An Examination of Customer Retention Behavior in Debt Management Program

Lin Guo, The University of Arizona[1]
Jing Jian Xiao, The University of Arizona[2]

Customer retention is a critical issue in service industries such as insurance and telecommunications given that these firms' stable profits are based on a continuous access fee paid by the customers (Keaveney & Parthasarathy, 2001). In the credit-counseling industry, customer retention can also benefit credit-counseling organizations in the same manner since the organization, who serves as a middleman, receiving "fair share" payments from the creditor as well as collecting service fees from the consumer, highly depends on a continued relationship with customers to achieve its business goals. On the other hand, customer retention has its special implication to consumers' interest in this particular context: If a consumer can be successfully retained in a Debt Management Program (DMP) and deposits payments timely and fully, then he or she would have a significantly lower incidence of filing bankruptcy (Staten & Barron, 2006). As such, a better understanding of consumer behavior in successfully completing a DMP will not only assist creditors and credit counselors in reaching their business goals but will also help consumers with debt troubles to achieve their personal financial goals. However, approximately one-half of debt management plans fail after about six months (Hunt, 2005). How to retain customers in DMP, therefore, becomes a critical issue for credit counseling organizations.

This study examined customer retention behavior in debt management program (DMP) within the framework of extended theory of planned behavior. This theory argued that customers' attitude toward the organization (i.e., customer satisfaction with the organization) may indirectly influence customers' attitude toward remaining in the program through the mediating effect of customers' anticipated behavioral outcomes of remaining (Eagly and Chaiken, 1993). These outcomes include both utilitarian outcomes such as setting up future financial plan and social outcomes such as conforming to social norms. In addition, consumers' attitude toward remaining, their anticipated behavioral outcomes, and perceived control of remaining may have an impact on their behavioral intention of remaining. Finally, consumers' behavioral intention and perceived control of remaining may both affect consumers' actual retention behavior.

Data was collected using a survey with a sample of 209 clients from a major credit counseling organization in USA. Archival data was also connected with survey data so as to explore the customer actual retention behavior. A two-step structural equation modeling (SEM) procedure was employed to establish the construct validity and test the hypotheses. The results revealed that, consistent with the prediction of the extended theory of planned behavior, the positive effect of customer satisfaction on customer's attitude toward remaining in DMP is mediated by customer perceived utilitarian outcome and normative outcome. Next, customers' intention to remain in DMP is positively influenced by customer's positive attitude toward remaining and customer perceived control of his or her own remaining behavior. In addition, customer actual retention behavior is positively affected by customer's intention to remain and customer perceived control of remaining. Finally, customer perceived control of remaining behavior has a positive effect on customer satisfaction with the organization.

These findings have implications for managers in credit counseling organizations in which customer retention is critical for their business's success. First of all, according to this study, although satisfaction is the necessary premise of customer retention, it is not sufficient in successfully retaining customers. The underlying mechanism indicated that managers have to educate customers to recognize their possible benefits of remaining in the relationship so that customers will develop a positive attitude toward remaining in the relationship, thereby inducing their retention behavior. Second, customers' perception of ease or difficulty to stay in the program plays a critical role in customer retention. Credit counselors should help their clients enhance their perceived control of debt paying behavior so as to increase the intensity of their intention to stay, as well as the likelihood of actual retention. For example, counselors can educate their clients to realize that they can get out of debt eventually as long as they can follow the instructions provided and insist on depositing their payment on schedule. Finally, the relationship between customers' perceived control and customer satisfaction will help managers better understand how customers' overall evaluation of the organization is formed. Once credit counselors can help their customers to enhance the perception of self-efficacy in remaining in the program, customers will evaluate the organization in a more favorable way.

Reference

Eagly, A., & Chaiken, S. (1993). The psychology of attitudes. Harcourt Brace, New York.

Hunt, R. M. (2005). Whither consumer credit counseling? *Business Review* Q4: 9-20.

Keaveney S.M., & Madhavan Parthasarathy. (2001). Customer switching behavior in online services: An exploratory study of the role of selected attitudinal, behavioral, and demographic factors. *Academy of Marketing Science*, 29(4), 374-390.

Staten, M. E., & Barron, J. M. (2006). Evaluating the effectiveness of credit counseling: Phase one: The impact of delivery channels for credit counseling services. Working Paper. Credit Research Center, Georgetown University, Washington, D.C.

Endnotes

[1] Doctoral student, Division of Retailing and Consumer Sciences, the University of Arizona

[2] TCA Professor and Director, Take Charge America Institute for Consumer Financial Education and Research, the University of Arizona