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THE INFLUENCE OF CUSTOMER RETENTION AND SWITCHING COST ON CUSTOMER LOYALTY WITH CUSTOMER SATISFACTION MEDIATION AT PT. WÄRTSILÄ INDONESIA: A CONCEPTUAL MODEL

Mohammad Arief Hartawan[1], Dwi Sunu Kanto[2]
[1,2] **Department of Management, Faculty of Economics and Business, Trilogi University, Jakarta, Indonesia**.

ABSTRACT

One of the flagship services offered by PT. Wärtsilä Indonesia, a foreign investment company focusing on manufacturing power generation engines, is a remote monitoring service. This service has experienced fluctuations since it first launched in 2016. However, this positive trend did not continue in the following years, with a significant decrease to 18 installations in 2022 and 11 installations in 2023. The decrease in the number of installations can be interpreted as a sign of declining customer loyalty to the remote monitoring service. Factors such as customer retention, switching cost, and customer satisfaction may be the reasons behind this decline. This quantitative study aims to examine the influence of customer retention and switching costs on customer loyalty with customer satisfaction as a mediator.

Keywords

Customer Retention, Switching Cost, Customer Loyalty, Customer Satisfaction, Conceptual Model.

INTRODUCTION

PT. Wärtsilä Indonesia is a foreign investment company originating from Finland and has been operating since 1998. The company's main focus is on manufacturing power generation engines that use diesel and gas fuels. One of the flagship services offered by PT. Wärtsilä Indonesia since 2016 is remote monitoring service, which helps detect potential issues or disruptions early on, allowing for quick and efficient repair or maintenance actions. In recent years, the remote monitoring service provided by PT. Wärtsilä Indonesia has experienced fluctuations in the number of installations used by their clients, from 10 installations in 2018 to 21 installations in 2021. However, unfortunately, this positive trend did not continue in the following years, with a significant decrease to 18 installations in 2022 and 11 installations in 2023. This decline is caused by the termination of cooperation contracts with several installations, which may indicate changes in customer needs or preferences.

The decrease in the number of installations can be interpreted as a sign of declining customer loyalty to the remote monitoring service. Factors such as customer retention, switching cost, and customer satisfaction may be the reasons behind this decline (Wahyuni, et al., 2022). Customer retention is not only about maintaining the number of customers but also about strengthening relationships with them, which in turn will have a positive impact on customer loyalty. The higher the level of switching cost, the higher the likelihood that customers will remain loyal and not switch to competitors (Simbolon, 2011). The research by Sri & Waseso (2014) shows that an increase in customer satisfaction is directly related to an increase in customer loyalty.

Therefore, company strategies aimed at increasing customer loyalty should consider how to improve customer retention and switching costs while ensuring high customer satisfaction. This study aims to further examine the influence of customer retention and switching costs on customer loyalty with customer satisfaction as a mediator.

LITERATURE REVIEW

A. Customer Retention

Customer retention, as defined by Buttle (2004) and elaborated by Simbolon (2011), is a critical concept in business that measures a company's ability to maintain long-term relationships with its customers. It traditionally quantifies the percentage of customers who remain loyal to a company's offerings at the end of a specific period. Implementing customer retention strategies is essential for ensuring business sustainability and fostering long-term customer loyalty.

Several factors influence customer retention, as outlined by Lompoliuw et al. (2019). These factors include trust, commitment, communication, and effective problem-solving. Trust serves as the cornerstone of strong customer relationships, while commitment reflects customers' emotional attachment and desire to continue business relations with a company. Effective communication and problem-solving further enhance customer retention by fostering positive perceptions and addressing issues promptly and satisfactorily.

Understanding these factors and implementing strategies to strengthen customer retention is crucial for businesses aiming to maintain and expand their market share. By building trust, fostering commitment, improving communication, and addressing issues effectively, companies can create an environment where customers feel valued and are more likely to remain loyal over the long term. Thus, continuous monitoring and improvement in customer retention strategies are essential for sustaining business growth and success.

In a study by Supriatna (2017), it was found that efforts to increase customer retention would result in increased levels of satisfaction and loyalty. In a study by Oktafiani (2016), it provides an overview of how customer satisfaction and customer retention can strengthen the enduring relationship between customers and the workshop, building strong loyalty. Another study by Wahyuni, Sunarya, & Norisanti (2022) shows that customer retention, along with switching costs, has a positive impact on customer loyalty.

B. Switching Cost

Switching cost, as defined by Simbolon (2011), encompasses the expenses or burdens that consumers face when transitioning from using one product or service to another. This includes various financial, psychological, and social aspects, ranging from direct costs like registration fees to intangible factors such as comfort and interest in a particular product or service. Burnham et al. (in Astini, 2008) view switching cost as often perceived as a one-time expense associated with the process of switching from one provider to another. It is recognized that while switching cost may be initially incurred during the switch, it can have long-term effects on consumer decisions.

Several factors influence switching cost, as highlighted by Marinoso (in Amin, 2014) and Nielson (in Amin, 2014). These factors include the type of product and technology involved, the type of business setting, transactions involving specific assets (TSAs), and customer-related factors. For instance, technological mismatch in high-tech products like IT products can escalate switching costs, while specific assets like infrastructure investments can create physical barriers to switching. Additionally, relational switching costs, such as loss of benefits from long-term relationships, play a significant role in determining switching costs.

Understanding the indicators of switching cost, as discussed by Burnham et al. (2003), sheds light on the barriers consumers face when considering switching products or services. Procedural switching cost relates to the administrative or technical steps consumers must take during the switching process, while financial switching cost involves economic aspects like registration fees and adaptation costs. Relational switching cost emphasizes the relationship between consumers and providers, encompassing factors like loss of special benefits or loyalty programs. These indicators are interconnected and reinforce each other, influencing consumer decisions and the perceived difficulty of switching.

Research by Nisak, Utami, & Hartono (2019) and Sanjeepan (2017) provides a broader understanding of how switching costs can affect customer satisfaction across various industries and service contexts. In a study by Astini (2008), it was found that switching costs have a significant impact on the level of customer loyalty. Meanwhile, research by Arianto & Sari (2023) provides insight into the extent to which the perception of switching costs influences the level of loyalty.

C. Customer Satisfaction

Customer satisfaction is a multifaceted phenomenon involving various emotional and evaluative aspects that arise after customers interact with a product or service. Various marketing experts provide in-depth insights into the essence of customer satisfaction. Tjiptono (2012) defines customer satisfaction as the feeling of pleasure or disappointment that arises after comparing the perceived performance of a product with expectations. In this context, customer satisfaction results from how well a product or service meets or exceeds customer expectations. For instance, when a user's experience with a product matches or exceeds their expectations, they tend to feel pleased and satisfied.

According to Daryanto and Setyobudi (2014), customer satisfaction can be interpreted as an emotional assessment after customers use a product, where their expectations and needs are met. This approach emphasizes the emotional dimension of satisfaction, where feelings of pleasure or satisfaction stem from positive customer experiences during product or service usage. Kotler and Keller (2012) define customer satisfaction as the feeling of pleasure or disappointment resulting from comparing perceived product performance with expectations. This definition highlights the relative nature of satisfaction, where satisfaction levels depend on how well a product or service meets or fails to meet pre-existing expectations and perceptions.

Ferrinadewi (2005) contributes the perspective that customer satisfaction is the assessment of how product or service features successfully fulfill needs at a pleasing level, whether below or above expectations. In this regard, meeting needs at a pleasing level is key to shaping customer satisfaction. Yamit (2005) interprets customer satisfaction as a post-purchase evaluation or assessment outcome after comparing what is perceived with expectations. This point emphasizes that the evaluation process of customer satisfaction often occurs after product or service usage and can impact post-purchase decisions or customer loyalty. In summary, these definitions from various sources indicate that customer satisfaction involves emotional, evaluative, and need-fulfillment aspects arising after interactions with products or services. Its relative nature, depending on how well products meet customer expectations, makes customer satisfaction a critical parameter in marketing strategies and customer relationship management.

In two recent studies, Indra and Pramuditha (2023) as well as Santy and Cholid (2023) provide a deep understanding of how customer satisfaction levels can influence customer loyalty. Research by Supriatna (2017) shows that customer retention has a significant impact on customer satisfaction and a positive effect on loyalty. Study by Indra and Pramuditha (2023) also underscores that customer satisfaction levels play a primary mediating role in connecting service and product quality with customer loyalty. In the research by Nisak, Utami, & Hartono (2019), it was found that switching costs have a significant impact on customer satisfaction. Study by Santy & Cholid (2023) also indicates that customer satisfaction serves as a crucial mediator linking trust and service quality with customer loyalty.

D. Customer Loyalty

The definition of customer loyalty is crucial in the relationship between consumers and companies, playing a significant role in the long-term success of a business. Based on several definitions proposed by experts, customer loyalty can be described as a phenomenon involving deep commitment, positive response, and consistent repurchasing. Tjiptono (2012) understands customer loyalty as a response closely linked to a commitment to uphold the underlying relationship between consumers and the company. This commitment is reflected in tangible actions, especially in the form of consistent repurchasing of products or services offered.

Hurriyati (2010) adds a dimension of commitment to the definition of customer loyalty, stating that it involves deep commitment from customers to stay. This commitment is manifested in actions such as subscribing again or consistently repurchasing products or services in the future. Sutisna (2001) emphasizes the emotional aspect in his definition, stating that customer loyalty is a favorable attitude towards a brand. This is reflected in customers' consistent behavior of choosing and purchasing products or services from that brand over time, representing a positive and emotional relationship between customers and the brand.

Kotler and Keller (2012) highlight customers' deep commitment to preferred products or services. Customer loyalty, according to them, is a strong determination to continue buying or supporting specific products or services. This commitment drives customers to remain loyal and not switch to competing brands or products. Ishak and Luthfi (2011) introduce consistency as an element in the definition of customer loyalty, stating that it occurs when there is consistency in periodic and continuous repurchasing over a long period. The driving force is the continuous interest of customers in a particular product or brand. Widjaja (2008) adds an attachment dimension to the definition, stating that customer loyalty is customers' attachment to a brand, store, manufacturer, or service purchase. This attachment is based on favorable attitudes and positive responses, such as regular repurchasing. Overall, these definitions reflect that customer loyalty involves commitment, consistency, and positive responses to a brand or product. A strong and positive relationship between the company and customers is key to achieving high levels of loyalty. Customer loyalty is not just about retaining customers but also building sustainable and mutually beneficial relationships between customers and companies.

CONCEPTUAL MODEL

Based on the literature review above, the conceptual model is formulated as follows:

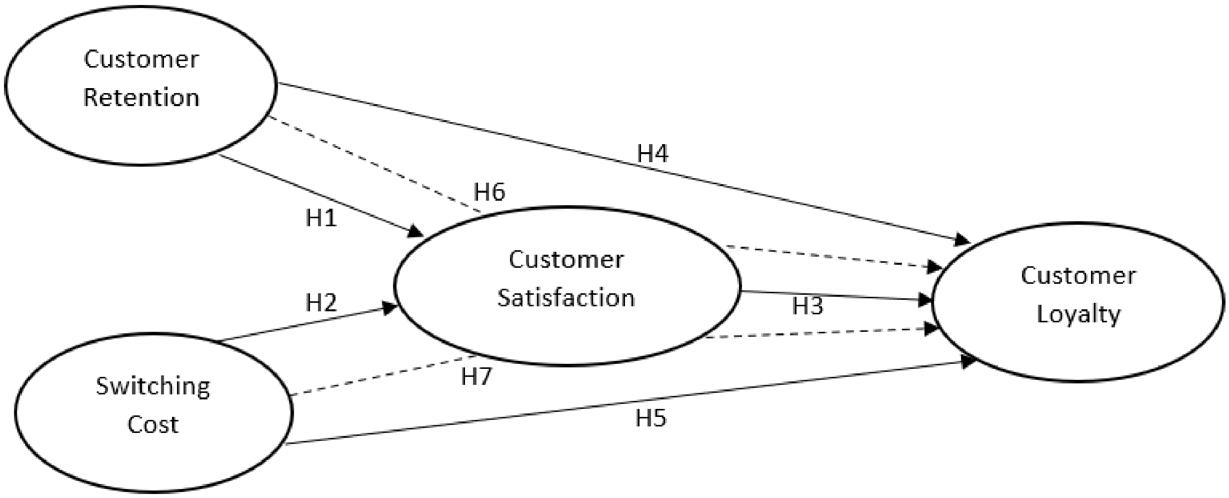

Figure 1. Conceptual Model

HYPOTHESES

Based on the conceptual model and literature review, the hypotheses can be formulated as follows:

H_1: Customer retention has a direct positive and significant effect on customer satisfaction.
H_2: Switching cost has a direct positive and significant effect on customer satisfaction.
H_3: Customer satisfaction has a direct positive and significant effect on customer loyalty.
H_4: Customer retention has a direct positive and significant effect on customer loyalty.
H_5: Switching cost has a direct positive and significant effect on customer loyalty.
H_6: Customer satisfaction mediates the relationship between customer retention and customer loyalty.
H_7: Customer satisfaction mediates the relationship between switching cost and customer loyalty.

METHODOLOGY

A quantitative method is employed in conducting this research, allowing for the collection of data from a predetermined population or sample using appropriate research instruments. The research population includes 21 remote monitoring service user installations provided by PT. Wärtsilä Indonesia. This study is conducted on the entire population or through saturated sampling due to its limited number. Primary data is collected through questionnaire distribution. Subsequently, the collected data will be analyzed quantitatively and statistically, including testing the hypotheses formulated beforehand. The analysis method used is path analysis, which examines the cause-and-effect relationship between exogenous variables (independent variables) and endogenous variables (dependent variables) within the framework of multiple linear regression, both directly and indirectly.

CONCLUSION

This study aims to develop a conceptual model regarding the influence of customer retention and switching costs on customer loyalty mediated by customer satisfaction. The study encompasses background research, literature review, hypotheses, and research methodology. The impact of customer retention and switching costs on customer loyalty, mediated by customer satisfaction, can be determined by applying the conceptual model developed in this research.

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