on “mundane” things like mortgages and medication. Tremendous effort is being put into selling to them (S. Kroft, 2005).

They represent customer marketing, service, loan, and transaction opportunities, particularly as baby boomers continue to age and the largest wealth transfer in history occurs, with \$30 trillion passing from one generation to the next (Carroll, 2004).

Historically less loyal than their parents, these young adults will not hesitate to transfer this wealth to other financial institutions. This is bad news for institutions that have traditionally held much of the nation’s

wealth, but an excellent opportunity for new players in the field. Customer loyalty is thus an important topic for managers wishing to keep their customers from leaving. But how can an institution maintain its financial wealth by winning the loyalty of this young generation of consumers?

The interest in bank marketing has increased in the past decade, as evidenced by the number of newspapers and academic journals dedicated to the subject (Journal of Bank Marketing, International Journal of Bank Marketing, Journal of Financial Services Marketing, etc.). Consumption behavior regarding financial products has thus often been studied in marketing literature (Plath and Stevenson, 2005; Estelmani, 2007). However, segmentation by age bracket has rarely been used, except for the baby boomer segment, which has often been the focus of studies by academics (Edmunds and Potter, 1999; Dann, 2007; Gentle, 2007) and business experts (Davidson, 2005; Warner, 2006; Buchner, 2007). There have also been very few studies done on the various customer retention alternatives. Certain authors have concentrated on switching costs (Meyer-Waarden, 2004), whereas others have concentrated on a relational approach (Graf and Perrien, 2005). In this study, we consider alternative means of securing customer loyalty in the 18-30 age bracket, a segment that is part of the so-called “Echo Generation”. The main objective is to compare these means and establish a hierarchy of their effectiveness.

For an answer, we must examine loyalty antecedents, as identified in the marketing literature, i.e., switching costs as well as the basic variables of a relational approach – satisfaction and trust in financial institutions and/or their staff.

First, we will define the concept of loyalty and list loyalty antecedents. Then we will present our methodology and analyze the data collected before issuing our main recommendations.

## 1. Literature review

**1.1. The importance of loyalty.** Strengthening one's existing customer base is known in management circles to be more profitable than finding new customers (Reichheld and Sasser, 1990; Jones and Sasser, 1995; Langlois and Tocquer, 1992; Meyer-Waarden, 2004). As a result, many companies are putting their efforts into building loyalty rather than mass marketing in order to keep sales up. Reichheld and Sasser (1990) and Millot (2001) have shown the impact that loyalty has on profits in various sectors when the loyalty rate goes up 5%. In the banking sector, profits have increased nearly 35%. For businesses, customer loyalty is therefore key as it gives service providers stability and guarantees future earnings.

In the marketing literature, loyalty is considered as a behavior reflected in consumer preferences for a particular brand or a selection of similar brands over a given period in time resulting from a decision-making process (Dick and Basu, 1994; Palmer, 1996; Gilmore, 2004). Jacoby and Kyner (1973) define loyalty as "a biased behavioral response expressed in time by a decision maker, considering one or more brands taken as a whole, based on a decision-making process". Other authors, such as Bon and Tissier-Desbordes (2000) or Ray (2001), regard loyalty as a function of two axes with complementary variables. Based on attitude, actual loyalty can be distinguished from other types of loyalty resulting from purchasing heuristics or high sensitivity to promotional activities (potential loyalty, pseudo loyalty, or disloyalty). Businesses would benefit from building on actual loyalty, as it combines brand attachment and a behavior.

There are four phases of actual loyalty building in consumers: 1) cognitive, 2) emotional, 3) conative, and 4) action (Oliver, 1999; Lambin et al., 2001; Gilmore, 2003; and Meyer-Waarden, 2004). Initially, consumers become loyal due to their knowledge, beliefs, and perceptions (cognitive phase). In the emotional phase, emotions and/or sympathy toward a brand – a subjective judgment – come into play. Emotional loyalty includes conative loyalty. Intentional loyalty (conative phase), as it were, is the desire to obtain a given service and to continue to do so (Dick and Basu, 1994; Jacoby and Kyner, 1973; Oliver, 1997; Gilmore, 2003; and Lambin, 2001). Yet this desire will not necessarily lead to a purchase (Lambin, 2001). Lastly, the action phase occurs when loyal consumers make a purchase without being tempted to go elsewhere by competi-

tor promotions or deterioration of the brand image (Oliver, 1997; Gilmore, 2003; and Lambin, 2001).

**1.2. Loyalty antecedents.** As mentioned by Cohen et al. (2007, p. 41), "there are compelling arguments for bank managers to carefully consider the factors that might increase customer retention rate, with research providing ample justification for customer retention efforts by banks" (see Marple and Zimmerman, 1999; Fisher, 2001). Since 1920, a number of authors have sought to identify loyalty antecedents. The antecedents noted in the literature are numerous but the most important are 1) switching costs; 2) relationship and trust, as developed by Morgan and Hunt (1994) and Doney and Cannon (1997); 3) satisfaction; and 4) cognitive economics (Meyer-Waarden, 2004). The first three of these antecedents are more relevant to this study; cognitive economics is less appropriate for the banking sector, given the limited number of service providers on the market and the uniformity of services offered.

Jones et al. (2000) mention that they move beyond satisfaction in their study and show that switching barriers are also important factors, impacting a customer's decision to remain with a service provider (p. 259). For Methlie and Nysveen (1999), satisfaction and switching costs are important loyalty determinants for financial institution customers. In their study, Bergeron et al. (2003) show that trust, along with satisfaction and switching costs, also has an important impact on loyalty in the banking sector. In the financial service industry, Liang and Wang (2004) also find that satisfaction and trust affect behavioral loyalty in a marketing system. In the retail banking sector, switching costs are predictors of short term behavioral intention as well as long term behavioral intention, with satisfaction having a greater effect than word-of-mouth (Baumann et al., 2005).

**1.2.1. Switching costs.** Switching costs are a common strategy to increase loyalty (Dick and Basu, 1994; Methlie and Nysveen, 1999). Currently banks are eager to launch loyalty programs where customers obtain substantial benefits by doing most of their banking business with one bank (positive lock-in) (Methlie and Nysveen, 1999, p. 378). High switching costs discourage customers from changing banking relationships, therefore, an increase of switching costs will lead to an increase in loyalty (Methlie and Nysveen, 1999). Switching costs may be defined as the monetary and/or psychological costs incurred when customers switch providers (Jones et al., 2002). In some sense, these costs are barriers that keep customers from leaving. The higher the costs are, the more customers will tend to stay with the company (Jackson, 1985; Meyer-Waarden, 2004).

These costs therefore represent a better understanding of customer retention (Anderson, 1994; Anderson and Sullivan, 1993; Fornell, 1992; Jones et al., 2000). While switching costs have very little influence when the satisfaction rate is high, they can positively influence repurchasing behavior if satisfaction is low (Jones et al., 2000). Switching costs may then lead to induced loyalty if customers feel stuck (Meyer-Waarden, 2004). Creating barriers to leaving instead of emphasizing customer satisfaction can be harmful in the long term. Two situations can create a sudden rift with customers: 1) when there is significant, generalized dissatisfaction; and 2) when the barriers to leaving are considered a constraint (Jones et al., 2002). In contrast, when barriers are viewed positively as a benefit (preferred customer/service provider relationship), they can strengthen customer commitment and ensure the continuity and stability of the customer/provider relationship (Jones et al., 2002; Meyer-Waarden, 2004).

Three main groups of switching costs are considered in the literature:

1. Continuity costs, including lost performance costs (Maute and Forrester, 1993; Turnbull and Wilson, 1989; Jones et al., 2002), referring to the privileges offered by a financial institution that may not be available elsewhere, and uncertainty costs (Guiltinan, 1989; Schmalensee, 1982; Jones et al., 2002), illustrated by the uncertainty about quality of service at the new institution.
2. Learning costs, including a) pre-switch and evaluation costs, b) post-switch behavior and cognitive costs (the customer would have to learn the policies of the new financial institution), and c) setup costs or effort put into explaining someone's financial situation to the staff at the new financial institution (Jones et al., 2002; Meyer-Waarden, 2004).
3. Lost costs, for example the effort put into working with the staff at the financial institution or building a relationship (Guiltinan, 1989; Klemperer, 1987; Jones et al., 2002; and Meyer-Waarden, 2004).

*1.2.2. Relationship and trust.* In our business environment, the relationship is the tie between the customer and the firm. Three types of relationships are possible: 1) financial, 2) social, and 3) structural (Berry, 1995; Berry and Parasuraman, 1991; Lin et al., 2003; Peltier and Westfall, 2000; William et al., 1998; Chiu et al., 2004). However, for the relationship to lead to customer loyalty, there must be a climate of trust (Benamour, 2000; Graf, 2004; Meyer-Waarden, 2004). This construct is considered as a key construct of relationship marketing having

an impact on loyalty in the banking sector (Graf, 2004; Graf and Perrien, 2005; Ndubisi, 2007). If either party is unable to keep its promises, the relationship ties will inevitably be broken. According to Urban, Sultan, and Qualls (2000), trust is crucial for a business that wishes to maintain a good relationship with consumers and keep its market share. Morgan and Hunt (1994) have demonstrated a negative relationship between trust and the propensity to leave (Doney and Cannon, 1997). In the financial sector where services are intangible and complex, trust is important, as it helps reduce uncertainty (Gurviez, 2000; Pichon, 2004). In the same vein, when the process is not standardized – causing additional risk and making consumers more vulnerable – there is a positive link between trust and loyalty (Deutsch, 1962; Moorman et al., 1992; Auh, 2005).

Researchers in psychology, sociology, economics, and management have already defined the concept of trust according to their area of interest. In marketing, trust differs according to the environment, giving rise to the concepts of interfirm trust, interpersonal trust, and institutional trust (Doney and Cannon, 1997). Institutional trust involves the relationship between consumers and businesses as legal entities and is based on such factors as the features of the business (Doney and Cannon, 1997; Graf et al., 1999; Zaheer et al., 1998; Graf, 2004).

Few studies consider both institutional and interpersonal trust (Benamour, 2000; Graf, 2004). These variables are considered two-dimensional concepts based on credibility and kindness (Doney and Cannon, 1997; Zaheer et al., 1998; Graf, Perrien et al., 1999), or three-dimensional concepts based on honesty, credibility, and kindness.

To address the problem at hand, we will use the definition set out by Doney and Cannon (1997), which is often cited in the literature. Trust is the perceived credibility and kindness of the trust target (Ganesan, 1994; Kumar, Sheer and Steenkamp, 1995). The first dimension is based on the objective credibility of interactions with a partner and the expectation that what the partner said or wrote will be upheld and reliable (Lindsfold, 1978, 1997; Doney and Cannon, 1997). This dimension is cognitive (Black, 1996; Ganesan, 1994; Graf et al., 1998). Certain authors also call it “performance trust”. Kindness is the expression of genuine interest in the wellbeing of another person and the motivation to seek the common good for both parties (Doney and Cannon, 1997). Kindness is the emotional dimension of trust.

Studies by Macintosh and Lockshin (1997) show that when customers have a strong interpersonal relationship with a vendor from a given banner,

their loyalty toward the company and their purchase intentions are influenced more by trust in the vendor than trust in the banner, i.e., the legal entity. Conversely, trust in the banner is crucial when customers and vendors do not have strong ties (Sirdeshmukh et al., 2002). In addition, within companies, staff behavior reflects the values and attitudes of the organization providing the product (Doney and Cannon, 1997; Zaheer et al., 1998). As such, when buyers have little experience with a company, they base their trust in the company on how they feel about contact personnel. This “transfer” mechanism between the notions of institutional and interpersonal trust is a key element in defining our trust variable. We will concentrate on interpersonal trust and institutional trust as a whole and we will call it “trust”.

*1.2.3. Satisfaction.* A person’s attitude toward a brand or banner may determine the choice of product or service (Jacoby and Olson, 1993). Satisfaction can strengthen this attitude. Loyalty expressed by this group of antecedents is based on the difference between expectations and received or perceived quality (Parasuraman et al., 1985; Payne, 1993).

Attitude is a measure of cognitive, emotional, and conative loyalty (Meyer-Waarden, 2004). Authors including Fishbein and Azjen (1975) and Jacoby and Olson (1977) view attitude as a trend that is permanently reflected emotionally, perceptively, and cognitively through past purchases, creating a loyalty behavior (Fishbein and Azjen, 1975; Jacoby and Olson, 1977; Meyer-Waarden, 2004).

The marketing literature, however, still contains certain contradictions and the nature of the interaction between customer satisfaction and loyalty is notoriously elusive (Jones and Farquhar, 2006). Some authors say there is not yet convincing proof of the link between satisfaction and loyalty (Bolton, 1995), while others prove the contrary. Millot (2001) and Lefebure and Venturi (2005) cite studies by TARP (Technical Assistance Research Program Institute) that demonstrate this link, although it is not always linear (Jones and Sasser, 1995; Bhote, 1996; Ray, 2001) and depends on the sector. But for Bloemer et al. (1999), satisfaction appears to have a positive effect on service loyalty and can be transformed into loyalty if properly cultivated (Jones and Farquhar, 2006, p. 162). In the banking sector, customer satisfaction is an important indicator of customer loyalty (Olsen, 2007) as well as of other behavioral intention dimensions like paying more and external response (Pont and McQuilken, 2005). Satisfaction is considered to act as an antecedent of loyalty, arising from prior experience (Dick and Basu, 1994; Methlie and Nysveen, 1999). Thus, several studies have found support for the positive

relationship between customers satisfaction and their loyalty (Fornell, 1992; Sandvik and Duhan, 1996; Samuelsen et al., 1997; Methlie and Nysveen, 1999). In the banking sector, customers who are satisfied with their service provider develop a positive attitude toward the bank and their intention to stay with that bank is likely to be higher (Methlie and Nysveen, 1999).

The marketing literature already gives some information about the correlation between trust and satisfaction in the service sector (Anderson and Narus, 1990; Ganesan, 1994; Simpson and Mayo, 1997), and more specifically in the banking context (Graf and Perrien, 2005). We thus need to verify this in the commercial banking context with the Echo Generation segment.

## 2. Conceptual framework

The conceptual framework we chose is based on the three antecedents defined in the literature review, i.e., 1) switching costs, 2) trust, and 3) satisfaction.

To understand the effect of switching costs, we divided them into three categories, as indicated in the literature review: 1) continuity costs, 2) learning costs, and 3) lost costs, which reflect the perception of switching costs.

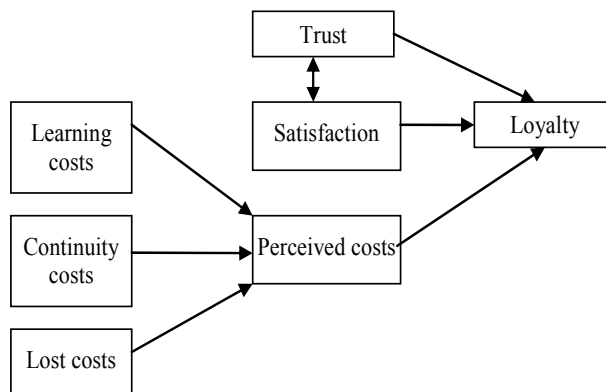


Fig. 1. Conceptual framework

**2.1. The impact of switching costs.** Jones et al. (2002) associate repurchase intention and the different dimensions of switching costs in bank customers. According to their study, four out of six switching cost dimensions show a significant positive correlation with repurchase intention. The conclusion of this study indicates that continuity cost dimensions (lost performance costs, uncertainty costs) were respectively highest, and by a significant margin. We therefore set out the following assumptions for our population segment:

- H1. Perceived average switching costs have a negative impact on loyalty.*
- H2. Continuity costs are the switching cost category with the greatest impact on the perceived average cost index.*

Learning costs and repurchase intention were significantly correlated, but only for the post-switch and cognitive cost dimension (Jones et al., 2002).

*H3. Learning costs have an impact on the perceived average cost index.*

There is, however, a relationship between repurchase intention and lost costs. But it comes fourth with respect to degree of association compared to all six switching cost dimensions (Jones et al., 2002).

*H4. Lost costs have an impact on the perceived average cost index.*

**2.2. The impact of trust.** Morgan and Hunt (1994) have demonstrated a negative relationship between trust and the propensity to leave. Given that financial services are intangible and can become complex, trust has an important role in helping to reduce uncertainty costs (Gurviez, 2000; Pichon, 2004).

*H5. Trust has a positive impact on loyalty.*

**2.3. The impact of satisfaction.** A TARP study indicates a link between customer satisfaction and loyalty intention. Also, in a diagram of the satisfaction process, Vavra (1997) incorporates loyalty as a consequence of satisfaction.

*H6. Satisfaction has a positive impact on loyalty.*

**2.4. The trust/satisfaction relationship.** A number of studies have demonstrated that information is more often used and more highly valued by recipients when they trust the source (Moorman, Zaltman, and Deshpande, 1992; Doney and Cannon, 1997). Trust helps service providers better meet customer needs and ensure customer satisfaction.

*H7. There is a positive correlation between trust and satisfaction.*

### 3. Methodology

As mentioned, consumption behavior regarding financial products has often been studied in marketing literature. However, segmentation by age bracket has rarely been used, except for the baby boomer segment, which studies have often focused on. There have also been very few studies done on the various customer retention alternatives. Certain authors have concentrated on switching costs, whereas others have concentrated on a relational approach. In this study, we consider alternative means of securing customer loyalty in the 18-30 age bracket, a segment that is part of the so-called Echo Generation. The members of this generation already make up nearly a third of the North American population and spend \$170 billion a year of their own and their parents' money (S. Kroft, 2005). They represent customer marketing, service, loan, and transaction opportu-

nities, particularly as baby boomers continue to age and the largest wealth transfer in history occurs, with \$30 trillion passing from one generation to the next (Carroll, 2004). Historically less loyal than their parents, these young adults will not hesitate to transfer their wealth to other financial institutions.

A detailed literature review helped us identify concepts and variables relevant to our study, which seeks to identify and compare loyalty antecedents to establish a hierarchy of their effectiveness with respect to the Echo Generation. We chose a descriptive confirmatory design, as defined by Malhotra (2006), and opted for a cross-section study.

We used a telephone questionnaire for data collection. Three major Canadian financial institutions took part by providing a list of customers segmented according to our criterion of interest, i.e., age. Data were collected by telephone by a professional team of interviewers hired for the study. Team members used Voxco Interviewer 3.85 software to display the questionnaire and enter data.

Sampling by means of simple random probability techniques was conducted using the databases of participating financial institutions. Given the confirmatory nature of our study, this type of sampling lends itself well to statistical analyses that can be generalized to our entire target population. We set limits for one variable – age. Three hundred interviews were completed using a sample of 1,000 participants, for a response rate of 30%.

The questionnaire was divided into six sections. The first included the introduction and an eligibility question to filter out anyone working for a financial institution. The second section contained questions on satisfaction using the SERVQUAL dimensions (Zeithaml, 1988) adapted to the requirements of the participating financial institutions. The third section contained all switching cost questions, grouped by cost type (scales adapted from Meyer-Waarden, 2004), in order to create the perceived switching cost index. The fourth block of questions was aimed at building the trust index for interpersonal and institutional trust using the two dimensions identified in the literature review, i.e., 1) credibility, and 2) kindness (adapted from Graf and Perrien, 2005). The fifth block included questions on loyalty in order to evaluate the loyalty index (Graf, 2004). The last block contained sociodemographic questions aimed at demonstrating our sample coverage.

We thus based our study on the marketing literature in order to obtain statements illustrating the vari-

ables examined, and all our constructs were measured using seven-point Likert scales. We conducted a pretest with 15 North American financial institution customers to check our measurement techniques and the required survey administration time. This allowed us to draw up the final version of the questionnaire. Measurements were checked for accuracy using Cronbach alpha coefficients (see Table 1). We also analyzed the validity of

our constructs using PCA. Given the nature of our model, we conducted our analyses by sections (costs, trust/satisfaction, loyalty). This approach is recognized in the marketing literature (Doney and Cannon, 1987; Atuahene-Gima and Li, 2002). We used the ridge regression technique, as some of the concepts were correlated as predicted in the literature (Graf et al., 1998; Benamour, 2000; Graf, 2004).

Table 1. Statement measurements

Tag	Variable	Question	$\alpha$
SATISFACTION			
COU1	Courtesy	Hospitality of staff	0.861
COU2	Courtesy	Politeness of staff	
PROF1	Professionalism	Attitude of staff	
EFF1	Efficiency	Overall speed of service	
PROF2	Professionalism	Quality of loan advice	
SATP1	Product satisfaction	Interest rate on loans	
SATP2	Product satisfaction	Collateral required	
SATP3	Product satisfaction	Service charges	
ACC1	Accessibility	Hours for meeting with an advisor	
ACC2	Accessibility	Hours for in-person banking	
ACC3	Accessibility	Options available on the website	
PRE1	Consideration	Suggestions regarding personal finances	
PRE2	Consideration	Future plans	
LEARNING COSTS			
CAPP1	Learning costs: Pre-switch	If I decided to switch financial institutions, it would be hard to find another competitive financial institution.	0.688
CAPP2	Learning costs: Post-switch	If I switched financial institutions, I would have to learn the policies of my new financial institution.	
CAPP3	Learning costs: Setup	If I switched financial institutions, I would have to put a lot of effort into explaining my financial situation to the staff at my new financial institution.	
CONTINUITY COSTS			
CCEP1	Continuity costs: Lost performance	My financial institution provides certain privileges that I wouldn't receive elsewhere.	0.600
CCIN1	Continuity costs: Uncertainty	If I switched financial institutions, I don't know what quality of service I would receive at another financial institution.	
CCIN2	Continuity costs: Uncertainty	If I switched financial institutions, the service might not be as good.	
LOST COSTS			
CPE1	Lost costs	I have put a lot of effort into building the relationship I currently have with my financial institution.	0.709
CPE2		I have generally put a lot of effort into working with the staff at my financial institution.	
CPE3		I did not put much time into maintaining my relationship with my financial institution.	
PERCEIVED COSTS			
CMP1	Perceived costs	Switching financial institutions is generally inconvenient.	0.618
CMP2		Switching financial institutions is generally expensive.	
TRUST			
INSC1	Institutional trust: Credibility	My financial institution is trustworthy.	0.881
INSC2	Institutional trust: Credibility	I believe the information my financial institution provides.	
INSB1	Institutional trust: Kindness	My financial institution is known for caring about its customers.	
INSB2	Institutional trust: Kindness	My financial institution considers my best interests first when offering me a product or service.	
INTC1	Interpersonal trust: Credibility	The staff at my financial institution is honest with me.	
INTB1	Interpersonal trust: Kindness	If I ran into difficulties, the staff at my financial institution would do its utmost to help me.	
INTB2	Interpersonal trust: Kindness	I can depend on the staff at my financial institution to hold up its end of our relationship.	

Table 1(cont.). Statement measurements

LOYALTY			
FIDE1	Loyalty	I intend to continue doing business with my financial institution.	0.770
FIDE2		I would recommend my financial institution to family or friends.	

4. Analysis of results

To validate our conceptual framework, linear regression analysis seemed appropriate for verifying the explanatory coefficients of our variables. First, we tested the underlying assumptions (such as linearity, normality, and multicollinearity). The results indicated two strong correlations (greater than 0.600) between learning and continuity cost variables and between satisfaction and trust variables. To offset this, we used ridge regression, a technique that allows for multicollinearity.

We used two ridge regressions. The first consisted of determining which dimension(s) could best explain respondents' perceived average costs.

Our model explained approximately 23% of the variance in perceived average costs ( $R^2 adj. = 0.23, p = 0.000$ ). Learning and continuity costs explained the model significantly, but lost costs did not explain perceived average costs significantly. We used the following equation<sup>1</sup>:

$$Perceived\ average\ costs = 1.9 + 0.25 (learning\ costs) + 0.19 (continuity\ costs).$$

We used the same approach to determine which variable(s) explained loyalty, i.e., trust, satisfaction, and perceived average costs.

In this case, our model explained 53% of the variance in loyalty ( $R^2 adj. = 0.53, p = 0.000$ ), with all variables being significant. However, we noted that the perceived average cost variable had a little impact on loyalty in comparison to trust or satisfaction. We proposed the following equation:

$$Loyalty = 1.047 + 0.04 (perceived\ average\ costs) + 0.36 (trust) + 0.49 (satisfaction).$$

It then became obvious that all assumptions regarding switching costs were invalid. Learning costs carried more weight in explaining perceived average costs, followed by continuity costs. Lost costs did not explain perceived average costs for our customer segment.

Our loyalty assumptions, however, were validated. We noted that all variables – trust, satisfaction, and perceived average costs – explained loyalty.

Last, there was a significant correlation between trust and satisfaction (a summary is provided in Table 2).

<sup>1</sup> Only significant coefficients are presented here ( $p < 0.05$ ).

Table 2. Assumptions and results

	Assumption	Result
1	The perceived average cost index has an impact on loyalty.	Validated
2	Continuity costs are the switching cost category with the greatest impact on the perceived average cost index.	Invalidated
3	Learning costs have an impact on the perceived average cost index.	Validated
4	Lost costs have an impact on the perceived average cost index.	Invalidated
5	Trust has an impact on loyalty.	Validated
6	Satisfaction has an impact on loyalty.	Validated
7	There is a positive correlation between trust and satisfaction.	Validated

5. Discussion

The three variables identified in the literature review – trust, satisfaction, and switching costs – are clearly loyalty antecedents. These three concepts do not equally explain loyalty, thereby showing the importance of this study, which includes them all and compares their impacts.

**5.1. Perceived average costs.** According to our results, learning costs best explain perceived average costs, followed by continuity costs. Lost costs do not significantly explain perceived average costs. This regression tells us that to obtain a strong perceived average cost, one variable with a significant impact is learning costs. However, this variable is more difficult to manipulate. In addition, increasing learning costs may create induced loyalty, which would be perceived poorly. Clearly, making a financial institution's processes more complicated just to create barriers to leaving would not be a very good strategy.

Continuity costs are a variable that financial institutions could control in order to achieve "desired" loyalty. For example, loyalty programs would grant customers special privileges. Customers would be less likely to leave, for fear of losing these benefits. Non-monetary privileges such as the increased availability of a financial advisor or simply the fact that an advisor knows a customer's name can increase the switching costs perceived by customers.

**5.2. Loyalty and trust.** Our results show that satisfaction best explains loyalty. The more satisfied customers are, the more likely they will remain loyal to their institution. Trust is another factor that should not be ignored. If financial institution cus-



tomers no longer trust their banner or its staff, the risk of departure is high.

We observed a significant correlation between these two variables, indicating a high degree of association between satisfaction and trust. In other words, it is important to ensure that general and specialized staffs provide high quality service and that financial products meet customer needs. The financial institution and its staff must also strive to be as credible as possible, both in the information they provide and their reputation in general, and to demonstrate that staff and the banner in general care about their customers.

In more concrete terms, while financial institutions can make substantial profits in some people's eyes, they must also demonstrate transparency in their communications and position themselves as being in touch with their customers. They should not come across as cold businesses that are only care for people with money. They should welcome customers warmly and treat each one fairly, especially if they want to appeal to a younger population (18-30 years old). Younger customers should be treated in the same way and just as seriously as older customers.

Switching costs have a minimal impact on loyalty even though, as we have observed, there is clearly a connection between perceived switching costs and loyalty. Nonetheless this variable is not a requirement in a loyalty strategy for young people.

In summary, a loyalty program with special benefits for young people could be an effective part of a loyalty strategy, but financial institutions must first

ensure that customers trust them and are satisfied with their products and services.

### Limitations of the study

From a conceptual perspective, our study could have been improved as we included additional variables such as trust or satisfaction antecedents in our analytical framework. But considering the length of the questionnaire, we made the choice not to do so. We could also have conducted our entire analysis with the 2 types of trust we first identify without taking into account the "transfer" mechanism between institutional and interpersonal trust. Or we could have studied that mechanism in the specific context of the banking industry. The results would have been richer.

For practical reasons, the study was conducted on customers from 3 major Canadian financial institutions. It would have been an improvement to be able to work with the majority of them to have a more representative sample.

Finally, as far as the analysis technique is concerned, ridge regression is a regression method that is very useful in cases of multicollinearity. However, it makes an adjustment at the expense of the precision of the equation coefficients. However, our coefficients are sufficiently different from each other to conserve the same order of priority in explaining both average perceived costs and loyalty. Structural equation modeling would thus have been a relevant method to use.

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