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Customer Loyalty and Status Quo Bias

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Abstract: Loyalty marketing has been popular topic among marketers of all regions, while status quo bias received only little to no attention in the marketing field. The main objective for this paper is to clarify the customer loyalty in relation to the status quo bias. Starting from an overview of relevant literature, this article explores the similarities between the two elements, using factors for status quo bias including regret aversion, sunk cost and loss aversion to help better understand customer loyalty. Furthermore, the paper introduces the soft-selling technique as practical marketing strategy and the New Coke issue to show how a marketing case can fail. In addition, the possible reasons for a failed survey according to the Coca-Cola case that generated opposite conclusion were discussed. A survey was also conducted to further investigate the factors for loyalty in smart phone industry. By relating the customer loyalty and status quo bias, this article provides a fresh perspective on the two terms and how they are alike in marketing. Discovering the intersections of the two concepts is mostly in terms of the psychological commitment section of interpreting status quo bias. The overall goal of this paper is to indicate the non-negligible effect of loyalty in the area of marketing.

Keywords: customer loyalty, marketing strategy, customer retention, status quo bias, switching cost

1. Introduction

Customer loyalty has been considered to be an iconic element of presenting company performance in recent years, where the concept of customer retention rate has become an important indicator to be achieved. Companies are working hard on constructing long-term and sustainable connections between the consumers and sellers since loyal customers give not only repetitive businesses but also recommendations as free marketing. Loyalty programs are working well to encourage repeat purchases. Meanwhile, the problem of how decision-makers deal with uncertainty and balancing irrationality is of renewed interest to researchers, for which could be exactly demonstrated by status quo bias. Existing research have shown that it would be inappropriate to solely refer customer loyalty to the repurchasing behavior, a series of psychological process are incurred instead. The book Brand loyalty: measurement and management described the relative psychological terms [1].

However, as the market continues to evolve, previous studies based on the situation at the time are becoming less robust. The pandemic brought significant changes to the global economy since 2020, and the inconvenience of logistics has led to a change in consumer attitudes towards imported products. Another problem arisen is that mainstream customer groups might view loyalty programs

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differently as the time changes. Survey conducted by Clarus Commerce in 2021 indicates that the generation Z are more likely to accept premium loyalty projects than previous customers (70% to 63%). Moreover, almost 90% of consumers favored retailers that could become premium loyalty members over those that offered lower prices during the chaotic epidemic. It should be realized it is the right time for companies to engage customers with loyalty programs and establish consistent relationships in order to maximize profits and promote better business development with higher employment rate in the future.

Based on the previous studies, one of the major aims of this work is to deeply explore the factors affecting the loyalty from the status quo bias perspective, finding the similarities and providing possible explanations with practical applications. The paper proceeds as follows: including introduction, literature review and methodology, limitations with future prospects and final conclusion.

2. Literature Review-factors Affecting both Status Quo and Loyalty

In this part some theoretical explanations for customer loyalty are discussed, the background and historical findings for the factors regarding the status quo bias are reviewed.

2.1. Status Quo Bias

Status quo bias refers to the phenomenon in which people prefer to maintain the status quo or situation that is normally considered to be the default option. The term initially identified by Samuelson and Zeckhauser [2], has been classified into three broad categories lay out as rational decision making, cognitive misperceptions and psychological commitment. Status quo bias has been found to contain great influence on a wide range of decisions, including daily choices (e.g. which flavor of snack) and choices of great significance (e.g. which health insurance plan to select).[1]

2.2. High Switching Cost

Switching costs are “the costs customers perceive to occur upon moving from one supplier to another” [3]. It has been identified to have contributive impact in relationship maintainence [4]. In relation to customer satisfaction, a powerful force connecting the customers and producers, it is believed that satisfied buyers are more likely to repurchase and incur recommendation [5]. Moreover, previous research have shown that a series of factors could affect the switching cost: time and psychological burden of dealing with uncertainty [6], poor service quality [7]. Oyeniyi and Abiodun has conducted that switching cost has great impact on retaining customers in telecommunication market [8].

“The cost that triggered by buyers for initiating a new relation”, arises in all kinds of areas when applying the status quo bias. It is thought to be a crucial component determining the status quo bias because it is frequently linked to decision complexity and uncertainty. The status quo bias is more influential when there are more options and a greater level of complexity, according to Samuelson and Zeckhauser [2]. When facing alternative options with higher switching barriers, people have a tendency to view change as complex and costly, while sticking with the default seems to be straightforward and convenient. Like some large and medium-scaled manufacturing companies do not easily change their suppliers except for some errors of principal, due to the cost for the whole process of researching, evaluating and negotiating is simply over-complicated.

Either financial or psychological, the switching cost can always make a great impact on the decision of changing. Many companies typically used this strategy to exclude their customers from

[1] Status Quo Bias: What It Means and How It Affects Your Behavior.https://www.thoughtco.com/status-quo-bias-4172981.

the consumption of their competitors. For example, many cell phone companies charge exorbitant cancellation fees for contract cancellations in the belief that the expenses of switching to competitors will impede customers from doing so. In addition to that, the emotional cost made a big difference as well when an individual choose to stay in one career instead of leaving for another with higher salary being paid. The colleagues surrounding and the working environment determines the effect of high switching cost.

Apart from that, companies with high switching costs are more likely to meet high customer retention.

2.3. Regret Aversion

Regret aversion occurs when a decision is made to avoid regretting an alternative decision in the future [9]. Regret can be a powerless and discomforting state and people sometimes make decisions in order to avoid this outcome. It could possibly influence people's behavior both before and after the decision was made, not only by implying them to anticipate the available future regret, but also leading them to undo the past decision [10]. Loomes and Sugden conducted the regret theory unifying the anticipatory effect of regret [9].

This may result in the sunk cost fallacy and is strongly related to loss aversion [11,12].

2.4. The Sunk Costs

The sunk costs fallacy refers to a great tendency of individuals to continue an endeavor once an investment in money, effort or time has been made, according to Blumer and Arkes by their study conducted in 1985.[2] Sunk costs may influence status quo bias even if the effort was unsuccessful. This is because the more someone invests in the status quo, the more probable it is that they will continue to do so.[3]

2.5. The Loss Aversion

Being first identified by Amos Tversky and Daniel Kahneman, this is the tendency to prefer avoiding losses to acquiring equivalent gains. According to studies, people weigh the risk of loss more seriously than the possibility of gain when making decisions. As a result, when faced with a set of options, they are more concerned with what they might lose by making changes than with what they might gain.

2.6. Customer Retention

Customer retention is the ratio of retained customers to the original customer number, which is a fundamental element of directly showing the extent of customer loyalty [13]. At the same time, loyalty programs focusing on benefits are considered to be effective method retaining long-term buyers [14].

3. Methodology

This chapter consists of two applications and an experiment around the topic of practical utility of customer loyalty. A clever marketing approach common in life is introduced in the form of application. While the embarrassing Coca-Cola failure reveals the company's underestimation for the

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[2]Why are we likely to continue with an investment even if it would be rational to give it up?https://thedecisionlab .com/biases/the-sunk-cost-fallacy.

[3]What is a Sunk Cost?/Definition and Overview –ProductPlan.https://www.productplan.com/glossary/sunk-cost/.

significant effect of loyalty. Furthermore, the discovery of reasons behind the failed survey is highlighted.

3.1. Application1-New Coke Failure

The failure of New Coke is a famous example of demonstrating consumer loyalty that can be explained using the aforementioned biases. Consider the ongoing conflict between Pepsi Cola, a new competitor, and Coca-Cola, the market leader for decades, as backdrop to this incident. According to Pepsi's consumer research blind taste testing from the mid-1970s, the majority of people favored the flavor of Pepsi above that of Coke. Later on, Coke 's management secretly started researching to reformulate the coke in order to beat Pepsi and announced its decision to change the flavor in April 1985. The announcement was overwhelming and shocking since the company put in such great effort overturning its flagship brand. While in the blind taste tests, the result was obviously positive as it found that cola-drinkers preferred New Coke over Coke Classic by 61% to 39% [15].

However, when it comes to the real purchase, this attempt of reformulation became an absolute failure. Most cola-drinkers insisted buying the Classic flavor, feeling that their faith and loyalty for the original piece was threatened and undervalued, consumer dissatisfaction with the reformulation was increasing dramatically. Finally, on July 10, the company decided to bring back the old Coke formula.

For consumers, their choice was the Classic flavor, the one that they are familiar with, applying the status quo bias. Being associated with the regret avoidance, they tend to not take the risk of being regret about the drink they have bought, since there are possibilities that they may not like the new flavor and it led to an irrational decision of purchase. Apart from that, due to fact that they have been buying the classic flavor for a long time, the sunk cost of the default option is then considered to be higher as they may feel that their past investment will be 'lost' if they don't follow through on the decision. More attention was paid to past investments instead of our present and available future costs and benefits. In addition to that, the losses were valued greater than gains, making the default option even more attractive. This is how the drinking decisions are influenced by the sunk cost fallacy and loss aversion.

3.2. Application2-Soft-selling Technique

In a sales and marketing context, status quo bias is a powerful force that is widely applied and soft-selling technique is a specific type of it.

Soft-selling is an advertising and sales strategy that helps to encourage repeat sales as an example of a successful technique for increasing retention rates and enhance customer loyalty. By using subtle and casual tactics to reinforce a comfortable relationship with buyers to eventually persuade them to make a purchase like emphasizing the benefit of a product as a repetition of idea. It does not have that aggressive tactics to focus on the short-term purchase like hard sells, but can subtly lead the consumer to make the purchase and increase their psychological investment.

For example, in 1980, Thaler pointed out that the trial purchase is a common inducement [16]. From the consumer's point of view, the product purchased may be totally refundable, so it appears that they were able to try it out without incurring any loss or obligation to purchase. However, for the sellers, they witnessed the consumers abandoning the opportunity searching for any better options, while increasing their psychological investment during the purchase. The "no loss, no obligation" situation confused the consumers to stick with the status quo, by sending messages to make them be certain about their purpose for buying: not only for the trial, but also because the product satisfied them.

By the same logic, when sellers ask for a deposit from a buyer, they are not trying to reserve an item but rather because it is the most reliable way to close a deal [2]. The objective is to raise their psychological investment and imply the value they have already spent, whether the deposit is fully refundable or only for a small sum. In this case, consumers value the suggestion more with higher input and are prone to choose the default.

3.3. Experiment-Why It Fails?

Following the Coca-Cola case as mentioned above that took place in 1985, our group designed an experiment using online questionnaires. With the question being said: given the volume and price unchanged, suppose you are a loyal customer to the Coca-Cola classic flavor, would you like to try the new one?

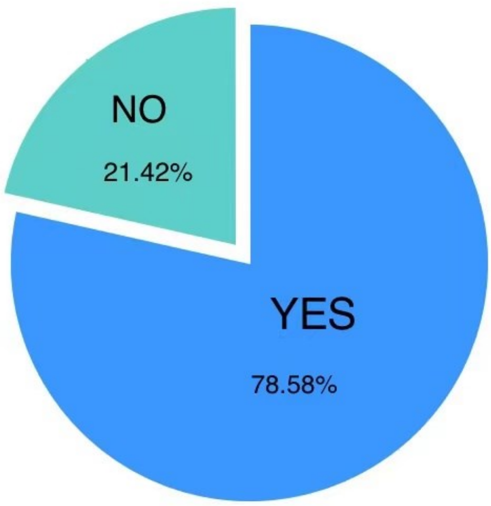

Figure 1: New coke or classic coke?

Note: Survey data

But unexpectedly, among all the 582 answers, almost 80% of people said yes to the new flavor as shown in chart 1, which is strongly inconsistent with our prediction and the previous case. Is there anything wrong with the status quo bias? What are the factors behind that?

The possible explanations could be given as below:

1.Unsatisfied with the default.

According to Gal D.A, the Psychological Law of Inertia states that until compelled to change the status quo by a psychological motivation, a person will tend to maintain the status quo [17]. Instead, by acknowledging that people are no longer in favor of the classic flavor, they will have powerful incentives to make a change and warmly accept something new. As times changes, people's attitude towards the cola may vary as well, the unhealthiness of cola containing large amount of sugar could provide some clue for that.

2.Limited complexity of choices

Candidates filling out the questionnaires could only choose from the New and the Old. Then with fewer numbers of choices, they are less likely to be affected by the status quo bias. Moreover, the question of which cola to drink is no big deal for most of respondents and the online questionnaire offers them endless chance to regret, making the decision less important and less complex, diminishing the effect of status quo bias step by step.

3.Low switching cost

This describes a circumstance that the questionnaires created an ideal situation for candidates to decide, but when it comes to the real purchase, real costs are contained. They might behave differently with oral money and actual money, not taking the effect of their decision into account. Consequently, this can affect their decision and results the status quo being less powerful.

3.4. Survey-decision of Smart Phone Brand Changing

A short questionnaire about smart phone brand choices were sent online to participants, which requires nearly 30 seconds to complete.

Scenario:Suppose your old phone is no longer viable and you need to purchase a new one.

Q1: Would you choose to replace the brand you are currently using?

The first question was designed to roughly estimate the general impact of loyalty in the present smart phone industry

Q2: If you prefer not to change, what qualities do you value in this brand?

"I'm used to it."

Simply love this brand.

Benefits available for loyal customers.

Fear that the new one won't fit.

Others.

This multiple choice question focuses on the reasons behind the brand loyalty, each option is linked to a possible influencing factor of the status quo bias.

Q3: If switch, which factors are most likely to contribute to your change?

Price

Quality

Services

The objective for this question is to further investigate which factors influence people more when choosing a mobile phone brand.

Q4: If the problems of your choice mentioned above are solved, will you still choose to switch the brands?

The final question is designed to provide contextual information in order to effectively measure the usefulness of brand loyalty.

4. Results

Quantitative data collected through the online questionnaire website were analyzed and presented below. The smart phone brand changing survey was completed by 248 valid subjects in one week, gathering answers from different age groups including senior students, commuters and the retired.

In line with expectations, question one revealed 66% of the subjects staying with the current brand, indicating great influence applying the status quo.

Question two were then introduced to the 164 participants who chose not to change to clarify which factors influence the loyalty most in smart phone industry. The results are shown in figure 2. Option A "I'm used to it." was chosen by more than 80%, making habitual loyalty the most significant influencing factor. This could be explained using concepts of convenience and switching cost.

Participants simply chose the default optionas they kept this as a habit, since they are more familiar with the current brand, no more time and effort is required to learn about a different brand. Switching cost is also represented in option B, but in a form of emotional effect. 28.6% of the subjects retained because they like the brand, the attitudinal loyalty indicates their deep connection with their favorite brand with years of support and experience. Another example of high emotional switching cost is their sense of belonging to the game accounts mentioned by two respondents in the “Other” option. Different mobile phone brand operators set up different gaming channels, so once changed operator, previous account data in channel one is unable to be synced to another channel, which is extremely detrimental to ranking conscious gamers. Apart from that, alternative D with 21% chosen rate illustrates the effect of regret aversion and loss aversion.

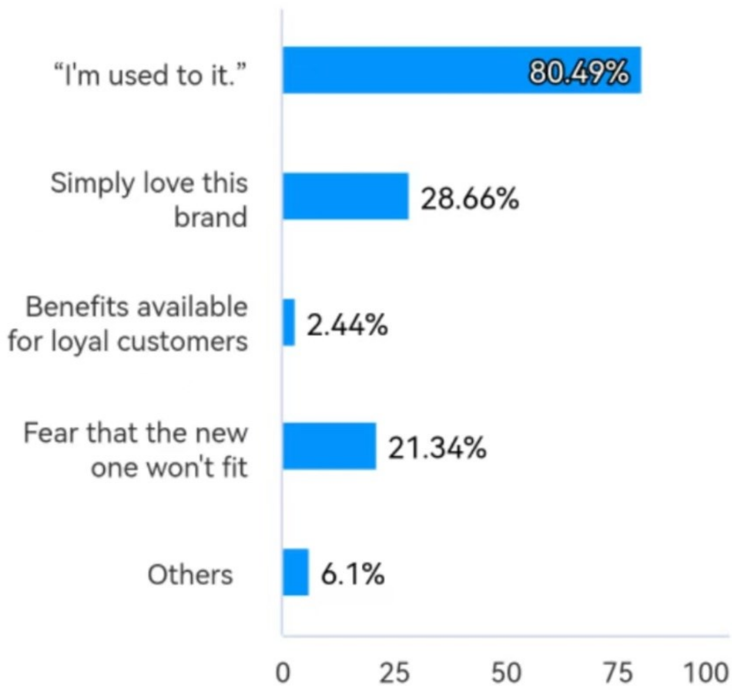

Figure 2: Qualities valued in the brand.

Note: Survey data

Outcomes from question 3 conducted by 248 effective subjects further reveals that people value the quality(79.84%) of mobile phones far more than price(38.31%)and services(16.94%),setting the stage for their choice of the best brands.

Question four then revealed that 41.67% among all 84 valid samples still insist to change the brand they have chosen. The possibility that the choice of some customers to alter the status quo is not influenced by the above factors is presented, indicating that they might make changes simply to pursue the sense of freshness.

Overall, switching cost is considered to be the most influential factor of customer loyalty in smart phone brand selecting including costs from both emotional and financial perspectives.

5. Limitations and Future Outlook

The most apparent limitation for this research is the lack of evidential information. Firstly, in terms of the surveys, the question was too simple and the number of sample base was only barely enough, resulting the data collected to be less convincing. In addition to that, most of the answers in the survey one were from students, leading to the possibility of biased sampling profile. Secondly, with limited amount of referential literature and lack of existing research on the topic, the methodology in this article is relatively narrow and biased. Future research should be undertaken to expand the range of data from all generations and further improve the survey questions arrangement. Apart from that, increasing the sample base number and reviewing more literature is required to conduct more extensive results fully equipped with thorough data.

It is worth mentioning that customer loyalty is not a business purpose, but one of the means to achieve the final goal. Firms need to establish and maintain a competitive advantage in order to sustain and improve customer loyalty, thus promoting the healthy development of the company [18].

6. Conclusions

This paper gives a theoretical overview of how customer loyalty could be explained through status quo bias, the correlative factors like switching cost, regret aversion, sunk cost fallacy and psychological inertia are listed and elaborated to provide possible explanation. The soft-selling technique and the Coca-Cola case, as well as the smart phone survey, reflect the significant impact of customer loyalty and status quo bias on one's decision during the purchasing process. For improved marketing tactics, more research could be done, and the impact of status quo bias in sales and marketing needs to be given greater consideration.

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