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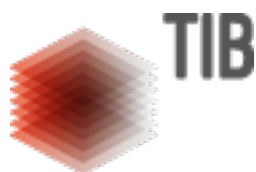
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How do corporate reputation and customer satisfaction impact customer defection? A study of private energy customers in Germany

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Abstract

Purpose – To analyze whether perceived corporate reputation and customer satisfaction are directly associated with customer intention.

Design/methodology/approach – Using structural equation modeling, the study is based on the responses to a written questionnaire of 462 customers of a large German utility.

Findings – A non-significant and weak relationship was found between corporate reputation and switching intention. The postulated impact of customer satisfaction on customer switching intention was confirmed. Corporate reputation and customer satisfaction were found to be strongly correlated.

Research limitations/implications – The sample includes only one company's customers, so the findings may not be generalized to other industries. Future research in other service industries is called for.

Practical implications – The threat of customer defection in deregulated markets requires power supply companies to examine the marketing instruments and measures required to inhibit customer willingness to switch power suppliers. This study demonstrates the need to focus on monitoring and increasing customer satisfaction.

Originality/value – The importance of reputation and satisfaction will ultimately be assessed on the basis of their customer-related consequences and their economic relevance to companies. The construct of corporate reputation has attracted significant attention among marketing scholars, although almost no work can be found that focuses on the most important stakeholder group, namely customers. This paper addresses this research gap. The identification of context-specific reputation and satisfaction effects on customer defection offers both practical implications for marketers and contributes to the theoretical knowledge base of an increasingly important domain in services marketing.

Keywords Corporate image, Customer loyalty, Customer satisfaction, Germany

Paper type Research paper

An executive summary for managers can be found at the end of this article.

Introduction

The promotion of private ownership and increased efficiency has led to the abrogation of state-owned services in most European Union (EU) countries. Many countries, including the UK and Germany, began with liberalizing the telecommunications sector. In the UK, partial deregulation of the sector began in 1988, in Germany in 1995 when the *Deutsche Bundespost* was disintegrated and transformed into several public companies.

The liberalization of the EU energy market drives competition, although critics argue that the asymmetrical enforcement of the EU's directive by some member states keeps preventing the emergence of a truly integrated transnational market. Germany opted for a full liberalization and has become one of the most strongly liberalized markets in the EU. As a consequence, the strategies of Germany's municipal utilities (so-called *Stadtwerke*) have dramatically changed since the liberalization of the energy sector. According to some projections, of 900 municipal utilities (the terms "municipal utilities", "utilities", "energy suppliers", and "energy supply companies" are used synonymously throughout this paper) in the pre-competitive environment, only a few will survive.

Currently, German consumers can exercise choice with regard to electricity and natural gas. Traditionally, German households tend to purchase all their energy and energy-related services (e.g. technical maintenance) from one local or regional energy supplier. Switching energy suppliers would

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hence involve taking a household's entire business to another company. Energy suppliers are thus challenged to focus their marketing activities on customer management and to minimize the defection of those customers willing to switch suppliers to the competition. Especially in the service marketing literature, customer retention (or its inverse, switching) is considered a central theme of the relationship marketing concept (e.g. Oliva *et al.*, 1992; Reichheld, 1993). Identifying the drivers of customer retention and understanding their effects on retention are an important avenue of future relationship marketing research (e.g. Lemon *et al.*, 2002; Verhoef, 2003). In this context, Crosby and Stephens (1987) argue that relationship marketing can be used as a tool when services are difficult to evaluate by consumers, suggesting that key relationship-marketing concepts are highly relevant in the context of energy firms. Services are intangible by nature and energy supply firms are confronted with the task of creating customer satisfaction and retention with intangible offerings.

Various strategies are being discussed in both marketing research and practice with regard to successfully countering customer willingness to switch suppliers (see, e.g. Rowlands *et al.*, 2004). Besides the possibilities of inhibiting customer willingness to switch (e.g. by means of alternative contract models and/or new price models and price reductions), in particular customer satisfaction as well as corporate reputation management can be considered to be promising approaches for energy supply companies. The reason for this is that it has been repeatedly found that in comparison to companies in other sectors, German energy supply companies exhibit deficits with regard to corporate reputation and customer satisfaction (e.g. *Kundenmonitor Deutschland*, 2001; manager magazin, 2002).

Despite the economic relevance of customer willingness to switch suppliers in the energy sector, there has not yet been a systematic investigation of the question as to how far perceived corporate reputation (i.e. customer-based corporate reputation) and customer satisfaction influence switching intentions. Against this background, this study has several objectives. First, we discuss the relevance of customer-based corporate reputation and customer satisfaction for customer switching behavior. Second, customers' perceived corporate reputation and their satisfaction level with their current energy suppliers is measured. Third, the effects of these two variables on customer switching behavior are examined. Finally, the marketing implications of our research are discussed.

Theoretical background

The concept of corporate reputation and its relevance for switching behavior

The majority of existing empirical studies treated corporate reputation as a uni-dimensional construct (e.g. Ganesan, 1994; Doney and Cannon, 1997), whereas more recent approach recognize its multi-dimensional nature (e.g. Fombrun *et al.*, 2000; Davies *et al.*, 2002).

Fombrun *et al.* (2000, p. 243) define corporate reputation as a "collective assessment of a company's ability to provide valued outcomes to a representative group of stakeholders". In this sense reputation can be taken to be the sum of the perception of all relevant stakeholders with reference to the services, persons and communicative activities of a company

as well as the result over time of corporate activity in the minds of the stakeholders. While the widely accepted reputation quotient (RQ) advanced by Fombrun *et al.* comprises six dimensions (emotional appeal; products and services; vision and leadership; workplace environment; social and environmental responsibility; and, financial performance), it has been suggested that the RQ may require refinement in order to possess inter-cultural applicability. Walsh and Wiedmann (2004), for example, evaluated the RQ in a study of corporate reputation in Germany and found that the original six dimensions failed to adequately capture the corporate reputation construct in a German cultural setting. Four additional German dimensions were suggested by Walsh and Wiedmann – fairness, sympathy, transparency and perceived customer orientation. Construct validity may therefore be regarded as a central issue when investigating the nature and influence of corporate reputation in varying cultural settings.

Whereas corporate reputation is rightly regarded as a multidimensional construct, with a diverse range of stakeholders, the current study focuses strictly on customer-based corporate reputation (i.e. corporate reputation as perceived by customers). This reflects the present study's specific goal, namely, an investigation into the influence of corporate reputation and customer satisfaction on customer defection. Focusing on customers (as opposed to other stakeholder groups) is in agreement with more recent work on customer reputation and customer satisfaction that focuses on the stakeholder group of customers (e.g. Walsh and Wiedmann, 2004; Caruana *et al.*, 2004).

It is assumed that corporate reputation has a positive effect on various commercially relevant economic and pre-economic dimensions. According to Groenland (2002), a positive corporate reputation has, for instance, a positive influence on consumer trust in the respective company. With regard to customers, previous studies suggest that corporate reputation exerts an influence on perceived risk (e.g. Lantos, 1983), and loyalty (Roberts and Dowling, 2002), all of which can positively or negatively affect firm profits.

However, a cautionary note is struck by Rose and Thomsen (2004) with regard to what they term the conventional wisdom that corporate reputation has an impact on firm value – the market to book value of equity. Rose and Thomsen contend that corporate financial performance affects reputation rather than vice-versa. While not questioning that reputation is vital for the survival of the firm in the long run, they argue that reputation may influence stock market performance via profitability and growth rather than having a direct effect on the stock markets. The present study takes a similarly nuanced perspective in the context of corporate reputation and customer satisfaction by positing that the reputation-satisfaction link may be a reciprocal, rather than uni-directional, relationship.

The positive effects of reputation postulated in the literature are based primarily on the reduction of uncertainty (Akerlof, 1970), which also plays a substantial role in the marketing of energy. Utilities can be classified as service firms as (opposed to goods or product firms) because of the intangibility of their offering. Power suppliers in particular are companies whose core services – power in the form of electricity and energy – can hardly be distinguished by consumers due to the nearly perfect homogeneity of the products. Energy products can be classified as credence goods because the quality may not be

known even after purchase. The value of energy products must be taken on trust.

Customers' evaluations of energy supply companies is therefore not oriented towards the concrete services obtained, but rather towards the price, towards the customers' (interactive) experience with their power supply company, and/or service surrogates, which serve as evaluation criteria in place of the service obtained. In the literature, the spillover effect of this type of surrogate information on the rating of services is referred to as the irradiation phenomenon (Spiegel, 1958).

Brand and corporate reputations are important surrogates. Brands play a subordinate role due to product homogeneity in the energy sector, whereas corporate reputations are highly relevant. If a company's reputation is positive, then it can be assumed that its services will also be perceived positively by its customers, which should have an immediate effect on customer willingness to switch power supply companies. Correspondingly, we postulate that a positive corporate reputation has a significantly negative influence on customer switching intention.

The relevance of customer satisfaction for switching behavior

With reference to the various relevant aspects of customer behavior, satisfaction represents a central determinant from which come different types of influence on other variables and the economic success of a company (e.g. Anderson *et al.*, 1994). Numerous empirical studies in the context of goods and services have shown that customer satisfaction has a positive effect on different variables such as customer loyalty (e.g. Biong, 1993; Fornell *et al.*, 1996) and recommendation behavior (e.g. Swan and Oliver, 1989; Mooradian and Oliver, 1997; Selnes and Gronhaug, 1997), but that it has a negative effect on customer switching intention (e.g. Mittal *et al.*, 1998; Hennig-Thurau *et al.*, 2002). This negative relationship is plausible because when customers switch despite customer satisfaction, switching could result in numerous potential monetary and non-monetary risks (e.g. a higher price, worse service or higher transaction costs).

Examining the satisfaction-loyalty link becomes even more relevant because only few dissatisfied customers voice their complaints (e.g. Stephens and Gwinner, 1998), making it difficult for service firms to address service-delivery problems and avoid defection. Only between 5 and 10 per cent of dissatisfied customers complain after a service breakdown, whereas silent switching and the ensuing negative word-of-mouth is far more common (Dube and Maute, 1996).

The management of customer satisfaction plays a large role in the current marketing strategies of power supply companies. In the pre-liberalization era, in power supply companies market handling and service structures have evolved that do not yet fulfill the demands of modern marketing management. There is a lot to catch up on with regard to the management of customer satisfaction in the energy market. Indeed, Zinnbauer (2001) shows that dissatisfaction with the services provided is the primary reason for defection in the electricity market. Hence, we can assume that customer satisfaction has a significant negative influence on customer switching intention.

The reputation-satisfaction link

Besides the influence outlined above of reputation and customer satisfaction on switching intention, there is also a link between reputation and customer satisfaction. Davies *et al.* (2002) demonstrated the positive impact of corporate reputation on customer satisfaction in the retailing context. It can be assumed that this kind of positive influence will also hold in the energy market as reputation represents an essential anchor for the perception of satisfaction, in particular in markets in which surrogates are important. Hennig-Thurau *et al.* (2002) demonstrated that customers who are satisfied with the performance of a company, are more likely to engage in positive word-of-mouth, thus positively reinforcing the company's reputation. However, Harrison-Walker (2001) makes the interesting and strategically important observation that the effect of service quality on word-of-mouth communication appears to be industry-dependent. The generalizability of the findings of Hennig-Thurau *et al.* (2002) regarding customer propensity to engage in positive word-of-mouth activity must therefore be treated with some caution.

Method

Questionnaire and data collection

The items used in the present investigation are based on theoretical considerations on corporate reputation and were derived from previous studies (e.g., Fombrun *et al.*, 2000; Davies *et al.*, 2002) and standard scales for measuring customer satisfaction (e.g. Bitner, 1990; Biong, 1993; Hennig-Thurau *et al.*, 2002). However, unlike more recent previous studies we decided to use a more parsimonious reputation measure.

There were two main reasons for using an abbreviated scale. First, respondent participation is enhanced with a shorter instrument because multi-item measures can lead to participant fatigue, boredom and inattention (Drolet and Morrison, 2001), which in turn can lead to inappropriate behavior, inflating across-item error term correlation and undermining respondent reliability. Second, existing multi-dimensional scales have not yet been validated in Germany.

In order to optimize the questionnaire, a pre-test was conducted with 20 persons. Of the ten items for measuring corporate reputation, seven remained on the questionnaire following the preliminary test. The eight items for establishing customer satisfaction posed no problems to the respondents and thus also remained on the final questionnaire.

Unless otherwise indicated, all items were measured on five-point Likert-type scales where 1="agree completely" and 5="disagree completely."

In the summer of 2002, a total of 1,850 customers of a large German municipal utility were written to and requested to fill out the accompanying questionnaire. Several methods were used to control and avoid non-response error. First, a postal survey was chosen to minimize participation refusal due to time constraints or inconvenience. Second, the questionnaire was relatively short. Third, as an incentive, several prizes were offered in a raffle to participants. Fourth, the customer addresses provided by the power supplier were randomly selected from the company's customer data base. A total of 498 questionnaires were returned. After the elimination of incomplete or incorrectly filled out questionnaires, 462 cases remained in the sample.

Measures

An exploratory factor analysis (EFA) (principal component analysis with subsequent varimax rotation) was performed for all corporate reputation items, which led to a single-factor solution with an explained variance of 70.22 per cent. At 0.94, the measure of sampling adequacy was very satisfactory. With a Cronbach's α value of 0.94, the corporate reputation factor can be considered to be very reliable (Nunnally, 1978, p. 245).

A confirmatory factor analysis (CFA) was performed to test the stability of the exploratory single-factor solution. The indicators were assigned in accordance with the EFA factor loadings (Table I). The CFA was performed with the program LISREL 8.52 using the maximum likelihood algorithm.

Model identification was achieved, and the fit indices suggested that the model adequately represented the input data, with Goodness of Fit index (GFI) being 0.94, Normed Fit (NFI) = 0.98, Adjusted Goodness of Fit (AGFI) being 0.089, a Root Mean Square Residual (RMR) of 0.024, Root Mean Square Error of Approximation (RMSEA) being 0.10, and a competitive fit of Comparative Fit (CFI) of 0.98.

A popular rule of thumb is that 0.70 is an acceptable threshold for composite reliability, with each indicator reliability above 0.50 (Fornell and Larcker, 1981). The values for all seven indicators were above the required threshold values (lowest = 0.57; highest = 0.77). The average variance extracted (AVE) of the factor was 0.68 and clearly surpassed the threshold of 0.50 (Bagozzi and Yi, 1988). Table I provides a summary of the RFA and CFA results.

An EFA was also performed for all customer satisfaction items. It led to a single-factor solution with an explained variance of 65.37 per cent. At 0.93, the measure of sampling adequacy was extremely satisfactory. With a Cronbach's α value of 0.92, the customer satisfaction factor can be considered to be very reliable (Table II).

A CFA was also performed to test the stability of the customer satisfaction factor established. The indicators were again assigned in accordance with the EFA factor loadings (Table II). All the fit indices indicated acceptable model fit (e.g. Hulland *et al.*, 1996). The fit indices were GFI = 0.95, CFI = 0.89, NFI = 0.84, AGFI = 0.90, RMR = 0.06 and RMSEA = 0.10. The AVE of the customer satisfaction factor was 0.55.

Respondents' intentions to switch energy suppliers were measured with the following item: "How probable it is that you will switch energy suppliers": very certain, probable,

probably not, and very improbable. Some previous studies that have analyzed this construct used a multi-item measurement approach for it. However, the key reason for those multi-items scales is the intention to capture the different components of customer retention or loyalty (i.e. cognitive, affective, and habitual). Since the different components of loyalty are not an issue studied in our research, we feel that a single-item measurement for customer switching intention is appropriate in this study.

A total of 139 respondents indicated that they would very certainly or probably switch their current energy supplier, while 323 respondents excluded switching energy suppliers either definitely or to a high degree.

Structural model

In a subsequent step, the influence of perceived corporate reputation and customer satisfaction on switching intention was examined using structural equation modeling. The conceptual model was tested simultaneously with LISREL 8.52 using the maximum likelihood algorithm. "Corporate reputation" and "Customer satisfaction" were specified as latent independent variables and each influences the dependent variable "Switching intention." Some items had to be dropped to improve model fit. In the final model, seven indicators were used to measure corporate reputation and five indicators were used to measure customer satisfaction. With a path coefficient of -0.54 , customer satisfaction has a considerably stronger direct impact on switching intention than perceived corporate reputation, which has a path coefficient of -0.07 . At the same time there is a strong correlation between customers' perceived reputation of a company and their satisfaction with the same (0.85) (Figure 1). The high correlation suggests a conceptual closeness of corporate reputation to customer satisfaction.

Results and discussion

The expected negative relationship between corporate reputation and switching intention could only be confirmed in its tendency. The non-significant and weak relationship between corporate reputation and switching intention may be due to the fact that in its current form (including its name), the respective power supply company has only existed for a few years and has thus had little opportunity to develop a strong reputation. It is also conceivable that the relationship is moderated by variables that were not considered in this study. For example, Homburg and Giering (2001) examined the

Table I Eigenvalue, reliability, factor loadings and indicator reliabilities for the single-factor solution (corporate reputation)

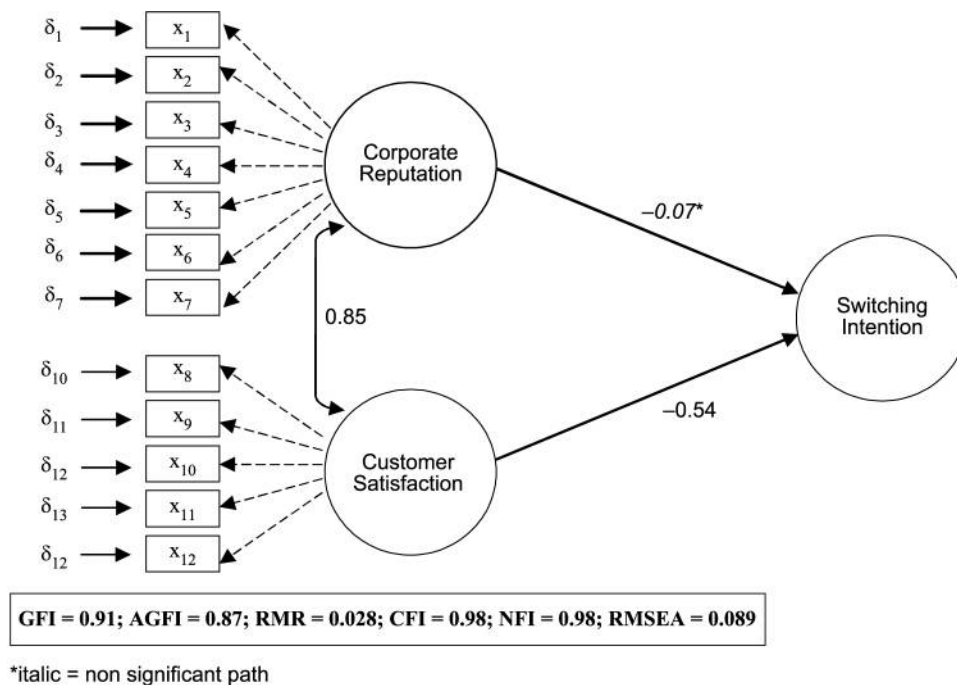
		Eigenvalue (γ) and Cronbach's α and factor loadings $\gamma = 5.62$ $\alpha = 0.94$	Indicator reliabilities (CFA) 0.68 (Average variance extracted)
Factor: corporate reputation			
1	I consider my energy supplier to be progressive and innovative	0.89	0.77
2	I believe that my energy supplier is flexible	0.88	0.77
3	My energy supplier is customer-oriented	0.88	0.76
4	I consider my energy supplier to be a pleasant company	0.85	0.69
5	I believe that my energy supplier is involved in the region	0.81	0.60
6	In my opinion, my energy supplier is respectable and trustworthy	0.80	0.58
7	I believe that my energy supplier is economically sound	0.79	0.57

Table II Eigenvalue, reliability, factor loadings and indicator reliabilities for the single-factor solution (customer satisfaction)

Factor: customer satisfaction	Eigenvalue (γ) and Cronbach's α	Indicator reliabilities (CFA)
	$\gamma = 5.24$ $\alpha = 0.92$	0.55 (Average variance extracted)
1I would recommend my current energy supplier to friends and acquaintances	0.90	0.74
2If I had the choice, I would again decide in favor of my current energy supplier	0.90	0.70
3In my view, my current energy supplier is customer-oriented	0.87	0.61
4On the whole, I am satisfied with my current energy supplier	0.87	0.55
5If I had the option, if I moved to another area I would remain with my current supplier	0.84	0.52
6I am satisfied with the price and performance ratio of my current energy supplier	0.80	0.46
7The contacts at my current energy supplier are friendly	0.70	0.44
8 <i>I once had a problem or a negative experience with my current energy supplier</i>	-0.51	0.35

Note: The item in italics was not considered in the calculation of Cronbach's α

Figure 1 Model results



moderating effect of demographic and psychographic factors on the relationship between customer satisfaction and retention. They found that age, income, and variety-seeking were the most important moderator variables.

In contrast, the postulated impact of customer satisfaction on customer switching intention was confirmed. This result is an indication that with reference to core services, power supply companies must ensure high quality in order to satisfy and retain their customers.

Corporate reputation seems to be linked to customer satisfaction. However, it can also be a reciprocal relationship, which is not surprising: "Reputation and customer satisfaction have been seen as interlinked" (Davies *et al.*, 2002, p. 151; see also Anderson and Fornell, 1994).

Implications

Implications for marketing practitioners

Since the liberalization of the power markets, marketing in the utility industry has gained significance for the management of power supply companies. In particular the threat of customer defection requires power supply companies to examine the marketing instruments and measures required to inhibit customer willingness to switch power suppliers.

The present study shows that customer satisfaction has a significant negative influence on switching tendency in the energy market, while a significant influence for corporate reputation could not be confirmed. The impact of corporate reputation on switching tendency is fully mediated by

customer satisfaction, indicating that corporate reputation appears to inhibit switching tendency indirectly via customer satisfaction. For the marketing strategies of energy suppliers, knowledge about these relationships could be a helpful supplement to existing customer-related information.

Because customer satisfaction apparently represents the central starting point for the management of customer willingness to switch suppliers, power supply companies need to focus their marketing interest more strongly on increasing and monitoring customer satisfaction. By concentrating on customer closeness and on customer satisfaction, customers can be lastingly sensitized against the competitors' attempts to contract them away.

It can be deduced in particular from the results of this study that it is also necessary for power supply companies to regularly measure customer satisfaction in the sense of an early warning system in order to be able to take suitable steps against a drop in customer satisfaction. What incites customer satisfaction needs to be identified and analyzed. A reliable analysis of customer satisfaction is often the primary prerequisite for identifying the defection tendency of customers and segments. Only when companies have sufficient knowledge about customer satisfaction will they be able to identify dissatisfied customers and take appropriate measures to raise their commitment level. Supplemented by data on customer value, this information can help to identify which customers are worthy of long-term commitment.

With regard to the management of corporate reputation it can be stated that this also has an influence on customer defection behavior, if only indirectly. It is therefore recommended that power supply companies keep building and managing positive reputations.

Implications for marketing research

Even though the postulated impact of corporate reputation on customer switching intention was lower than anticipated, this construct also provides numerous links for further research. So far, there has been limited research on corporate reputation in the German marketing literature (Walsh and Wiedmann, 2004). Frequently cited US and UK concepts view corporate reputation as a six-dimensional (Fombrun *et al.*, 2000) or seven-dimensional construct (Davies *et al.*, 2002). What is called for, however, is a comprehensive conceptualization of corporate reputation in view of possible determinants and (monetary and non-monetary) consequences. Walsh and Wiedmann (2004) constructed a conceptual model of antecedents and consequences of corporate reputation, which yet has to be tested against empirical data.

Moreover, however, there are additional variables relevant for switching behavior which have not yet been examined within the context of power supply companies and which could be the object of future theoretical research. While the present study has clearly demonstrated the critical importance of customer satisfaction in inhibiting customer defection in the service sector, future research is required into the other potential variables that may impact upon customers' willingness to engage in switching behavior. Hofmeyr and Rice (2000), for example, contend that satisfaction correlates only weakly with consumer behavior and that satisfaction represents only one of four relevant dimensions in measuring commitment – the remaining three dimensions comprising

perception of the alternatives, the importance of brand choice, and degree of ambivalence.

In our study the impact of corporate reputation on switching intention was mediated by customer satisfaction. Future research could investigate if this effect can be confirmed for other service areas. For example, it is conceivable that corporate reputations are more relevant (and hence a stronger direct impact on switching intention) for highly individualized and interactive services or more “tangible” services such as hairdressing or restaurants.

Finally, a limitation of our study needs to be noted to assist the reader in assessing the validity and transferability of the results. The present study uses only one company's customers as its sample and hence, it can not address one company's customers, which reduces generalizability across the spectrum of German utility companies. In addition, we did not have any information beyond the selected customers' names and addresses. This meant we could not investigate whether various classes of customers differed in terms their evaluation of the company's reputation, satisfaction, and switching intentions. This limitation provides an avenue for future research. For example, it is likely that, *ceteris paribus*, long-time customers have lower switching intentions than new customers due to customer inertia, risk aversion, or a lack of market transparency. The service context used, although intentional to investigate the discussed relationships, does not allow to test for cross-sectional impacts of corporate reputation and customer satisfaction. The advantage of choosing one service area was that it allowed us to detect context-specific reputation and satisfaction effects. Future research may wish to explore the impact of customer-based corporate reputation using cross-sectional data.

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Executive summary

This summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article in toto to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present.

If the company which supplies your gas or electricity has a fine reputation, and is an organization you trust, do you happily stick with it? Or do you immediately switch to another supplier once you realise you could be saving a bundle of money on your household bills?

Customer satisfaction is an achievement companies invest heavily in, but no matter how satisfied you are with a service, no matter how long a trouble-free relationship has lasted, how do you resist the temptation of switching to someone else if the only difference between the two is that one charges you less?

It is not as if you have to have a face-to-face encounter with someone who has been supplying you with a service. If you have been having your car repaired at a local garage for years, you might carry on out of a sense of loyalty even if the prices are higher than elsewhere. Not so with switching energy supplies. In the UK, for instance, web-based organizations such as SimplySwitch.com or uSwitch.com can present you with up-to-date price comparisons and direct you to the supplier who can do the best deal.

Customers in the UK, where energy prices have risen more than 40 per cent in two years, have now become so price-conscious that in March 2006 alone about 900,000 domestic customers switched. And they were right to do so, says Alistair Buchanan, Chief Executive of Ofgem, the Office of Gas and Electricity Markets, which regulates those markets in Great Britain. He says: “Customers who have never switched supplier can save up to £110, so across Britain there are unclaimed savings of around £1 billion”.

In their study of the importance of customer satisfaction and corporate reputation on customer defection, Gianfranco Walsh, Keith Dinnie and Klaus-Peter Wiedmann studied the German energy market which, like the UK’s and those of other European Union countries offers customers huge choice. Germany has one of the most strongly liberalized markets in the EU and, according to some projections, of 900 municipal utilities in the pre-competitive environment, only a few will survive. Traditionally, German households tend to buy all their energy and energy-related services (e.g. technical maintenance) from one local or regional energy supplier. Switching would therefore involve taking the household’s entire business elsewhere, a prospect which challenges suppliers to focus their marketing activities on customer management aimed at minimizing defection. No easy task when you are dealing with intangible services. No easy task, either, when many companies’ and marketers’ unshakeable conviction is that trusted brands and a positive corporate reputation, coupled with an excellent product, will play a significant role in encouraging customers to stay loyal. That may work well if you are selling crockery or cars, wardrobes or wind-turbines, but power suppliers’ customers are unlikely to feel that Company A’s electricity or gas is superior or inferior to Company B’s. You turn the same electricity switch whoever provides the current.

Threat of customer defection, however, does require power supply companies to examine the marketing instruments and measures required to inhibit customer willingness to switch power suppliers.

While the study of consumers in the German market concluded that customer satisfaction has a significant negative influence on the tendency to switch suppliers, a significant

influence for corporate reputation could not be confirmed – one possible factor being that such relatively-new companies have had little opportunity to develop a strong reputation. Even if the influence corporate reputation brings to bear on decisions to switch suppliers is only indirect, that is reason enough to recommend that power supply companies keep building and managing positive reputations.

Walsh *et al.* say:

The impact of corporate reputation on switching tendency is fully mediated by customer satisfaction, indicating that corporate reputation appears to inhibit switching tendency indirectly via customer satisfaction. For the marketing strategies of energy suppliers, knowledge about these relationships could be a helpful supplement to existing customer-related information.

Because customer satisfaction apparently represents the central starting point for the management of customer willingness to switch suppliers, power supply companies need to focus their marketing interest more strongly on increasing and monitoring customer satisfaction. By concentrating on customer closeness and on customer satisfaction, customers

can be lastingly sensitised against the competitions' attempts to contract them.

IT is also necessary for power supply companies to regularly measure customer satisfaction in the sense of an early warning system in order to be able to take suitable steps against a drop in customer satisfaction. What incites customer satisfaction needs to be identified and analysed.

Walsh *et al.* say:

A reliable analysis of customer satisfaction is often the primary prerequisite for identifying the defection tendency of customers and segments. Only when companies have sufficient knowledge about customer satisfaction will they be able to identify dissatisfied customers and take appropriate measures to raise their commitment level. Supplemented by data on customer value, this information can help to identify which customers are worthy of long-term commitment.

(A précis of the article "How do corporate reputation and customer satisfaction impact customer defection? A study of private energy customers in Germany". Supplied by Marketing Consultants for Emerald.)

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