

**RELATIONSHIP INTENTION AS A PREREQUISITE
FOR RELATIONSHIP MARKETING: AN APPLICATION ON SHORT-
TERM INSURANCE CLIENTS**

by

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- SOLI DEO GLORIA -

ABSTRACT

RELATIONSHIP INTENTION AS A PREREQUISITE FOR RELATIONSHIP MARKETING: AN APPLICATION ON SHORT-TERM INSURANCE CLIENTS.

As we are entering the information age, markets are becoming more mature, competition is greater than ever and services are looking all the more like commodities. These changes have resulted in companies looking more to their existing client base for future survival and growth. This renewed focus on the client has also made companies more aware of relationship marketing as a strategic tool in retaining their clients and making them more profitable. This is because, when properly implemented, relationship marketing will aid the business in building solid, long-term relationships with its clients, thereby increasing their clients' spending over time and increasing the business' long-term success. However, companies should keep in mind that the strategy of relationship marketing cannot be applied to a business' entire client base. The development of a strong company-client relationship depends on the input of both parties involved and not all clients are willing to invest in building long-term business relationships. Therefore, in order to ensure the successful implementation of relationship marketing strategies, companies need to identify and target those clients who intend to build long-term relationships with the business, i.e. those with a high relationship intention.

The goal of this study was to measure the relationship intention of clients in the short-term insurance industry. A literature review was undertaken to investigate the concepts of relationship marketing, market segmentation and relationship intention, which are all related to this study. A questionnaire was designed which measured clients in terms of five relationship intention constructs, namely involvement, expectations, forgiveness, feedback and fear of relationship loss. The questionnaire also identified the demographic details of the respondents, which aided in the development of a consumer profile for those clients with a higher relationship intention. The questionnaire was distributed to clients of a short-term insurance company by means of a convenience sampling method. A total of 114 respondents took part in the survey. Conclusions were made regarding the results of the empirical investigation and these conclusions were then compared with the findings in the literature review. This, in turn, led to the development of recommendations related to the relationship intention of different demographic groups.

SAMEVATTING

VERHOUDINGSGENEIGDHEID AS 'N VOORVEREISTE VIR VERHOUDINGSBEMARKING: 'N TOEPASSING OP KORT-TERMYN VERSEKERING KLIËNTE.

Soos ons die inligtingsera benader, word markte meer gevestig, kompetisie al strawwer en dienste lyk al meer soos verbruikersgoedere. Hierdie veranderinge het te weeg gebring dat ondernemings meer aandag vestig op hul huidige kliënte as 'n metode om oorlewing en toekomstige groei te verseker. Dié hernude fokus op die kliënt het ook die aandag gevestig op verhoudingsbemarking as instrument om die retensie en winsgewendheid van kliënte te verhoog. Die rede hiervoor lê in die feit dat verhoudingsbemarking, indien reg toegepas, 'n onderneming help om langtermyn verhoudings met sy kliënte op te bou, kliënte se besteding oor tyd te verhoog en dus die onderneming se kanse tot langtermyn sukses te verbeter. Nietemin, wat ondernemings in gedagte moet hou is dat verhoudingsbemarking, as strategie, nie op alle kliënte van toepassing is nie. Die ontwikkeling van sterk kliënteverhoudings berus op die bydraes van beide die onderneming sowel as die kliënt. Nie alle kliënte is gewillig om langtermyn verhoudings met ondernemings te ondersteun nie. Dus, om die suksesvolle implementering van verhoudingsbemarking strategieë te verseker, is dit belangrik om daardie kliënte wat langtermyn verhoudings sal ondersteun te identifiseer en te teiken – met ander woorde, daardie kliënte met 'n sterk verhoudingsgeneigdheid.

Die doel van hierdie studie is om die verhoudingsgeneigdheid van kliënte in die korttermyn versekeringsbedryf te meet. 'n Literatuurstudie is onderneem om die konsepte van verhoudingsbemarking, marksegmentering en verhoudingsgeneigdheid te bestudeer. 'n Vraelys is ontwerp wat kliënte met betrekking tot vyf verhoudingsgeneigdheid konstruëer naamlik, betrokkenheid, verwagtinge, vergewensgesindheid, terugvoer en vrees vir verhoudingsverlies. Die vraelys is het ook die demografiese besonderhede van kliënte bepaal, wat gehelp het om 'n verbruikersprofiel vir daardie kliënte met 'n sterk verhoudingsgeneigdheid te ontwikkel. Die vraelys is by wyse van 'n gerieflikheidssteekproef onder kliënte van 'n korttermyn versekeringsmaatskappy versprei. In Totaal het 114 respondente deelgeneem aan die studie. Gevolgtrekkings is gemaak oor die uitslae van die empiriese navorsing en hierdie gevolgtrekkings is vergelyk met die bevindinge uit die literatuurstudie. Dit het gelei tot die ontwikkeling van aanbevelings met betrekking tot die verhoudingsgeneigdheid van verskillende demografiese groepe.

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LIST OF KEY TERMS

- Relationship marketing
- Market segmentation
- Relationship intention
- Involvement
- Expectations
- Forgiveness
- Feedback
- Fear of relationship loss

CHAPTER 1

INTRODUCTION, MOTIVATION, RESEARCH GOALS & METHODOLOGY

Before commencing with the introduction for this chapter, the definitions of terms used in the title of this study is first explained.

1.1 DEFINITION OF TERMS

1.1.1 Relationship intention and relationship marketing

In order to explain the concept of relationship intention, the concept of relationship marketing needs to be understood. Sheth & Parvatiyar (1995:1) defined relationship marketing as an orientation that seeks to develop close interaction with selected customers, suppliers and competitors for value creation through co-operative and collaborative efforts. This definition stresses the importance of collaborative and co-operative efforts from both parties involved. Both parties should thus be committed to this partnership. It also states that close interaction should be developed with selected customers, suppliers and competitors. The word that should be stressed is “selected”. Not all individuals or groups wish to be collaborative and co-operative when undertaking business transactions. They would rather support a transactional approach than a relationship approach. Donaldson & O’Toole (2002:8) support this by stating that it is important to identify those partners with whom a relationship should be built and developed. They further state that not all suppliers, from a buyer’s perspective, nor all clients from a seller’s perspective, are worth investing in heavily for relationship building purposes.

It is thus important to identify those clients, suppliers and other stakeholder groups that intend to support a long-term relationship with a company, i.e. those that have a strong relationship intention (RI).

1.1.2 Short-term insurance clients

The aim of this study is to investigate the relationship intention of short-term insurance clients. The study will thus focus on the short-term insurance industry. An industry is a group of companies that offer a product or class of products that are close substitutes for one another (Kotler, Ang, Leong & Tan, 2003:230). The insurance industry can be split into different sub-industries such as the commercial, health, short-term and life insurance industries. Although these industries are all involved in insurance, they are not close substitutes for each other. The short-term insurance industry specialises in the delivery of short-term insurance products, such as household and car insurance (Bitter, 2004:29).

In this study the term client will be used rather than customer. This is because a customer is defined as a person who buys goods or services from a company while a client is a person who makes use of services from a professional person, such as a lawyer or in this case, a broker (EED, 1999).

1.2 INTRODUCTION

Relationship marketing is a relatively young field of study that developed in the 1980's and gained popularity in the 1990's. It became so widely researched that by the middle 1990's it was described, as far as marketing is concerned, as the single most popular topic in the academic research agenda (Steyn, 2000:17). Relationship marketing is indeed very popular with many dissertations and articles being written on the subject. This raises the question of whether another study on relationship marketing is needed. To answer this question it is important to examine the perspective from which many of these research studies are written, which is predominantly from the company's point of view. This study aims to look at the client's perspective on relationship marketing by examining the concept of relationship intention.

On the next few pages the motivation for this study as well as the research goals and method of investigation will be discussed. This will be followed with a preliminary chapter outlay of the proposed study.

1.3 MOTIVATION

As stated above, most of the research on relationship marketing was executed from a business point of view. This is evident in the definitions of relationship marketing that currently exist. Berry (1983:25) defines relationship marketing as a marketing activity that attracts and maintains relationships between a company and its clients. This emphasises the goal of relationship marketing from the organisation's perspective, which is to attract and maintain clients in order to become more profitable. Gummesson (1987:10), on the other hand, defined relationship marketing as "relationship management by creating, developing and maintaining a network in which a firm thrives". Gummesson (1987:10) also views relationship marketing from a company perspective, but also states the importance of establishing a network. These networks do not necessarily mean client networks, but networks in which all the different stakeholders in the company are included. Kotler and Armstrong (2001:9) support this by indicating that relationship marketing is the process of creating, maintaining and enhancing strong value-laden relationships with clients and other stakeholders.

Relationship marketing is therefore not only focused on client relations, but also on expanding profitable relationships with suppliers, partners and even the competition. The aim is thus to ensure a successful relationship in order to create value or profit for both parties involved. However, these relationships are between two or more companies or partners who share value by either reducing costs or sharing profits. Both parties thus benefit from this relationship.

Building long-term relationships with clients also hold many benefits for companies. For instance, repeat sales and referrals lead to increased sales, market share and profits. To keep an existing client costs about one-fourth of what it costs to attract a new client – making it far less expensive to serve existing clients than to attract new ones. Also, depending on the industry, the probability of retaining an existing client is over 60%, whilst the probability of attracting a new client is less than 30% (Lamb, Hair, McDaniel, Boshoff, Terblanche, 2004:10). The benefits that companies attain by establishing long-term relationships with clients are quite evident. However, the perceived value of

such relationships from the client's point of view also needs to be taken into consideration.

According to Disney (1999:491), clients also benefit from long-term company-client relationships by obtaining familiarity, personal recognition, discounts, credit advances or even friendship. However, this does not necessarily imply that clients either need or want to establish a long-term relationship with a company. It is important to realise that a long-term relationship, whether in business or personal areas cannot survive without the support of both parties involved. Morgan and Sanjay (1993:113) support this by stating that a degree of trust and commitment is needed on both sides of the encounter, for without these factors the encounter, by its very nature, would not be a relationship. This is because it would fail to be long-term since it would lack the endorsing qualities required to cultivate a strong relationship.

In other words, even if a company is highly relationship oriented, it will not be able to develop a long-term relationship with a client if that client does not wish to support such a relationship. There is a definite need to look at relationship marketing from a client's perspective and also to identify those clients who wish to support long-term relationships with companies.

The above uncovers the research problem that needs to be addressed. Companies spend large amounts of money on programmes and activities to build relationships with clients. ABSA for instance, prides itself on being customer-focused by using a customer-centric business model. According to the company's annual report for 2003, it spent over R320 million on marketing alone (ABSA, 2003:177, 257). These efforts are, however, entirely supply-side driven. The question remains whether clients really want to enter into relationships with companies, i.e. is there a demand for company-client relationships? It is hypothesised that different categories of clients will exhibit different relationship needs. If clients in a target market can be segmented on the basis of their relationship intention, companies will be in a better position to efficiently spend their (relationship) marketing budgets and subsequently enjoy an improved return on marketing investment.

1.4 RESEARCH GOALS

1.4.1 Goal of the research study

The goal of this study is to investigate the relationship intention of short-term insurance clients.

1.4.2 Objectives of the research study

The above goal is supported by the following objectives:

- 1) To investigate relationship marketing as a framework for relationship intention.
- 2) To investigate different segmentation bases and suggest relationship intention as one such base.
- 3) To constitute relationship intention in terms of involvement, expectations, forgiveness, feedback and fear of relationship loss.
- 4) To test the dimensions of relationship intention empirically among a sample of short-term insurance clients.

1.5 METHOD OF INVESTIGATION

The method of investigation will be discussed according to the literature review and the empirical investigation that was performed with regard to this study.

1.5.1 Literature review

The aim of this study is to analyse the relationship intention of short-term insurance clients but also to discuss the principles of relationship marketing, relationship intention and market segmentation, which are all interlinked. The current literature available on these subjects was examined by means of a literature review. Most of the sources used were obtained from scientific journals, books and research documents which are scientifically verifiable and published between the years 1996 and 2006.

The following databases were consulted to obtain the sources used in the literature review:

- NEXUS: Current and completed South African research.
- Sacat: Catalogue of books available in South Africa.
- International magazines:
 - Academic Search Premier
 - Business Source Premier
 - Consumer Mass Media
 - Econlit
 - Emerald

1.5.2 Empirical investigation

The method in which the empirical investigation was undertaken will be discussed in terms of the research design, sampling plan, research instrument and data analysis which was used for this study.

1.5.2.1 Research design

According to Tustin, Ligthelm, Martins & Van Wyk (2005:82) the research design is the plan to be followed in order to realise the research objective or hypotheses. It therefore represents the master plan that specifies the methods and procedures for collecting and analysing the required information. There are three types of research designs namely exploratory, causal and descriptive designs.

a) Exploratory research designs

According to Neuman (2000:510) exploratory research can be defined as “research into an area that has not been studied and in which a researcher wants to develop initial ideas and a more focused research question”. Exploration is therefore useful when researchers lack a clear understanding of the problems they will meet during the study. Through exploration researchers develop concepts more clearly, establish priorities, develop operational definitions and improve the final research design (Cooper & Schindler, 2003:151). According to

Tustin *et al.* (2005:84) the research methods used under an exploratory research design are highly flexible, unstructured and qualitative. Examples of these research methods include literature reviews and individual or group unstructured interviews.

b) Causal (experimental) research designs

According to Churchill & Iacobucci (2005:74) a causal research design is concerned with determining cause-and-effect relationships, which are studied via experiments. An experiment, according to Tustin *et al.* (2005:294), can be defined as “a scientific investigation in which an investigator manipulates and controls one or more independent variables and observes the dependent variable for variation concomitant to the manipulation of the independent variables”. Experiments therefore measure the extent to which a set of variables (known as the independent variables) influence other variables known as dependent variables (Struwig & Stead, 2001:9). According to Tustin *et al.* (2005:295) experimental designs can be categorised into two groups, namely basic designs and statistical designs. In basic designs the impact of only one independent variable at a time is considered. Statistical designs, on the other hand, allow for the evaluation of the effect of more than one independent variable at a time.

c) Descriptive research design

According to Jankowicz (2005:199) the idea behind a descriptive research design is to identify the crucial features of the population or situation under study, and describe the features and issues which arise as accurately as possible. According to Churchill & Iacobucci (2005:74) descriptive studies can also be set apart from other research designs in that they are typically guided by an initial hypothesis and clearly stated investigative questions. According to Cooper & Schindler (2003:161) descriptive research studies could serve a variety of research objectives, namely descriptions of phenomena or characteristics associated with a subject population, estimates of the proportions of a population

that have these characteristics and the discovery of associations among different variables.

Descriptive research studies are therefore constructed to answer who, what, when, where and how questions and these questions are usually answered by means of survey methods (Tustin *et al.*, 2005: 86). **The empirical investigation for this study was based on a descriptive design by utilising a survey method.** This is because, according to Mouton (2001:152), surveys provide a broad overview of representative samples of large populations such as the one being researched in this study.

1.5.2.2 Sampling plan

According to Cooper & Schindler (2003:179) the basic idea behind sampling is that, by selecting some of the elements of a population, a researcher may draw conclusions about the entire population. This is necessary, according to Roe (2004:19), because it is usually not possible to reach every item or person in a population, as it would be in a census. The reasons for this are that complete counts on populations of moderate size are very costly, and that a census would take so much time that the information would be obsolete by the time it was completed (Churchill & Iacobucci, 2005:322). Obtaining information from a sample is therefore more practical and accurate than obtaining the same information from an entire universe or population (Struwig & Stead, 2001:109). However, before the sample can be taken, it is first necessary to define the target population.

a) The population

According to Lancaster (2005:153) the population or universe is the full set of items or people under investigation. This is the group from which the sample will be drawn and according to Tustin *et al.* (2005:96) it should include all the people or establishments whose opinions, behaviour, preferences and attitudes will yield information for answering the research question. This study focuses on the relationship intention of short-term insurance clients. In order to achieve the

focus on relationship intention, the client base of a short-term insurance company was chosen as the target population. The target population therefore consists of clients of a short-term insurance company and varies between different demographic and geographic profiles.

b) Sampling method

According to Tustin *et al.* (2005:97) the researcher now has to decide whether to use a probability or a non-probability approach to drawing the sample. Each approach also has different methods which will determine how the sample units/elements will be selected.

b.1) Probability sampling

Probability samples are distinguished by the fact that each population element has a known, non-zero chance of being included in the sample (Churchill & Iacobucci, 2005:324). Such a sample allows the researcher to express the mathematical probability of sample characteristics being reproduced in the population. However, what is vital for a probability sample is that a complete list of the population exists. It is from this list or sampling frame, as it is called, that a sample is randomly selected (May, 2001:92). There are several probability sampling methods, namely: simple random, systematic, stratified, cluster and multistage sampling.

- **Simple random sampling**

For simple random sampling the researcher requires a complete and accurate list of all units in the universe. From this list, sample members are then randomly chosen for inclusion in the sample (Tustin *et al.*, 2005:350; Struwig & Stead, 2001:113). To aid the researcher, simple random samples may be drawn with the help of tables of random numbers or from statistical computer programmes (Struwig & Stead, 2001:113). The disadvantage of using this method, however, lies in the fact that all the units would be “lumped” together in the sample, without making any further distinctions (Jankowicz, 2005:206).

- **Systematic sampling**

By using a sampling interval (N/n , where N = the population and n = the sample size) a systematic sampling method chooses members at regular intervals after a random start (Tustin *et al.*, 2005:352). In other words, systematic sampling includes a procedure in which an initial point is selected by a random process, and then every n th person on the list is selected (Struwig & Stead, 2001:114). The major advantage of systematic sampling is its simplicity and flexibility. For example, it is easier to instruct field workers to choose the unit listed on every n th line of a listing sheet, than it is to use a random numbers table (Cooper & Schindler, 2003: 192). However, the drawback in using this method is that the very systematic nature of the sampling process could result in building sample bias (May, 2001:94).

- **Stratified sampling**

Stratified sampling separates the population into different subgroups or strata and then selects random samples from each subgroup (Tustin *et al.*, 2005:352). These strata can be chosen, for instance, according to characteristics such as age group, gender and type of housing (May, 2001:95). Stratified random sampling therefore differs from simple random sampling in that with simple random sampling the sample items or respondents are chosen from the entire universe. With the stratified sampling method the sample is designed in such a way that a predetermined number of items are chosen from each stratum (Struwig & Stead, 2001:113). This would, in turn, allow researchers to weigh the sample. In other words, stratified sampling helps researchers to over-represent a particular characteristic (May, 2001:95). However, this could be seen more as a disadvantage than an advantage.

- **Cluster sampling**

With cluster sampling the researcher divides the population into subgroups, each of which represents the entire population. After this division is made, the researcher then draws a random sample of these subgroups or clusters. The

cluster sampling method differs from stratified sampling in that it uses a sample of clusters, each representative of the total population, whereas stratified sampling draws a sample within every homogeneous stratum. Cluster sampling also focuses on reducing costs, while stratified sampling is focused on reducing sampling error (Tustin *et al.*, 2005:356). According to Cooper & Schindler (2003: 196) cluster sampling is utilised when there is a need for better economic efficiency than that which could be provided by simple random sampling. This is also the case when a practical sampling frame for individual elements is unavailable. The use of this method is therefore especially helpful to reduce travelling costs when the population is geographically dispersed.

- **Multistage sampling**

With multistage sampling the final sample members are chosen by using a combination of probability sampling techniques with a number of steps preceding the final selection (Tustin *et al.*, 2005:358). For example, by means of cluster sampling the researcher could select four classes from Grade 12 at a specific school, after which the researcher could use stratified sampling according to gender and age to select the final sample (Struwig & Stead, 2001:115).

This concludes the summary of all the probability sampling techniques. All the non-probability sampling techniques available to researchers will now be discussed.

b.2) Non-probability sampling

Non-probability sampling differs from probability sampling in that each member of the population does not have a known non-zero chance of being included (Cooper & Schindler, 2003:184). In other words, there is no way of estimating the probability that any population element will be included in the sample (Churchill & Iacobucci, 2005:324). Non-probability sampling involves identifying and questioning informants because the researcher is interested in their individual positions, roles, or background experience. The probability of being chosen as a respondent therefore has no particular significance, other than making things

manageable in terms of the time and resources available to the researcher. These sampling methods therefore have the advantage of flexibility. They are also useful in that they afford a better opportunity for the researcher to collaborate with respondents than with probability methods as well as allowing for greater scope in inference and judgement when interpreting results (Jankowicz, 2005:202, 205). It is therefore evident that non-probability samples rely heavily on the researcher's personal judgement. However, even if these judgement samples yield good estimates of a population characteristic, they do not permit an objective evaluation of the adequacy of the sample (Churchill & Iacobucci, 2005:324)

The non-probability sampling methods to be discussed are judgemental sampling, purposive sampling, quota sampling, snowball sampling and convenience sampling.

- **Judgemental sampling**

Judgemental sampling occurs when a researcher selects sample members to conform to some criterion (Cooper & Schindler, 2003:201). In other words, researchers choose what they believe to be the best sample for their particular study. Respondent selection thus depends on the researcher's judgement (Struwig & Stead, 2001:111). According to Cooper & Schindler (2003:201) a judgement sample is appropriate when used in the early stages of an exploratory study or when a researcher wants to select a biased group for screening purposes.

- **Purposive sampling**

With purposive sampling the sample members are chosen with a specific purpose or objective in mind. The sample is thus intentionally selected by the researcher to be non-representative (Tustin *et al.*, 2005:347). Purposive sampling involves choosing respondents whose views are relevant to an issue because the researcher made a judgement or the researcher's collaborators persuaded him/her that the views of these particular respondents are particularly

worth obtaining (Jankowicz, 2005:204). According to May (2001:95) this type of sampling method may produce small numbers in terms of a target population but that the “fit for purpose” defence of the method may be deployed as one of its advantages.

- **Quota sampling**

Quota sampling involves a choice of respondents who represent the diversity in the population, in the same proportions as the diversity itself (Jankowicz, 2005:204). The proportion of people in, for example, particular age groups or social classes should be known beforehand. The sample will then consist of a proportionate quota of people with these characteristics (May, 2001:95). For example, if 40% of the target group fall into the age group of 25 to 30, then provision should be made for 40% of the sample to fall into the same age group (Tustin *et al.*, 2005:349). According to Cooper & Schindler (2003:201) the logic behind quota sampling is that certain related characteristics describe the dimensions of the population. Should a sample be distributed in the same manner as these characteristics, then it is likely to be representative of the population regarding other variables on which the researcher has no control.

- **Snowball sampling**

Snowball sampling is a technique in which initial respondents are selected by what could be a variety of different probability or non-probability methods, but in which additional respondents are then obtained from information provided by the initial respondents (Struwig & Stead, 2001:112). New respondents are therefore selected following the recommendations of people whom the researcher has already interviewed or studied. As the researcher proceeds, the number of respondents will grow like a snowball, hence the name (Jankowicz, 2005:204). According to May (2001:95) this method is especially useful when a population is widely distributed or elusive, such as homeless people or drug users. In these situations snowball sampling may be the only way of obtaining data.

- **Convenience sampling**

With convenience sampling, sample members are chosen on the basis of being readily available or accessible. Selection is therefore done on the basis of convenience only (Tustin *et al.*, 2005:347). This method would normally be used when the researcher could not raise the funds necessary to support the implementation of a more systematic approach, or in cases where the researcher could get access to the target population (Jankowicz, 2005:203). However, the problem with convenience samples, as with all other non-probability samples, is that the researcher has no way of knowing if those included are representative of the target population (Churchill & Iacobucci, 2005:326). This is why, according to Struwig & Stead (2001:111), convenience sampling should only be used in special cases, such as when the population is sufficiently homogeneous.

In this study, non-probability sampling was used with reliance on available subjects. Although there is a risk involved in using such a sampling method (because of the chance that those included are not representative of the target population), the particular research situation for this study justified the use of non-probability sampling. The reason for this was to ensure that respondents came from a general client base of the insurance company, in other words those clients visiting the branch offices for a number of different reasons. The use of a non-probability sample is also justified in that the researcher had access to the specified target population and that the target population was sufficiently homogeneous (all respondents were clients of the same short-term insurance company).

c) Determination of the sample size

The decision on sample size involves determining how many sample units must be studied to get accurate and reliable answers that will allow a decision to be made regarding the research problem or hypothesis. This must be done, however, without exceeding the time and money budgeted for the research project (Churchill & Iacobucci, 2005:41). If you take into consideration that almost all studies have some budgetary constraint then the sample size will

depend on the level of statistical error that is acceptable versus the resources available (Cooper & Schindler, 2003:191; May, 2001:94).

Because of these budgetary constraints, many researchers turn to non-probability samples. With these methods the sample size will be determined by the researcher's feeling that all the relevant people have been approached. This feeling could also be reinforced by the advice given by a tutor or sponsor (Jankowicz, 2005:209). However, according to Tustin *et al.* (2005:360), unless there is a sufficiently large sample, statistical procedures will not be successful. A sufficiently large sample, according to Tustin *et al.* (2005:360) would usually translate into a sample size of at least 30 units. **In this study 114 respondents took part in the survey, far exceeding this target.**

1.5.2.3 Research instrument

In this study, self-administered questionnaires (see 1.5.2.4.2) were used to collect quantitative data. According to Tustin *et al.* (2005:98) questionnaire design involves the construction of questions and response options based on the research study's objectives. As already stated, this study's objective is to investigate the relationship intention of short-term insurance clients. This was done by first measuring the respondent's relationship intention and then determining the respondent's demographic details. This effectively divided the questionnaire into two sections based on these objectives, namely section A and B (see appendices 1 and 2). Section A (which measures relationship intention) was adapted from the questionnaire developed by Kumar, Bohling & Ladda (2003:675) (see appendix 2). This questionnaire measured relationship intention according to a respondent's involvement, expectations, forgiveness, feedback and fear of relationship loss. In order to conform to the characteristics of this research study the question content had to be changed so that it fitted into an insurance services context. For example, terms such as "product" and "price" had to be changed to "service" and "premium". There were also changes made to the wording of certain questions. For example, the questions measuring the respondents forgiveness originally started with the phrase "I do not care if...". This was changed to "are you willing to forgive the company if...".

Apart from these modifications there were also other changes made to the original questionnaire. Question two of the original questionnaire of Kumar *et al.* (2003:675) was scrapped as insurance is a once-off buying process after which a monthly premium is subtracted (usually by means of a debit order). Insurance is therefore unlike products and other types of services where the client is repeatedly in contact with the company each time he or she buys the product or service. Question seven of the questionnaire used in this study was also added as an additional question. Question seven was derived from the discussion on expectations of Kumar *et al.* (2003:670) in which they stated that “those customers who really care about the firm would like to see some enhancement in the firm’s products”. Question ten of the original questionnaire was also scrapped. This is because there is no directive for what constitutes “normal” prices. However, market related prices are established by comparing the price of the company’s products or services to that of their competitors (this approach is used in question eleven). Question 17 in the questionnaire was also added as an additional question for the measurement of fear of relationship loss. This question measures client’s fear of losing the services of the insurance company.

Kumar *et al.* (2003:675) made use of Likert scales in their questionnaire, which was also used in the adapted questionnaire. Likert scales, according to Myers (1999:120), is an effective method for measuring a respondent’s attitude towards an attribute and is also user friendly in that it minimises confusion and misunderstanding. This aids in lowering respondent fatigue and ensures a higher response rate, which was vital for this study. According to Babbie & Mouton (2003:153) the value of Likert scales also lies in the unambiguous ordinality of response ratings such as “strongly agree, strongly disagree” which makes it easier for the researcher to judge the relative strength of agreement intended by the various respondents. The Likert scales used in the first section of the questionnaire for this study made use of five such response ratings namely “no, definitely not; no; neutral; yes; and yes, definitely”.

In section B of the questionnaire (which determined the respondent’s demographic details) a multiple choice question format was used which allowed respondents to select one of several alternatives. For instance, under “highest

academic qualification” respondents could choose between “matric, certificate, diploma, advanced diploma, degree or post-graduate degree”. No open-ended questions were asked since, according to Charlesworth & Morley (as quoted by Lancaster, 2005:139), they sometimes reveal information that is difficult to summarise and analyse. Multiple choice questions, on the other hand, simplify the recording, tabulation and editing process considerably (Struwig & Stead, 2001:92).

In total, the questionnaire consisted of 27 questions. Section A consisted of 18 questions. However, the first question in section A was unrelated to the measurement of relationship intention in that it measured the respondents' satisfaction with the service they received from the insurance company. The last question in this section (question 18) was included to test the validity of the 16-item scale. Question 18 was also drawn from the original questionnaire of Kumar *et al.* (2003:675). Therefore, questions 2 to 17 in section A were used to measure the respondents in terms of their involvement (questions 2 to 5), expectations (questions 6 to 8), forgiveness (questions 9 to 11), feedback (questions 12 to 14) and fear of relationship loss (questions 15 to 17). Question A.11 (which forms part of the measurement of the forgiveness) was also used to measure the respondent's price sensitivity. Question A.11 asked whether the respondent is willing to accept a premium that is slightly higher than that of the competition (of the insurance company). Therefore, if the respondent showed a higher than average score on this question, he or she would then show a lower price sensitivity and *vice versa*.

After subjecting the questionnaire to validity and reliability tests two questions, questions A.8 and A.14 were disregarded. Therefore, the relationship intention constructs of expectations and forgiveness were each measured on two questions. The results of the validity and reliability tests, with questions A.8 and A.14 removed are summarised in Tables 1.1 and 1.2. Reliability refers to the extent to which test scores are accurate, consistent or stable. Validity, on the other hand, refers to the extent to which the data collection method or research method describes or measures what it is supposed to describe or measure (Lancaster, 2005:71; Struwig & Stead, 2001:130). As shown in Table 1.1 only

one factor was retained for all the relationship intention constructs except for involvement, which measured both involvement-identification and involvement-contribution.

Furthermore, as shown in Table 1.2, all the relationship intention constructs measured in terms of the Cronbach Alpha Coefficient gave relatively low values. Bland & Altman (2006:572) stated that a value of 0.7 is may be considered satisfactory when comparing different groups. However, according to Field (2005:668) Cronbach Alpha values lower than 0.7 could, realistically, be expected in most social science studies due to the diversity of constructs being measured. Taking this into consideration, the results could therefore be referred to as reliable and the questionnaire used to obtain these results as valid.

Table 1.1 Results of validity tests performed on the questionnaire

Relationship intention construct	Number of factors retained by MINEIGEN criteria	Cumulative variance explained by the number of factors retained	Communality estimates for all items
Involvement	2 - Involvement identification - Involvement contribution	75.76%	55.29% - 99.34%
Expectations	1	44.21%	57.00% - 61.31%
Forgiveness	1	69.52%	48.25% - 82.50%
Feedback	1	46.67%	62.67% - 69.71%
Fear of relationship loss	1	82.91%	76.41% - 88.74%

Table 1.2 Results of reliability tests performed on questionnaire

Relationship intention construct	Cronbach Alpha Coefficient
Involvement	0.531
Expectations	0.443
Forgiveness	0.775
Feedback	0.525
Fear of relationship loss	0.897

1.5.2.4 Administration of the research instrument

According to Struwig & Stead (2001:89) there are two main types of questionnaires, namely interviewer-administered questionnaires and self-administered questionnaires. These two types of questionnaires will now be discussed.

a) Interviewer-administered questionnaires

According to Cooper & Schindler (2003:323) a personal interview is a two-way conversation initiated by an interviewer to obtain information from a participant. However, this two-way conversation could either be face-to-face or take place over the telephone. Interviewer-administered questionnaires could therefore be divided between two categories, namely personal and telephone interviews.

- **Personal interviews**

According to Cooper & Schindler (2003:326) the greatest value of using personal interviews lies in the depth of information and detail that can be secured. This is because the interviewer can note conditions of the interview, probe with additional questions and gather supplemental information through observation. Another important advantage, according to Jankowicz (2005:320), is the ease with which the researcher can express complex ideas by amplifying the meaning of items and explaining the intention behind certain questions. Struwig & Stead (2001:86, 87) also found personal interviews to provide good response rates, since the interviewer is often able to persuade individuals to take part in the research study.

However, personal interviews are an expensive method for data collection because of the training that interviewers need to receive as well as the fact that many interviewers may be needed to conduct the interviews. These costs can also increase if the study covers a wide geographic area or has stringent sampling requirements (Cooper & Schindler, 2003:326; Struwig & Stead, 2001:86, 87). Furthermore, many people today are reluctant to talk to strangers

or permit visits in their homes, and interviewers themselves are also reluctant to visit unfamiliar neighbourhoods alone (Cooper & Schindler, 2003:326). Another major disadvantage of personal interviews is their long lead time, i.e. a long time elapses from the beginning of the fieldwork to the completion of the project (Struwig & Stead, 2001:86, 87). Therefore, this is not the best method available if the researcher needs to retrieve the necessary data in a short timeframe or if the study is undertaken on a national level with a limited budget.

- **Telephone interview**

The greatest advantage of telephone surveys is their speed. According to Struwig & Stead (2001:88) as many as twenty interviews can be completed per hour if short questionnaires are used. This is why, according to Cooper & Schindler (2003:336), telephone interviews bring about faster completion of studies when compared to other methods, as in some cases it could take only one day to complete the fieldwork. In addition, the monitoring of the work of telephone interviewers can be done from a central office where the dialling takes place (May, 2001:98). This could lead to improved information quality since there is better control and supervision (Struwig & Stead, 2001:89). Another major advantage of telephone interviews is that they are relatively cheap due to lower travelling costs. Also, when calls are made from a single location the researcher may use fewer and yet more skilled interviewers thereby saving costs in training and supervision (Cooper & Schindler, 2003:335; May, 2001:98).

However, the telephone interview method is considered highly problematic due to its inbuilt bias. This is because of the problems that arise when a researcher uses a telephone directory as a sampling frame. In most countries there is an inbuilt class and gender bias in telephone directories. It is usually the males in the household whose names appear in the telephone directory and the distribution of phones among different socio-economic classes is also disproportionate (May, 2001:98). Another disadvantage is the fact that the interview length is dependent on the participant's interest in the topic. Those respondents who are not interested in the topic tend to answer briefly to open-ended questions over the telephone. It is also much easier for them to terminate

the interview by simply ending the phone call (Cooper & Schindler, 2003:336; Struwig & Stead, 2001:88). Respondents are also reluctant to provide confidential information (for example their personal income) over the telephone which could result in problems when the researcher requires information on the respondent's demographics (Struwig & Stead, 2001:89).

b) Self-administered questionnaires

Self-administered questionnaires are, as the name implies, questionnaires where the respondent has to complete the questionnaire without the assistance of an interviewer. The major advantage of self-administered questionnaires is their higher cost-effectiveness as they are much cheaper than personal interviews (Cooper & Schindler, 2003:341; Struwig & Stead, 2001:86, 88). These questionnaires are also perceived as more impersonal thereby providing more anonymity to the respondent (Cooper & Schindler, 2003:341). This is especially helpful when the study deals with ethnically or politically sensitive issues where anonymity is advantageous (May, 2001:98). Also, respondents filling in self-administered questionnaires can take their own time to evaluate the questions and consider their responses (May, 2001:98). This is in contrast with interviewer-administered questionnaires where respondents are pressured for a relatively quick turnaround. Respondents can therefore take more time in considering their replies than is possible in telephone or personal interviews (Cooper & Schindler, 2003:341).

However, in the case of self-administered questionnaires, there is no interviewer to explain the purpose of the study and how the questionnaire needs to be filled in. The result is that some respondents do not understand certain questions or how to complete the questionnaire (Struwig & Stead, 2001:88). The layout, instructions and questions must therefore be simple, clear and unambiguous making the questionnaire understandable to the respondent and quick to complete (May, 2001:98). Cooper & Schindler (2003:341) emphasised this by stating that the respondent should be able to answer the questionnaire in no more than 10 minutes. The result is thus to use more multiple choice and Likert-

type responses than open-ended responses (which could be too time consuming) (Struwig & Stead, 2001:86, 88).

As stated previously in this chapter, **this study made use of self-administered questionnaires**. These questionnaires were distributed to the clients of a short-term insurance company (which will remain anonymous) by means of the company's branches which are situated countrywide. A presentation was given to the company's 18 branch managers concerning the goal and logistics of the research project, after which each branch manager received 20 questionnaires with instructions to distribute them amongst their clients.

Questionnaires were therefore distributed to the clients of each separate branch situated in different geographic locations in South Africa. As a client visited a branch office (which could be for a variety of reasons such as issuing a claim) a questionnaire was personally handed to him/her along with an envelope which was paid for and addressed to the researcher involved in this study. When the questionnaire was completed, the respondent had the choice of handing the sealed envelope back to the branch employee or mailing it directly to the researcher.

The questionnaire required that respondents divulge personal and sensitive information about themselves and their relationship with the company. This method of distribution was therefore chosen because of the anonymity it provides to the respondent and also because of the level of trust that exists between the individual branch managers / employees and their clients. Ten of the 18 branches participated in this study and each branch varied in the amount of questionnaires returned (see section 5.2).

Of the original 360 questionnaires, 114 were completed and sent back. **The return rate was therefore 31.66%**. Three branches namely Potchefstroom, Jeffreys Bay and Mosselbay, also made copies of the original questionnaires and distributed them amongst their clients. This is why these branches produced more than 20 respondents (see section 5.2).

1.5.2.5 Data analysis

Data analysis was executed with the use of the SAS/STAT software which provides comprehensive statistical tools for a wide range of statistical analyses. These statistical analyses include analysis of variance, categorical data analysis, cluster analysis, multiple imputation, multivariate analysis, nonparametric analysis, power and sample size computations, psychometric analysis, regression, survey data analysis, and survival analysis (SAS Institute Inc, 2006). The SAS/STAT software was used in this study to determine Pearson correlation coefficients, descriptive statistics and practical significance.

a) Descriptive statistics

The purpose of descriptive statistics is to provide an overall and coherent picture of a large amount of data in order to describe group or sample performance. This is usually done by means of measures of central tendency such as the mode (most frequently occurring score), the mean (average score) and the median (the score that has an equal number of scores above and below it) (Struwig & Stead, 2001:158). According to Cooper & Schindler (2003:474) these measures provide the researcher with helpful tools for “cleaning” the data as well as discovering problems and summarising distributions.

b) Practical significance and values

As a result of the fact that respondents were not randomly selected for this study, no inferential statistics (p-values) were calculated. The study population was surveyed by means of a convenience sample; therefore Cohen’s d-values were used to determine differences between the means of different groups. Effect sizes indicating practically significant effects (d-values) were calculated by using the following formula (Cohen, 1988:20-27):

$$d = \frac{|\bar{x}_1 - \bar{x}_2|}{S_{\max}}$$

where:

- d = effect size;
- $\bar{x}_1 - \bar{x}_2$ is the difference between means of two compared groups; and
- s_{max} is the maximum standard deviation of the two compared groups.

Effect sizes were interpreted as follows (Cohen, 1988:20-27):

- $d \approx 0.2$ indicating a small effect with no practical significance;
- $d \approx 0.5$ indicating a moderate effect; and
- $d \approx 0.8$ or larger indicating a practically significant effect.

However, Cohen (1988:25) found that “the terms ‘small’, ‘medium’ and ‘large’ are relative, not only to each other, but also to the area of behavioural science or even more particularly to the specific content and research method employed in any given investigation”. Cohen (1988:25) also found that effect sizes are likely to be small (when they are not zero) in new areas of research enquiry. This is due to the fact that the phenomena under study are usually not under sufficient experimental or measurement control.

1.6 PRELIMINARY CHAPTER OUTLAY

This study is divided into six chapters. The first chapter sets out the methodological framework of the study by discussing the definition of terms, the motivation and goals behind the study as well as the method of investigation. In chapter two, relationship marketing theory is evaluated. The chapter will begin with a discussion on the definition of relationship marketing which will be followed with a comparison between relationship and transactional marketing as well as an analysis on relationship marketing in services. The importance of trust, commitment, value and service quality in terms of relationship marketing will also be investigated. This will be followed with a discussion on the benefits associated with relationship marketing, both from the company and the client’s perspective.

As stated previously, clients should be segmented in terms of their relationship intention before a relationship marketing strategy is implemented. It is therefore

important to understand the principles behind market segmentation. These principles will be analysed in chapter three starting with a discussion on the different definitions of market segmentation after which the goal, benefits and problems associated with market segmentation will be investigated. This will be followed by an analysis of the different bases for market segmentation after which segmentation using relationship intention will be discussed.

In order to segment clients according to their relationship intention the constitution of relationship intention must first be analysed. According to Kumar *et al.* (2003:670) a consumer's relationship intention is measured using five constructs. They are the client's involvement with the service, his/her expectations of the service, the willingness to forgive service failures, whether the client provides feedback to the company and whether the person would fear the loss of a relationship with the company's employees or with the company itself. These five constructs will be discussed in greater detail in chapter four.

The results obtained from the empirical research will be analysed, interpreted and discussed in chapter five. This will follow with chapter six in which the conclusions on the relationship intention of short term insurance clients based on the empirical results will be presented. Recommendations concerning market segmentation based on the relationship intention of short term insurance clients will also be provided.

CHAPTER 2

RELATIONSHIP MARKETING

2.1 INTRODUCTION

As stated in chapter one, the aim of this study is to measure the relationship intention of short-term insurance clients. This is done in order to focus relationship marketing strategies on those clients who wish to support long-term relationships with companies. However, in order to facilitate such relationships in the first place, it is important to understand the principles behind relationship marketing.

These principles will be discussed in this chapter starting with the definition of relationship marketing, which will be followed by a comparison between relationship and transactional marketing as well as a discussion on relationship marketing in services. The importance of creating trust, commitment, value and service quality in terms of relationship marketing will then be investigated. This will be followed by a discussion on the benefits associated with relationship marketing both from the company and the client's perspective.

2.2 DEFINING RELATIONSHIP MARKETING

According to Morgan & Hunt (1994:23) relationship marketing can be defined as "all marketing efforts directed towards establishing, developing and maintaining successful relational exchanges". This simple definition was taken a step further by Kotler (2000:13) who emphasised the importance of a long term approach by defining relationship marketing as "the building of long-term satisfying relations with key parties - clients, suppliers, distributors - in order to earn and retain their long-term preference and business". A word from the above definition that should be highlighted is "retain". Kotler hereby accentuates what he sees as the goal behind relationship marketing, which is to retain clients for the reason of making more profits. The goal of realising a profit through relationship marketing is

definitely important but what Kotler failed to bring across is the importance of a “win-win” situation for both the company and its clients.

A more complete definition is given by Hollenson (2003:10) who stated that relationship marketing involves the “understanding, focusing and management of ongoing collaboration between suppliers and selected clients for mutual value creation and sharing through interdependence and organisational alignment”. Hollenson used the words “mutual value creation” which not only describes the importance of having both parties benefit from the relationship but also highlights the importance of value creation in the establishment of company-client relationships.

One drawback in Hollenson’s definition is the fact that he only emphasises the building of relationships with “suppliers and selected clients” whilst in actual fact relationship marketing can be applied to relationships with any individual or group that influences the environment in which the company operates (Meek, Meek, Palmer & Parkinson, 2005:102). Christopher, Payne & Ballantyne (2002:80) developed a multiple market model which identifies six such groups or “market domains” namely customer markets, internal markets, referral markets, influence markets, recruitment markets and supplier/alliance markets. However, this study will only focus on relationship marketing in terms of customer or client markets.

The above definitions of relationship marketing therefore suggest that relationship marketing is concerned with developing relationships with clients and other stakeholders in a company. This is seen as the opposite of transactional marketing where companies tend to concentrate more on attracting new clients than on developing stronger relationships with existing clients (Nickels & Wood, 1997:6).

2.3 COMPARING RELATIONSHIP AND TRANSACTIONAL MARKETING

As stated above, a company may make use of a transactional marketing approach where most of their resources are devoted to winning new clients and

little effort is extended in keeping existing clients (Payne, 2000:19). This approach is based on a notion of mass markets where individual consumers are anonymous and the goal is to make consumers choose one particular brand over competing brands (Grönroos, 2000:25). These companies assume, therefore, that if they could produce a better product or service, price it low enough, and advertise it widely the company would be successful. Consumers are therefore seen to be passive because they would simply respond to advertising while marketing is viewed as something a company “does” to people - they market to them (Barnes, 2000:7, 8).

The above could create a situation of competition between the company and its clients, where the client is seen as someone the marketer does something to, instead of doing something for. It would appear that the company and the client have conflicting interests. The starting point is that the client does not want to buy the product or service and the company has to persuade him or her to do so (Grönroos, 2000:25). These conflicting interests as well as the company's emphasis on only acquiring new prospects and not building client relationships, causes little trust or commitment to develop between the company and its clients. Clients soon learn to search for the best deal and choose among services largely on the basis of price, which in turn would force companies to lower their prices and hence, their profits (Nickels & Wood, 1997:6). Relationship marketing, on the other hand, marks a significant paradigm shift in marketing thinking where competition, conflict and independence must change to mutual cooperation and interdependence (Hollenson, 2003:11). In a relationship based marketing environment, a company must focus beyond single transactions. There must be acceptance within the company that every client represents a potential stream of revenue and long term earnings (Barnes, 2000:19).

This way of thinking has become more important in recent times as the mass marketing approach is now less effective and less profitable. Markets are now more mature and oversupplied and new clients are difficult to find. Those clients are also demanding better service and greater attention to individual needs (Barnes, 2000:5; Grönroos, 2000:23). Furthermore, service standards have vastly increased with the delegation of service provision to technology. This

increase in service standards means that service provision is often accomplished without error or disruption. Therefore, those companies that were previously able to gain an advantage over their competitors through the delivery of superior service now have to compete at a completely different level than they did in the past (Barnes, 2000:9). The challenge that this changed environment poses to a company is to identify how to build enduring relationships with profitable clients. In other words, companies need to switch from volume growth to profit growth by increasing the company's "share of client" rather than its market share (Ferrel & Hartline, 2005:114; Christopher *et al.*, 2002:19).

The aim is thus to move from all forms of once-off sales transactions towards a long-term relationship approach aimed at maximising client retention rates (Hawkins, 1995:31). This approach does not suggest, however, that new clients are not important. Client acquisition is vital to the future success of most companies. However, a balance needs to be achieved between the resources that are directed towards winning new clients and that which is given to serving existing clients. All too often it is the existing client who receives insufficient attention (Payne, 2000:20).

Table 2.1: Comparing relationship and transactional marketing

Relationship Marketing	Transactional Marketing
Long-term orientation	Short-term orientation
High level of commitment to clients	Limited commitment to clients
High degree of service commitment	Limited service commitment
Clients are aware and informed	Clients are less informed
High client contact	Moderate client contact
Interest in multiple sales	Interest in making a single sale
Focus on profitable retention	Focus on volume
Quality is every employee's concern	Quality is a production concern
Everyone in the company is a part-time marketer.	Marketing is only the concern of the marketing department

Source: Hollenson, 2003:13; Christopher *et al.*, 2002:19; Nickels & Wood, 1997:6

2.4 RELATIONSHIP MARKETING IN SERVICES

According to Grönroos (2000:22) it is natural that relationships are given a central place in the development of marketing models and concepts to be used in service contexts. When services are delivered the client always has to interact with the service provider in some way. This is why, according to O'Mally & Tynan (2003:35), the nature of services forces the buyer or client into intimate contact with the seller thereby facilitating the development of social bonds. Hansen, Sandvik & Selnes (2002:494) support this by stating that service encounters must be viewed, first and foremost, as social encounters. Grönroos (2000:6,7) found that if several of these encounters follow each other in a continuous or discrete fashion, a relationship may emerge. Hence, in a service context, there are always relationships between the client and the service provider which can be used as a basis for marketing, if the company chooses to do so and provided that the client is interested (Grönroos, 2000:22).

Apart from the element of social interaction, there is another characteristic of services that makes it more susceptible to relationship marketing. Services are deeds, performances, or efforts that cannot be physically possessed thereby making services inherently intangible (Lamb *et al.*, 2004:438). Because of this intangibility, clients are often faced with not knowing what to expect of a service until they have made use of it. Due to the uncertainty and risk associated with the acquirement of services, clients have an inherent need to trust their service provider to deliver the desired service outcome (Coulter & Coulter, 2002:35, 36). Trust, however, is a necessary precursor for the establishment of long-term client relationships (see section 2.5). Service providers are therefore in an excellent position to establish profitable, long-term relationships with their clients. This is especially so in the case of financial services as many clients do not have the requisite technical knowledge and skills to confidently predict the outcome of their investment and buying decisions, and must therefore trust their financial advisor (Sharma & Patterson, 2000:473). This is why, according to Peck, Payne, Christopher & Clark (1999:7), the building of long-term client relationships is easily justified in financial services.

2.5 THE IMPORTANCE OF ESTABLISHING TRUST IN THE COMPANY

As stated previously, if a company takes the strategic decision to adopt a relationship focus as opposed to a transactional focus, then it will involve a real change from traditional marketing thinking and behaviour. This means that certain areas in business that might previously have been ignored would require more attention with the implementation of a relationship marketing approach. According to Pride & Ferrel (2006:367) one area that warrants special attention is the development of trust between the company and its clients.

According to literature, trust is perhaps the single most important relationship marketing tool available to a company (Chiou, 2004:688; Sirdeshmukh, Singh & Sabol, 2002:15; Grönroos, 2000:31; Hocutt, 1998:192; Berry, 1996:42). This is because the signalling of trust to clients is a vital first step for companies in gaining co-operative behaviour and is therefore necessary in establishing a long-term relationship (Fletcher & Peters, 1997:526). From a marketing perspective, this suggests that the development of trust should be a fundamental component of any marketing strategy that is intended to lead to the creation of genuine client relationships (Barnes, 2000:121).

2.5.1 Defining trust

There is a variety of definitions on trust found in the literature on relationship marketing. According to Hocutt (1998:192), some authors define trust as a willingness to rely on an exchange partner in whom one has confidence. This relates to the definition of Sharma & Patterson (2000:473) who defined trust as “a feeling or belief on the part of a buyer that a seller will fulfil the promises made during an exchange transaction”.

Hocutt (1998:192) also found that authors sometimes define trust as a belief that a partner's word or promise is reliable and that the partner will perform actions that will result in positive outcomes and not take unexpected actions resulting in negative outcomes. This, in turn, corresponds with the definition of Barnes (2000:120) who defined trust as “a willingness to act in a certain manner

because of confidence that the partner will provide the expected gratifications and a generalised expectance held by an individual that the word, promise or statement of another individual can be relied on”.

2.5.2 Requirements for the establishment of trust in client relationships

From the above definitions it becomes evident that reliability and competence play a significant role in the establishment of trust. According to Coulter & Coulter (2002:37), competence can be defined as the degree to which clients perceive that the company possesses the required skills and knowledge to supply the service needed. Reliability, according to Bloemer, De Ruyter & Wetzels (1999:1084), is defined as the ability to deliver the promised service dependably and accurately. Sirdeshmukh *et al.* (2002:17) found that the expectation of reliable service and competent performance from a company has been noted as a precursor to the development of client trust. Sako (1992:43) goes as far as to say that competence is a prerequisite for the viability of any repeated transaction.

A series of repeated transactions is, in itself, another important prerequisite for the establishment of trust. According to Fletcher & Peters (1997:527) a reliance on trust by clients will only emerge when transactions with the company have been successfully completed in the past. This is because, according to Barnes (2000:120), trust evolves out of past experience and prior actions.

The idea that trust emerges from prior contact is based on the premise that through ongoing interaction, clients learn more about the company and develop trust based on the company’s competence and the reliability of its service (Coulter & Coulter, 2002:37). Therefore, trust can only be developed through tangible, operational demonstrations on the part of the company in its competence and fulfilment of promises whilst being supported by qualitative relationship development (Fletcher & Peters, 1997:537).

However, a series of transactions does not, by itself, constitute a close relationship. As transactions are successfully repeated and trust is established

between the company and client, each party has to sacrifice its independence in order to demonstrate their commitment to the relationship (Adcock, 2000:258). This leads to dependability, which results when a relationship progresses to the point where emphasis shifts away from specific behaviour towards an evaluation of the qualities of the company and its employees (Barnes, 2000:121). In other words, trust is placed in the company itself and not in the specific actions of the company.

2.5.3 The benefits of building trust in the company

The major benefit for companies in building trust with clients, as can be derived from the discussions above, is the establishment of strong client relationships. However, apart from this, there are other additional benefits in building trust with clients.

According to Fletcher & Peters (1997:527), trust has an impact upon clients' willingness to demonstrate tolerance. In other words, clients would be more forgiving towards service failures. This corresponds with the findings of Ball, Coelho & Machas (2003:1275) who stated that "clients who are not willing to trust a company in a competitive marketplace are less likely to be loyal". More trusting clients, therefore, appear to be more loyal to a particular company and less prone to switch to competitors.

The existence of trust in a relationship can also act as a kind of insurance for clients against risks and unexpected behaviour in the future (Grönroos, 2000:38). This is because trust tends to reduce the risk associated with opportunistic behaviour by the company. In other words, the client's trust in the company's intentions will not perceive the possibility of the company seeking only its own interests, hiding relevant information or violating agreements (Guitierrez, Cillian & Izquierdo, 2004:355). This, combined with clients' trust in the company's competence will reduce their insecurity when buying and encourage them to undertake transactions that involve higher risk (Guitierrez *et al.*, 2004:355; Morgan & Hunt, 1994:22).

2.5.4 Building trust in the short-term insurance industry

As can be derived from the discussions above, trust is particularly important where actions must be undertaken without the ability to monitor the actions of the other party in advance (Fletcher & Peters, 1997:527). In a company-client context this can be explained with an example from the short-term insurance industry where clients pay a monthly premium, trusting the insurance company to pay out a claim should the client suffer some unforeseeable damages in the future.

Now consider the insurance company that is confronted with a claim from a family who has recently lost their home in a fire. The company can prolong the process as well as the family's grief by harassing the family with questions on how the fire started or who is at fault. Although these questions are important the insurance company must first ensure that the client's emotional needs are met. By dealing with the claim quickly and efficiently, the insurance company not only sends the message that it trusts the client but also that the company is committed to its relationship with them (Barnes, 2000:146).

This brings us to another important element required for the establishment of long-term company-client relationships, namely the development of relationship commitment.

2.6 THE IMPORTANCE OF DEVELOPING RELATIONSHIP COMMITMENT

According to Bowen & Shoemaker (2003:34) relationship marketers generally believe that the future of buyer-seller relationships depends on the commitment made by the partners to the relationship. One can therefore ascertain, as White & Schneider (2000:240) has done, that the success of a company's relationship marketing efforts can be measured by the degree of commitment that clients display towards the company. It thus becomes evident that commitment is increasingly regarded as a central construct in relationship marketing.

2.6.1 Defining commitment

According to the literature, relationship commitment is defined in its simplest terms as a willingness or desire to maintain a relationship (Fullerton, 2005:100; Grönroos, 2000:38; Hocutt, 1998:195; Fletcher & Peters, 1997:526). A more comprehensive definition, however, is provided by Bowen & Shoemaker (2003:34) who define commitment as a client's "belief that an ongoing relationship is so important that he or she is willing to work at maintaining the relationship and are willing to make short-term sacrifices to realise long-term benefits". This definition of commitment is more in step with a relationship marketing perspective because of its emphasis on a long-term approach.

2.6.2 The benefits of client commitment

Incidentally, the above definition of commitment also highlights one of the benefits for companies in establishing client commitment. As the definition states, clients in a committed relationship are willing to make short term sacrifices. Therefore, they would not, according to Sharma & Patterson (2000:473), actively seek out alternative service providers or companies in order to gain short-term benefits such as price reductions.

This is because commitment encourages clients to resist attractive short-term alternatives from other companies in favour of the expected benefits of supporting long-term relationships with existing service providers (Morgan & Hunt, 1994:22). Hence, the level of commitment determines relationship strength and the intention of clients to remain in a relationship with a company (Hocutt, 1998:189). This, in turn, will increase profitability as client commitment can help companies retain their clients and drive them to repeat buying (Guitierrez *et al.*, 2004:355). However, committing to a relationship possibly involves a smaller sacrifice for a company, which wants to secure business with existing clients, than it is for clients who could be asked to give up the freedom to choose between and negotiate with alternate sellers (Adcock, 2000:375). It therefore becomes evident that in order to retain clients on the basis of their commitment, the company must provide a service that holds value to the client.

2.7 THE IMPORTANCE OF VALUE CREATION

The above statement is supported by the research of Chiou (2004:687) which found that clients will only commit to a relationship with a company as long as the transaction provides superior value. Value creation, therefore, seems to be an important component of relationship marketing. The literature supports this by repeatedly stating the criticality of providing value on a sustained basis for the successful development of long-term client relationships (Ferrel & Hartline, 2005:121; Lamb *et al.*, 2004:10; Bowen & Shoemaker, 2003:36; Christopher *et al.*, 2002:21; Barnes, 2000:131; Payne, Christopher, Clark & Peck, 1996:6, 45).

2.7.1 Defining value

According to Ferrel & Hartline (2005:121) the most common definitions found on value are those that relate client benefits to costs. This corresponds with the definition of Lamb *et al.* (2004:20) who define client value as the ratio of benefits to the sacrifice necessary to obtain those benefits. These sacrifices according to Lamb *et al.* (2004:20) include monetary costs, time costs, and energy costs whilst the benefits could be product related, service related or image related.

A definition similar to that of Lamb *et al.* (2004:20) is provided by Sirdeshmukh *et al.*, (2002:21) who define value as the client's perception of the benefits minus the costs of maintaining an ongoing relationship with a service provider. The benefits are relational in nature and include the intrinsic and extrinsic utility provided by the ongoing relationship. The associated costs, on the other hand, include monetary and non-monetary sacrifices that are needed to maintain the relationship.

However, it should be taken into consideration that value is also a relative term in that it can only be judged in comparison to the offerings of other companies or an internal standard (Ferrel & Hartline, 2005:121). Clients will therefore remain loyal to a company if the value they perceive is determined to be relatively greater than that expected from competitors (Kandampully, 1998:433). Taking this into consideration, Ferrel & Hartline (2005:121) have developed a more complete

definition by defining value as a client's subjective evaluation of benefits relative to the cost to determine the worth of a company's service offering in relation to other service offerings.

2.7.2 The importance of identifying client needs in creating value

From the above definition, it becomes evident that in choosing between competing companies, the client will select the offer that he or she perceives to be of best value. However, to get into a position to be able to offer superior value to clients, the company must first understand clients' needs (Doyle, 2000:71). Many companies believe that value is created when they try to sell a service to clients based merely on the features of a particular service (Doyle, 2000:89). According to Barnes (2000:21), value creation occurs when clients receive something more from the person serving them, when they are made to feel important, respected and appreciated. Employees can therefore create value with simple gestures and by doing a little more than the basic requirements.

Clients, therefore, desire personalised and close relationships with companies and value the benefits of maintaining such relationships (Kandampully, 1998:433). These benefits may be a feeling of trust in a company or social bonds that have been established between the client and the company. It is important to note that these benefits are perceived as true value-creating benefits and not as feelings. It is also interesting to note that such benefits as trust in a company may be more important for clients who see more value in the relationship itself (Grönroos,2000:31,39). However, it is important for companies to realise that, in order to build long-term relationships with clients, they must also be able to fulfil clients' needs better than their competitors by offering services that are of superior quality (Ferrel & Hartline, 2005:117).

2.8 THE IMPORTANCE OF SERVICE QUALITY

Nickels & Wood (1997:323) found that without a high standard of service quality, the company would end up damaging its relationship with clients. Therefore, if service quality is low, companies could end up losing valuable client

relationships. This is especially ominous information for South African companies as South Africa was recently placed 44th out of 46 countries in terms of service quality standards (Lamb *et al.*, 2004:19). It is therefore evident that in the establishment of long-term relationships, the improvement of service quality warrants special attention.

2.8.1 Defining service quality

Most definitions conceptualise service quality as the result of a comparison between client expectations and actual service performance (Pride & Ferrel, 2006:374; Bloemer *et al.*, 1999:1084; Kandampully, 1998:433; Payne *et al.*, 1996:196). A similar definition is given by Meek *et al.* (2005:163) who defined service quality as the match between expectations of service quality and client perceptions of the service. However, two words in the last definition that need to be highlighted are “client perceptions”. According to Nickels & Wood (1997:323) quality is not determined by the company but by the client. Therefore, the client’s perception of the actual service performance would determine the quality of that particular service. Companies should therefore determine how clients perceive service quality.

2.8.2 Clients’ criteria for evaluating service quality

The biggest obstacle for clients in evaluating service quality is the intangible nature of services. It is inherently difficult for clients to evaluate something they cannot hear, feel, taste, smell or see (Pride & Ferrel, 2006:374). The question is thus, what criteria do clients use to evaluate service quality? Grönroos (2000:81) identified four such criteria as:

- Professionalism and skills. The company’s employees have the knowledge and skills required to solve the client’s problems in a professional manner;
- Attitudes and behaviour. Employees are concerned about the company’s clients and are interested in solving their problems in a friendly and spontaneous way;

- Accessibility and flexibility. The company is managed and operated in such a way that clients have easy access to the service. The company is also prepared to adjust to clients' demands and wishes in a flexible way; and
- Reliability and trustworthiness. Clients believe that they can rely on the company to keep promises and perform with their best interest at heart.

2.8.3 The advantages of improving service quality

Apart from aiding the establishment of long-term client relationships, an improvement in service quality also raises client satisfaction levels. Client satisfaction, in turn, also leads to relationship strength which leads to relationship longevity and client relationship profitability (Storbacka, Strandvik & Grönroos, 1994:23). It is thus evident that client satisfaction plays a key role in client retention. Fully satisfied clients are therefore more likely to become loyal clients, or even advocates for the company and its services (Ferrel & Hartline, 2005:125). Improved client loyalty reduces the costs of acquiring new clients while making existing clients less price sensitive and also less likely to explore alternative suppliers – all of which contribute to higher profits (Ferrel & Hartline, 2005:125; Meek *et al.*, 2005:217). It is interesting to note that the benefits provided by the improvement of service quality correspond to a great degree with the overall benefits associated with relationship marketing.

2.9 RELATIONSHIP MARKETING BENEFITS FOR COMPANIES

According to the literature, there are a number of benefits for companies related to the implementation of a relationship marketing strategy. These benefits include lower business costs, an increase in client spending, referrals and price-premiums. All of these benefits, however, can be attributed to an increase in client retention.

2.9.1 Increased client retention

According to Hollenson (2003:202), the main reason companies seek to develop ongoing relationships with clients is that it is generally more profitable to retain existing clients than continually seek new clients to replace the ones who

defected. Doyle (2000:81) found that there are vast differences between companies in terms of profitability even though they are grouped within the same industry and ask similar prices. According to Doyle, the major cause of this difference is variations in the client retention rate.

Even a small improvement in retention rates could make a dramatic impact on profitability. According to Peck *et al.* (1999:47), a five percentage point increase in client retention for a number of companies yielded an improvement in profitability of between 20 percent and 125 percent depending on the company and the industry in which it operates. In the auto/home insurance industry for example, a 5 percent increase in the client retention rate yielded an 84 per cent increase in profits per client. According Payne *et al.* (1996:249) client churn in most companies amounts to between 10 and 20 percent annually. Client retention should therefore receive greater attention if companies wish to attain higher growth.

2.9.2 Lower business costs

Christopher *et al.* (2002:8) found that, because of the costs involved in acquiring and serving new clients, a higher retention rate could imply that fewer new clients need to be acquired and that they also could be acquired at a lesser expense. In actual fact, Nickels & Wood (1997:324) found that the opportunity cost of losing sales from a loyal service client is as much as eight times higher than the cost of retaining the client.

According to the literature there are two reasons why existing clients are more cost-effective to serve. First of all, operation costs are reduced. As clients become more experienced, they make fewer demands on the company in terms of information and assistance. They may also make fewer mistakes in operational processes, thus contributing to greater productivity (Lovelock & Wirtz, 2001:352). Therefore, as clients become more familiar with the company, the costs of serving them decrease. Companies will have fewer mistakes to correct and will spend less time answering questions. Hence, service processes will be smoother and take less time (Doyle, 2000:81; Grönroos, 2000:131).

A second reason why existing clients are more cost-effective is the absence of acquisition costs. Unlike existing clients, new clients cost money to recruit and serve. This is because of the start-up expenses associated with attracting them in the first place, such as credit searches and application processing (Barnes, 2000:19). Another such acquisition cost is related to marketing expenses. Obtaining new clients is very expensive in terms of costs such as advertising, direct mail, sales commissions and management time (Doyle, 2000:81). With existing clients, there will be less need for client research, awareness building, competitive proposals or presentations thereby cutting major expenses for the company (Payne *et al.*, 1996:255).

Taking these factors into consideration, it would be sensible for most companies to save these costs by retaining their existing clients. However, few companies measure the cost of losing a client. This loss is far greater than most companies would realise, taking into consideration the loss of future sales and the fact that a client's value to the company increases over time (Barnes, 2000:38).

2.9.3 Increased client spending

According to Barnes (2000:49) those clients who have developed a long-term relationship with a company will increase their spending over time, thereby increasing their value as clients to that particular company. Grönroos (2000:130) found that the average profit per client grows constantly over the first five years of a company-client relationship. Doyle (2000:81) also found that a client who has been with the company for a period of seven years can generate up to six or seven times the amount of new clients. Therefore, clients who stay with the company are assets of increasing value because they tend to generate a higher and higher net cash flow each year they stay with the company.

The reason why loyal clients increase their spending over time is because they have learned more about the company's service offering and because trust has been developed between the company and its clients. With the presence of trust, clients are more inclined to increase their dealings with the company (Doyle, 2000:81). The ability to win the client's trust is a dominant influence in

the sales process of professional services. This is because the existing relationship between the company and its long-term clients usually implies a greater ability to charge full rates because the client has already been exposed to the company and its ability to deliver value.

In situations where new clients are targeted, in other words where the company and its capabilities are unknown, clients will always be more sceptical and price-sensitive (Payne *et al.*, 1996:254, 255). In addition, Barnes (2000:19) found that as clients become more comfortable with a company, they are also likely to spend more money on additional products or services. In other words, they tend to give that company a greater share of their total spending in that specific service category. In the insurance industry for example, those clients who are satisfied with the service they receive from their short-term insurance supplier may later also purchase life-insurance from the same insurer or broker. Lovelock & Wirtz (2001:352) also found that clients may purchase more of a certain product or service as their families grow or as they become more affluent. These clients may then decide to consolidate their purchases with a single supplier that provides a high-quality service. Therefore, more established clients do not only continue to support the company, they also tend to increase their support.

2.9.4 Payment of a premium price

Apart from increasing their spending, more established clients also pay a higher price than new clients (Grönroos, 2000:131). New clients are usually attracted by introductory promotional discounts from which they benefit, but which earn the company low margins. Long-term clients, on the other hand, are more likely to pay regular prices (Lovelock & Wirtz, 2001:352; Doyle, 2000:82). It would appear, therefore, that long-term clients are also less price-sensitive. This corresponds with the research of O'Mally & Prothero (2004:1287) who found that the implementation of a relationship marketing strategy can result in clients decreasing their price sensitivity.

The main reason why long-term clients are more willing to pay a premium price is because they realise the value provided by the company (Grönroos, 2000:131).

In other words, these clients have developed trust in the company and when clients trust a supplier, they are more willing to pay premium prices (Christopher *et al.*, 2002:8; Lovelock & Wirtz, 2001:352). This is why, according to Bowen & Shoemaker (2003:31, 32) one of the major benefits of relationship marketing comes from the continuing patronage of loyal clients who display decreased price sensitivity over time.

2.9.5 Referrals

Those companies who successfully implement relationship marketing also benefit from positive word-of-mouth that leads to increases in sales, market share, and profits (Lamb *et al.*, 2004:11). The reason for this, according to Barnes (2000:49) is that clients are more likely to make referrals if they have built a solid relationship with the company. By promoting the company in conversations with others, these clients serve as a valuable marketing resource for the company (White & Schneider, 2000:241). They recommend the company to family, friends and business associates thereby taking over the role as marketer without any additional costs to the company (Grönroos, 2000:131). Therefore, referrals could be compared to free sales and advertising, saving the company from having to invest as much money in these activities (Lovelock & Wirtz, 2001:352).

According to Doyle (2000:82) personal recommendations or referrals are more powerful persuaders than advertising or paid for communications. The reason for this, according to Barnes (2000:49) is that referrals are taken more seriously by clients since the information is coming from a trusted source such as a family member or friend. Barnes (2000:49) also stated that the development of long-term relationships with clients can act as something similar to an insurance policy. Clients will leave a company or terminate a relationship for reasons that have nothing to do with them personally, but rather because of how a friend, family member or associate was treated. Therefore, developing strong client relationships not only protects the business that flows from that client directly but also the business that he or she may influence by association.

2.10 RELATIONSHIP MARKETING BENEFITS FOR CLIENTS

The implementation of a relationship marketing strategy not only benefits the company but the client as well. According to Barnes (2000:126) there are three sets of benefits experienced by clients that are associated with the establishment of long-term company-client relationships. They are confidence, social and special treatment benefits.

2.10.1 Confidence benefits

According to Chiou (2004:688) and Grönroos (2000:36) confidence could be seen as the most important of these three benefits. When clients have confidence in a company it leads to reduced perceptions of anxiety and risk, increased confidence in the service and the development of “trusted feeling” in the company (Barnes, 2000:126; Grönroos, 2000:36). In simpler terms, once clients have built confidence in a company they know what to expect, thereby reducing their anxiety of possible poor service delivery in future (Chiou, 2004:688). This is why, according to Grönroos (2000:37), confidence benefits are key results of well-functioning long-term relationships as they prove that clients have developed trust in the company.

2.10.2 Social benefits

Grönroos (2000:37) also found that wherever interpersonal contact exists, social benefits can be developed. These are benefits that clients perceive as familiarity, personal recognition and friendship (Alexander & Colgate, 2000:939). In other words, clients are familiar with employees and they are also recognised by employees and are called by name. This, in turn, could lead to the development of friendships among employees and clients (Grönroos, 2000:36; Barnes, 2000:126). Any contact between employees and clients should therefore be enhanced so that clients feel that there is a special connection between them and the company's employees. This will not only lead to the development of friendships but also have a positive effect on the confidence type of relational benefits (Grönroos, 2000:37).

2.10.3 Special treatment benefits

Finally, clients may also receive special treatment benefits such as special deals, discounts or extra services (Alexander & Colgate, 2000:939; Grönroos, 2000:36). Special treatment benefits could also be linked to preferential treatment when employees grant little favours or provide faster service for specific clients (Barnes, 2000:126). Also, clients may obtain customisation benefits as companies may tailor services to meet their specifications and requirements (Alexander & Colgate, 2000:939).

In actual fact, these benefits can include anything that a client receives in his or her dealings with a company. However, companies should guard against using these special treatment benefits as bribes in order to retain their clients, instead of focusing on building strong, long-term relationships with them (Ferrel & Hartline, 2005:121).

2.11 CHAPTER SUMMARY

In this chapter, certain elements of relationship marketing were discussed. These elements include the definition of relationship marketing, the difference between relationship and transactional marketing, relationship marketing in services, the importance of creating trust, commitment, value and service quality in terms of relationship marketing as well as the benefits associated with relationship marketing both from the company and the client's perspective.

Grönroos (2000:151) found that with the advent of relationship marketing, companies aim at treating clients on an individual basis. However, in some situations it is not financially justified for the company to communicate personally with each and every client, or to treat every client individually. This is why, according to Peck *et al.* (1999:51), those companies who seek to improve their relationship marketing strategies will also seek to develop appropriate segmentation strategies for their different clients. It is therefore necessary to understand the principles behind market segmentation. These principles will be discussed in the next chapter.

CHAPTER 3

SEGMENTATION PRINCIPLES

3.1 INTRODUCTION

As stated in chapter one, the goal of this study is to investigate the relationship intention of short-term insurance clients. This is done in order to identify which clients would support a long-term relationship with a company. In the application of a relationship marketing approach, this information would be valuable because it shows which clients will be best suited for a relationship marketing strategy. Clients should thus be segmented in terms of their relationship intention before a relationship marketing strategy is implemented. Therefore, it is important to understand the principles behind market segmentation. These principles will be investigated in this chapter starting with a discussion on the different definitions of market segmentation after which the goal, benefits and problems associated with market segmentation will be analysed. This will be followed by an analysis of the different bases for market segmentation, after which a discussion on segmentation using relationship intention will follow.

3.2 DEFINING MARKET SEGMENTATION

Wendell Smith (1956:5) first defined market segmentation as “viewing a heterogeneous market as a number of smaller markets, in response to differing preferences, attributable to the desires of clients for more precise satisfaction of their varying wants”. Smith’s definition of market segmentation, which paved the way for other definitions, remained relatively unchanged over the years.

However, Kotler (as quoted by Dibb & Simkin, 1997:52) went a step further and defined market segmentation as the subdividing of a market into distinct subsets of clients, where any subset may conceivably be selected as a target market to be reached with a distinct marketing mix. In his definition, Kotler emphasised that target markets or market segments could be reached with a distinct or different marketing approach. However, his definition did not explain that the

different target markets should consist of clients with similar characteristics or preferences. McDonald and Dunbar (1995:11) developed a more complete definition which states that market segmentation is a process of splitting clients into different groups or segments, within which clients with similar characteristics have similar needs and which can be targeted and reached with a distinct marketing mix. Although more complete, their definition is also different in that they define market segmentation as a process.

This process of market segmentation according to Dibb (2000:383) is generally considered to consist of three stages namely segmentation, targeting, and positioning. During the segmentation stage, clients are grouped into segments using one or a combination of variables. The aim is to categorise those with similar needs and buying behaviour. Next, the company chooses the segment(s) on which to target marketing resources. The final stage, positioning, involves the design of marketing programmes that will match the requirements of clients in the segments chosen. However, for the purposes of the study, this chapter will mainly focus on the first stage of market segmentation, namely the segmentation stage.

3.3 GOAL BEHIND MARKET SEGMENTATION

The underlying aim of market segmentation is to group clients with similar needs and buying behaviour into segments, so that each segment can be reached by a distinct marketing approach (Meadows & Dibb, 1998:267). This is because, in most cases, it is almost impossible to satisfy all clients in a single market with a single marketing strategy (Kara & Kaynak, 1996:873). The breadth of client requirements is just too extreme for single companies to satisfy all the clients' product and service needs all the time. Companies are thus more likely to achieve a match between their particular assets and the diversity of needs by concentrating efforts on client groups with fairly homogeneous requirements (Dibb & Simkin, 1997:52). The idea is thus to bridge the gap between diverse client needs and a company's limited resources by encouraging distinct product and marketing offerings to be developed to suit the requirements of different client segments (Meadows & Dibb, 1998:267).

3.4 THE ADVANTAGES OF MARKET SEGMENTATION

According to the literature, market segmentation is a process which, if conducted thoroughly, maximises a company's resources, helps a company in understanding client needs and establishes a competitive advantage. It also contributes to a better understanding of the market as well as the identification of new marketing opportunities. A discussion on these advantages will follow.

3.4.1 Improved resource allocation

As stated earlier, it is simply unrealistic for a company to satisfy the entire range of diverse client needs in the marketplace. By focusing marketing efforts on certain segments, the impact of limited resources can be increased. Market segmentation thus helps in balancing the differences in clients' needs with the limits of available resources (Dibb, 1998:394). Also, market segmentation can play a vital role in ensuring that the balance of marketing activities continues to contribute to market share and profitability. For instance, companies with a low market share and limited resources can use segmentation to focus marketing assets by identifying, developing and sustaining activity in lower risk market segments (Dibb & Simkin, 1997:52). Thus, according to the literature, market segmentation is beneficial to a company because it helps in allocating scarce resources to market segments which are the most attractive to target and which the company is able to serve best. This, in turn, can also assist the company in terms of its profitability and long term survival.

3.4.2 Better understanding of client needs

According to McDonald and Dunbar (1995:15) the recognition of clients' differences is the key to successful marketing, as it can lead to a closer matching of clients' needs with the company's products or services.

What is important to realise, however, is that nearly all markets include client segments with very distinct product needs and preferences. Market segmentation helps marketers define client needs and wants more precisely (Lamb, Hair, McDaniel, Boshoff & Terblanche, 2004:165). This can lead to a

closer matching of a client's needs with the company's products or services. In more practical terms, it gives a company the ability to tailor products to better suit the needs of clients (Ferrel & Hartline, 2005:134; McDonald and Dunbar, 1995:15). This, in turn, allows for a more carefully tuned marketing programme to be developed and a greater insight into the competitive situation to be achieved (Dibb & Simkin, 1997:52).

3.4.3 Creating competitive advantage

When used effectively, market segmentation helps to develop and maintain an edge over rival organisations (Dibb & Simkin, 1997:52). It also enhances the appreciation of the competitive situation, allowing a company to better understand the appropriate segments to target and the nature of competitive advantage to seek (Dibb, 1998:394). By means of segmentation, a company can market itself as a specialist in their chosen market segments, with a better understanding of their clients' needs. This will give the company's products or services an advantage over competitors' products (McDonald and Dunbar, 1995:15). Even if the company should serve the segment with a standard product or service, a competitive edge will be maintained. However, if the product or service is specific to the segment then the company's competitive advantage could easily be multiplied. Nevertheless, until competitors copy the company's segmentation approach, the company will maintain its competitive advantage (Dibb, 1998:394).

3.4.4 Identifying new opportunities

The process of segmentation helps identify new opportunities and can lead to a concentration of resources in markets where competitive advantage is greatest and returns are high (McDonald and Dunbar, 1995:11,15). For instance, when undertaking segmentation analysis, companies can identify an emerging or neglected segment which can offer an easy gateway for entry into a market. Also, when these segments are identified early and targeted effectively, it can lead to niche marketing, where the company can meet most or all of the needs of clients in that niche segment. This, in turn, can result in segment dominance, something which is often not possible in the total market (Lamb *et al.*, 2004:125).

3.4.5 Better marketing planning

Market segmentation is fundamental to creating successful marketing strategies as it provides effective guidelines for a company's marketing strategy development (Dibb, 1998:394; Kara & Kaynak, 1997:881). This is mainly due to the fact that market segmentation provides marketers with information to help them design marketing mixes specifically matched with the characteristics and desires of one or more segments (Lamb *et al.*, 2004:165). The information gathered through segmentation analysis can also shed light on the marketing programme requirements of particular client groups, which can help companies adjust the distribution channels and advertising media to reach each market more effectively (Slabbert, 2002:16; Dibb, 1998:394).

Apart from this, market segmentation also ensures better marketing planning in a variety of different ways. For instance during the market segmentation process, core marketing analyses are updated and knowledge of clients, environmental trends, internal capabilities and the competition is strengthened (Dibb & Simkin, 1997:60, 61). Segmentation also helps decision makers define marketing objectives more accurately which, in turn, ensures that marketing performance is better evaluated (Lamb *et al.*, 2004:165).

3.5 PROBLEMS ASSOCIATED WITH MARKET SEGMENTATION

The benefits of using a segmentation approach are obvious, but the attention given by the literature to the virtues of segmentation may obscure some of the difficulties which companies face when trying to put the theory into practice (Dibb & Simkin, 1997:53). Marketers should therefore evaluate the decision to implement such an approach not solely on the benefits, but also on the problems associated with market segmentation. The following problems associated with market segmentation have been identified: poor understanding of segmentation principles, difficulty in implementation, structural limitations of companies and a lack of managerial interest and skill. A discussion on these problems will now follow.

3.5.1 Poor understanding of segmentation principles

The most common problem identified with the application of market segmentation is the poor understanding companies have of segmentation principles (Dibb & Simkin, 1997:52,53). This can be a major barrier to successful implementation, causing problems in a number of areas. For instance, some marketers fail to understand that segmentation should also be meaningful to clients rather than just the company (Doyle, 1995:37). As a result, many companies see segmentation as a convenient way of carving their markets into more manageable pieces. The company may find itself operationally simpler to manage, but unable to group clients with similar needs and buying behaviour into different segments (Dibb, 1998:395, 396). Hence, the company would not be able to develop a suitable marketing programme for these segments and, in turn, fail to meet the differentiated needs of its clients.

3.5.2 Difficult to implement

The process of dividing a market into segments with similar needs and buying behaviour can be difficult to achieve for a variety of reasons (Meadows & Dibb, 1998:267). Firstly, accomplishing the task of isolating one or more characteristics that closely align with client needs and wants can be difficult to attain (Ferrel & Hartline, 2005:143). Even when this is accomplished, the market is often divided into either too many or too few segments. In the first case the result is confusion, while the second leads to failure to achieve a meaningful competitive advantage (Lamb *et al.*, 2004:125). This process can become even more complex when taking into consideration that there is not one best way to segment a market. Each approach has certain merits and limitations depending on the product or market being considered and managerial objectives sought by the company for market segmentation (Kara & Kaynak,1996:874). As a result, choosing the right market segmentation approach could be a difficult decision.

3.5.3 Structural limitations of the company

Another major problem is the possible structural limitations a company has to deal with when applying market segmentation. All aspects of segmentation can

fail when a company's infrastructure is inappropriate or too inflexible to deal with the process of market segmentation. These problems are usually caused by a company's culture, acting as a barrier against a market segmentation approach (Slabbert, 2002:59). This is because a segmentation strategy requires far-reaching organisational and marketing changes, which are difficult to undertake and which may not be attractive to sales and marketing executives (Dibb & Simkin, 1997:51). Some of these changes could include adjustments in the existing distribution systems and existing relationships with suppliers and intermediaries (Meadows & Dibb, 1998:268). The termination of these relationships and the disruption in the *status quo* may not be supported by employees or marketers.

3.5.4 Lack of managerial interest and skill

Managers often lack commitment to create new segmentation strategies because the desire for new ideas and updated marketing programmes fails to overcome latent managerial inertia (Dibb & Simkin, 1997:54). This can be problematic since commitment from senior managers to supply adequate financial resources to collect the appropriate market data is crucial in ensuring the successful implementation of segmentation strategies. Apart from a lack of commitment, some companies also lack the required skills and experience to carry out the segmentation process (Slabbert, 2000:59). These companies usually carry out insufficient marketing analysis which would cause the company to implement poorly structured marketing plans, thereby making the chances of success unlikely (Dibb & Simkin, 1997:51). As this discussion shows, there is a variety of problems associated with market segmentation. However, the literature provides criteria for the successful application of a market segmentation programme, which could help companies overcome these problems.

3.6 CRITERIA FOR SUCCESSFUL MARKET SEGMENTATION

The segmentation process has certain criteria that ensures its successful implementation and which can help resolve the problems associated with market segmentation. These criteria will now be discussed. First of all, if progress is to

be made with segmentation, a strong philosophy of focusing on the client is necessary (Meadows & Dibb, 1998:281). This is because some companies view market segmentation as a tactical trick used to deliver short-term benefits, thereby ignoring the need for a long-term perspective and the true needs of its clients (Dibb, 1998:397). Market segmentation should thus reflect a client-orientation rather than a product-orientation (McDonald & Dunbar, 1995:11). As a rule, this outlook must be applied in the planning and implementation of market segmentation.

Market segmentation planning should also allow for a longer time horizon than a week or a month. Segmentation planning should begin with a clear analysis of client needs and buying behaviour and result in consistent marketing programmes, implemented over time (Dibb, 1998:396). Also, the planning process should include an examination of the company's internal structure. This is because segmentation programmes, in order to be implemented successfully, must coincide with the company's organisational characteristics (Dibb & Simkin, 1997:53). If needed, the company must also be capable of making the necessary changes to its structure, as well as its information and decision making systems so that it becomes focused on the new segments (McDonald and Dunbar, 1995:15).

Furthermore, when first implementing a market segmentation programme, it is suggested that companies use segmentation variables that are easy to interpret and implement (Dibb & Simkin, 1997:53). This is because data about the population in terms of geographic boundaries, age categories and other social and demographic characteristics are often easy to obtain and provide fairly concrete measures of segment size (Lamb *et al.*, 2004:166).

Companies are thus encouraged to commence with segmentation using variables that are readily implemented, such as demographics, and proceed inwards to situational factors and personal characteristics only if required (Dibb & Simkin, 1997:53).

Apart from these suggestions, the literature also identified the following criteria which the selected segments must adhere to; the segment(s) must be:

- **Identifiable:** Segmentation should create groups where the members within the groups have similar likes, tastes, needs, wants, or preferences, but where the groups themselves are dissimilar from each other (Ferrel & Hartline, 2005:135). This should be done so that each distinct group of clients can be efficiently reached with a targeted sales and communication effort (Lamb *et al.*, 2004:125);
- **Substantial:** The segments must be substantial enough to justify the costs involved in developing a distinct marketing strategy (Lamb *et al.*, 2004:125). Hence, each segment should have sufficient potential size to justify the time, effort and money involved in planning a marketing approach specifically for these clients (McDonald & Dunbar, 1995:15);
- **Measurable:** The bases used for segmentation should be capable of measurement in terms of the clients in each segment. This is because segments that are unable to be measured on a regular basis are also difficult to target. When targeting is not precisely measurable, it will also be difficult for the company to evaluate the effectiveness of its marketing activities over time (Middleton, 2001:74);
- **Accessible:** Segmentation should ideally lead to segments which the company is able to reach with a customised marketing mix (Slabbert, 2002:51). The segment should thus be accessible in terms of communication (i.e. advertising, mail, telephone) and distribution channels (i.e. merchants, retail outlets) (Ferrel & Hartline, 2005:14). The company must also take into account the potential marketing and distribution costs when targeting certain segments. Estimates have to be made about what the company has to spend to reach each segment. Some segments may be too costly (or difficult) to reach or service (Nickels & Wood, 1997:223); and
- **Stable:** The prediction of future behaviour of the clients within selected market segments must be made with a sufficient degree of confidence (Slabbert, 2002:50-51). The segments should thus be stable, for the reason that it may only be possible to justify investing resources into segment-specific marketing programmes when there is some certainty about the longevity of those segments (McDonald and Dunbar, 1995:15);

As already stated, this criteria must be kept in mind when choosing segments. However, the total market is divided by means of segmentation bases and market segments are thus obtained by employing these bases (Ferrel & Hartline, 2005:142). The company should therefore choose segmentation bases that would produce segments which adhere to the above criteria. Hence, deciding on which segmentation bases are best suited for a specific segmentation strategy is a vital decision for any company.

3.7 BASES FOR MARKET SEGMENTATION

A company's segmentation strategy and its choice of one or more target markets depend on its ability to identify the characteristics and needs of clients within those markets. This involves selecting the most relevant segmentation bases to identify and define the target markets (Ferrel & Hartline, 2005:142). Marketers thus use segmentation bases to divide a total market into these target markets or segments. Choosing the correct segmentation base is crucial because an inappropriate segmentation strategy may lead to lost sales and missed profit opportunities. There are no scientific procedures for choosing segmentation bases. Selection of bases for market segmentation requires managerial insight, creativity and market knowledge (Lamb *et al.*, 2004:166, 177). However, as previously discussed, a successful segmentation scheme must make use of a base which produces segments that meet the basic criteria of being identifiable, accessible, measurable, substantial and stable. The following bases which are used to segment markets will be discussed, namely: psychographics, geographics, demographics, behaviour and relationship intention. This study will primarily make use of the demographic and relationship intention segmentation bases. Therefore, these bases will be discussed in greater detail. However, preceding this will be a discussion on whether a company should implement a single-variable or a multi-variable segmentation strategy.

3.7.1 Single-variable or multi-variable segmentation

In some circumstances more than one variable can be used to segment a particular market. Companies should thus decide whether a single or multi-variable approach would be the most suitable for their particular company.

For instance, markets can be segmented using a single variable such as age group, or several variables, such as age group, gender and education simultaneously. Although it is less precise, single-variable segmentation has the advantage of being simpler and easier to use than multiple-variable segmentation (Lamb *et al.*, 2004:166). However, difficulties can arise if a single-variable approach fails to reveal distinctive and homogeneous client groupings (Dibb, 2000:383). In other words, clients in each segment need to be similar to each other and at the same time, different from those in other segments. Using one base to divide the market may not be enough to achieve this. However, Lamb *et al.* (2004:166) also state that the disadvantage of multi-variable segmentation is that as the number of segmentation variables increase, the size of the individual segments decreases. This, as well as the knowledge that such an approach may be more complex to implement, must be taken into consideration by marketers before deciding on which approach to use. However, it seems that the use of a multiple-variable segmentation strategy is clearly a more precise method.

3.7.2 Psychographic segmentation

Psychographic segmentation divides clients into different segments based on their personality and lifestyle characteristics (Proctor, 1996:199). Both of these client characteristics will be discussed in more detail. This will be followed by a discussion on the advantages and disadvantages of psychographic segmentation.

3.7.2.1 Personality

Personality can be a useful segmentation tool since variations in client personality are often reflected in their marketplace behaviour (Andreasen & Kotler, 2003:156). This is especially so in certain markets such as fashion products, make-up and pop music which are influenced by this variable. However, marketers who wish to use personality as a basis for market segmentation must overcome the problems associated with measuring personality (Dibb, 2000:390). The major problems being that the measurement of general personality traits was found to be very unreliable across studies and

also highly subjective. This makes it difficult to demonstrate a direct link between personality and client purchase behaviour (Andreasen & Kotler, 2003:156; Dibb, 2000:390).

3.7.2.2 Lifestyle

The most common psychographic segmentation approach is lifestyle segmentation which is based on the underlying logic that clients who spend their time in the same way and share similar opinions will demonstrate similar product needs and buying behaviour (Dibb, 2000:391; Bagozzi, Rosa, Celly & Coronel, 1998:181). The advantage of lifestyle segmentation is that it can supply communication specialists with rich portraits of their various target market segments (Andreasen & Kotler, 2003:158). This will then help them gain better insight of what other products the clients in these segments might buy and what types of advertising themes might appeal to them (Brink, 1998:73).

Table 3.1: Dimensions for client activities, interests and opinions

Activities	Interests	Opinions
Work & Professional activities	Personal achievements	Politics
Travel & Holidays	Home life	Economics
Shopping & Housework	Family	Culture
Family & Community	Leisure & Recreational	Moral issues
Leisure & Sporting pursuits	Food	Social issues
Religious activitie	Fashion	Environmental issues

Source: Dibb (2000:391).

There are several different approaches to identifying lifestyle groups in the population. Most, however, are based on measures of client activities, interests and opinions (Andreasen & Kotler, 2003:158). Dibb (2000:391) identified several dimensions for each of these variables (see table 3.1).

3.7.2.3 Advantages of psychographic segmentation

Psychographic segmentation is different from other segmentation techniques in that it makes use of characteristics such as personality, activities, interests and opinions. Knowledge on these issues allows marketers to view a population as individuals with feelings and particular behaviour patterns, thereby helping to determine why clients buy certain products (Ferrel & Hartline, 2005:146; Malabie, 1995:9). Spence, Abratt & Malabie (1997:35) support this by stating that the basic purpose of psychographics is to humanise data by describing the human characteristics of clients, which may have a bearing on their response to products as well as to the company's advertising and public relations efforts.

Psychographic segmentation is therefore beneficial to a market segmentation strategy because it supplies information regarding client motivation. Other bases such as demographic segmentation may be lacking this aspect. Psychographics therefore reveals important differences between demographic and other profiles that can be acted upon. Also, these differences are often larger than the differences produced by a standard demographic or geographic profile. Therefore, psychographics can assist in creating fully developed client profiles when used in combination with other segmentation bases (Lamb *et al.*, 2004:171; Spence *et al.*, 1997:35).

3.7.2.4 Disadvantages of psychographic segmentation

Apart from the advantages, psychographic segmentation also has a number of disadvantages. First of all, psychographic segments provide little value to marketers seeking to understand how individuals in these different segments would respond differently to their marketing programmes (Bagozzi *et al.* 1998:182). This is because psychographic segments do not always respond differently to different marketing techniques, making it difficult to predict how these segments are likely to react to a particular product or service (Nickels & Wood, 1997:230).

Furthermore, psychographics attempts to predict client behaviour from self-reported attitudes and intentions. Not only is it difficult to collect data on these

topics, it is also difficult to accurately predict future client behaviour by using this information. This is because what clients say they will do and what they actually do can differ considerably (Bagozzi *et al.*, 1998:182).

3.7.3 Geographic Segmentation

In geographic segmentation, the market is divided into different geographical entities such as nations, provinces, regions, cities and neighbourhoods based on the notion that client needs or responses vary geographically (Andreasen & Kotler, 2003:150). Geographic segmentation could also refer to segmenting markets by climate (Lamb *et al.*, 2004:168). Furthermore, geographic segmentation can be combined with demographics to form another powerful segmentation tool called geo-demographics (McDonald & Dunbar, 1995:18).

All of these geographic variables will be discussed in greater detail. This will be followed by a discussion on the advantages and disadvantages of geographic segmentation.

3.7.3.1 Geographic segmentation by means of geographic units

By using this method the market is divided into different geographic units such as countries, regions, cities or towns (McDonald & Dunbar, 1995:54). The company either decides to operate in one or a few geographical areas as a specialist in meeting the needs of those areas, or to operate broadly but paying attention to regional variations in needs and preferences (Andreasen & Kotler, 2003:150).

This segmentation approach is often employed by multinational companies, which mainly use national borders as bases for segmenting their markets (Bagozzi *et al.*, 1998:181). This helps in the development of advertising plans and other marketing tactics for each specific country. However, the dangers of segmenting by country alone involve the possibility of missing important client differences within countries as well as overlooking similarities in client needs or tastes that transcend national boundaries (Nickels & Wood, 1997:227). This is the reason why national and international marketers are paying closer attention to regional market segments within different countries (Bagozzi *et al.*, 1998:181). In South Africa for example, there are considerable differences in product and

service needs between clients living in metropolitan areas and those living in rural areas (Brink, 1998:72). Therefore, a company operating in both these areas, needs to develop a distinct marketing approach for each of them.

A population could also be divided on the basis of the neighbourhood in which it lives. The premise of this segmentation approach is that people who live in similar types of residential districts have similar behaviour patterns (Proctor, 1996:198). However, traditional city and provincial boundaries do not necessarily reflect the economic or social reality of urban communities. People can work in or near one urban area, live in another and shop in yet another (Nickels & Wood, 1997:228). Marketers should therefore determine in what areas the target population shop, work and live in order to determine which area will correspond best to the product or service they wish to market. For instance, marketers wishing to market commercial insurance policies will centre their marketing campaign on commercial areas, whilst those marketing personal insurance will focus more on residential areas.

3.7.3.2 Climate

Climate is commonly used for geographic segmentation because of its dramatic impact on residents' needs and purchasing behaviour (Lamb *et al.*, 2004:168). Markets that are usually affected by climatic differences include food and beverages, clothing, sports and leisure products, building supplies, and cooling/heating products. For instance, the market need for heavy winter clothing in regions with moderate temperatures all year round will not be as high as in countries with severe winter climates (Dibb, 2000:387).

However, the insurance industry also use climate for geographic segmentation. Extreme climatic conditions such as severe droughts, floods, tornados and hurricanes can cause extensive damage to affected areas. Most of this damage is covered by insurance and reinsurance companies, and payments of claims usually result in a massive loss of insurance capital. Therefore, areas that are more prone to these kinds of weather phenomena hold a greater risk for insurance companies, warranting higher insurance premiums.

For instance, in August 1992, Hurricane Andrew hit southern Florida and Louisiana in the U.S.A, causing an insured loss of \$16.5 billion and total damages of \$30 billion. Payment of claims from the damage caused by this hurricane resulted in the bankruptcy of several insurance companies and depleted much of the available worldwide insurance capital for natural catastrophes (Michaels, Malmquist, Knap & Close, 1997:225).

However, the major problem facing the insurance industry in terms of climate is not the occasional hurricane or flood but the gradual warming of the earth's atmosphere. The increasing concentration of greenhouse gasses in the atmosphere due to human activity is causing our planet's climate to change (Dosi & Moretto, 2003:19). According to the latest assessment report released by the UN's Intergovernmental Panel on Climate Change (IPCC), one of the results of this increase in atmospheric temperature will be changes in frequency and intensity of some extreme climate phenomena such as hurricanes and tornados (IPCC, 2001:3).

The probable impact that this change in climate will have on the insurance industry will be more than severe. Recent analysis suggests that the largest tropical cyclones or earthquakes in a large city can generate insured losses of up to \$100 billion. This loss exceeds the world's entire reinsurance capital and could cause the bankruptcy of most of the world's largest insurance companies (Michaels *et al.*, 1997:225).

Therefore, if the severity and frequency of these storms are to escalate due to global warming, it would place upward pressure on insurance premiums and could lead to certain risks being classified as uninsurable with subsequent withdrawal of coverage (IPCC, 2001:13).

3.7.3.3 Geo-demographics

Another powerful segmentation tool can be created by combining geographic and demographic data into one segmentation method, known as geo-demographic segmentation. By adding relevant demographic details to geographic data, one can locate groups of potential clients with appropriate

income levels, household sizes or other desirable characteristics (Nickels & Wood, 1997:228).

This approach can be helpful to marketers who wish to practise micro-marketing. Micro-marketing is the development of marketing strategies tailored to prospective buyers who live in small geographic regions such as neighbourhoods, or who have very specific lifestyle and demographic characteristics (Lamb *et al.*, 2004:173). Apart from this, geo-demographic segmentation can also be easily implemented, which explains why the use of this approach is becoming more widespread (Dibb, 2000:388).

3.7.3.4 Advantages of geographic segmentation

Geographic segmentation is the oldest form of market segmentation and was initially used because communication and distribution methods were limited and marketers were forced to concentrate on small areas (Brink, 1998:71). However, this form of segmentation remained popular because of its broad applicability and also because it is flexible and relatively simple to implement (Slabbert, 2002:27). Also, when combined with demographic segmentation, this approach can arrive at segments that are well-defined and better suited for specific marketing strategies (Bagozzi *et al.*, 1998:181).

Apart from these advantages, this approach is also beneficial because differences in client behaviour also correlate with geographic differences (Bagozzi *et al.*, 1998:181). This is because variations in climate, language, and market density can all shape client requirements. Geographic regions could therefore be used to segment markets for specialised marketing efforts (Simpson, 2005:247; Dibb, 2000:387).

3.7.3.5 Disadvantages of geographic segmentation

A major drawback of only using geographic segmentation is that it provides marketers with limited information about real differences in client preferences, values and attitudes (Bagozzi *et al.*, 1998:181). Geographic segmentation should therefore be combined with other segmentation bases in order for marketers to better define their target segments.

Furthermore, it is difficult to obtain information about the population in some countries or regions. Even if the information is available, it may also be imprecise and outdated. Problems such as these must be taken into consideration, especially when using this approach in developing countries (Nickels & Wood, 1997:227).

3.7.4 Behavioural segmentation

Behavioural segmentation is based on a series of behavioural measures including purchase and usage occasion, user status and consumption behaviour as well as benefits sought by the buyer (Slabbert, 2002:37, 38). These measures will subsequently be discussed in greater detail. The advantages and disadvantages of this segmentation approach will also be discussed.

3.7.4.1 Purchase and usage occasion

Purchase occasions are situations where one can distinguish between buyers according to when they purchased or used a product or service. Some buyers use a product regularly, whilst others may use it only on special occasions such as holidays, weddings, birthdays, or seasonal events such as Easter or Christmas (Slabbert, 2002:37). Behavioural segmentation methods can then be applied to products which are purchased to be used for a specific occasion. For instance an occasion such as a birthday or Valentines Day is often celebrated with sparkling wine (Lamb *et al.*, 2004:167). The insurance industry also provides certain insurance policies which are used only on special occasions. For example, during the 2002 Soccer World Cup held in Korea-Japan, shopkeepers near the Yokohama International Stadium were offered Japan's first-ever anti-hooligan insurance policy (Anon, 2001:62). Since there have been occurrences in South Africa of hooligan behaviour at soccer matches, policies such as these would certainly be welcomed at the 2010 Soccer World Cup.

3.7.4.2 User status and consumption behaviour

Markets can also be subdivided on the basis of what is referred to as user status. A number of segments can be identified as nonusers, ex-users, potential users,

first-time users and regular users. These categories can then be subdivided further on the basis of usage rate (Wilson & Gilligan, 1997:289).

Usage rate segmentation divides a market by the amount of products bought or consumed and can be categorised by light users, medium users, and heavy users. Segmenting by usage rate enables marketers to develop multiple marketing mixes aimed at different segments (Lamb *et al.*, 2004:167).

Heavy users are a company's first priority and should always be served well, although marketers should develop strategies to increase product usage among light users, as well as non-users of the product or brand (Ferrel & Hartline, 2005:143). While the regular users guarantee the company's survival in the medium term, potential users who can be enticed into becoming regular users represent future growth. Each segment should thus be approached differently as the marketing task would vary according to user status (Slabbert, 2002:37).

3.7.4.3 Benefit segmentation

According to Alfansi & Sargeant (2000:66) it is the benefits which people are seeking when consuming a product that are the basic reasons for the existence of true market segments. The benefit approach classifies clients according to their different requirements and hence defines a segment by casual rather than descriptive factors.

Benefit segmentation should thus begin by determining the principal benefits clients are seeking in the product class, the kinds of clients who look for each benefit and the benefits delivered by each brand or company (Wilson & Gilligan, 1997:288). It should also be taken into consideration that individual uses of, or benefits sought from a product, have been found to differ in terms of clients' individual preferences, choice behaviours in the marketplace, as well as their effective responses to marketing actions of companies (Kara & Kaynak, 1996:873). Once the identification of different benefit segments takes place, marketers can conduct research to develop profiles of the clients in each segment (Ferrel & Hartline, 2005:143).

3.7.4.4 Advantages of behavioural segmentation

Factors such as purchase occasion and benefits sought by the buyer exert an influence on buyer behaviour to such an extent that it justifies different marketing approaches for each of them (Lamb *et al.*, 2004:166). Also, because these measures have close ties to the reasons why clients buy and use products they are also closely associated with client needs (Ferrel & Hartline, 2005:143). This approach is thus beneficial, because the better a company understands clients' changing behavioural patterns, the more successfully it can adapt its products, services and delivery channels to satisfy their specific needs (Kara & Kaynak, 1997:888).

3.7.4.5 Disadvantages of behavioural segmentation

The greatest drawback of behavioural segmentation lies in the difficulty to execute it in practice. This is because conducting research to identify behavioural segments is quite expensive and time consuming (Ferrel & hartline, 2005:143, 144). Furthermore, the performance of behavioural segmentation against the criteria for efficient segmentation of accessibility, responsiveness and stability has often been called into question (Alfansi & Sargeant, 2000:66).

With this taken into consideration, the key to successful behavioural segmentation should be a clear understanding of the basic needs and benefits sought by different client groups. However, this information should still be combined with demographic, psychographic and geographic segmentation in order to create complete client groups (Ferrel & Hartline, 2005:145).

3.7.5 Demographic segmentation

This method of segmentation consists of dividing the market into groups based on demographic variables such as age, family lifecycle, socio-economic status, income, occupation and gender (Slabbert, 2002:29). These variables will be discussed in more detail followed by a discussion on the advantages and disadvantages of demographic segmentation.

3.7.5.1 Age and the Family lifecycle

Demand for many products and services is influenced by what is known as the family lifecycle. The cycle consists of a series of stages determined by a combination of age, marital status and the presence or absence of children (Lamb *et al.*, 2004:171). Typically, clients evolve from single, to married, to married with children, to no children, to retired and finally to single again. Quite obviously, clients' needs for different products vary with each of these stages in the family lifecycle (Simpson, 2005:246). Marketers who understand how these stages affect the family situation and, in turn, the clients' buying requirements can then capitalise by designing marketing mixes to appeal to these differences. The family lifecycle concept is therefore designed to take the changing priorities of different households into consideration (Dibb, 2000:386).

However, there has been some criticism on the usefulness of the family lifecycle concept. Major weaknesses are the exclusion of those couples who never have children, lack of account taken of one-parent families, undue emphasis on the age of children and the changing role of the father / husband but not of the mother / wife (Proctor, 1996:197). In Table 3.2 the different stages in the family lifecycle are shown along with a description of the characteristics of clients within each stage.

As already stated, the family lifecycle is formed in combining age with other variables such as marital status and the presence of children. However, age can also be a valuable segmentation tool without having to combine it with the family lifecycle. Valuable information about clients can be obtained simply by determining in what age group they fall. For instance, people over 55 control most of the financial assets in most countries. When looking at this information from a South African perspective, it is interesting to note that over 22% of South Africans are over 50, and that the number of mature households in the country is on the increase (Lamb *et al.*, 2004:168,169). When you combine this with the research done by Iniesta & Sanchez (2002:274), which states that people older than 60 have the highest level of client commitment and loyalty, it becomes clear

that this age group would be a lucrative target for a relationship marketing campaign. This is especially so for the insurance industry, since according to Lamb *et al.* (2004:168) people near this age group also spend more on personal insurance.

Table 3.2: Stages in the family life cycle

STAGE	CHARACTERISTICS
Young and single	Clients in this group have few financial burdens. They are usually recreation orientated with an interest in buying fashionable clothing, cars and music, as well as sport and leisure products.
Young and married, without children	Clients in this group are better off financially than they will be in near future. They also have the highest purchase rate for durable products such as kitchen equipment and basic furniture.
Young and married, with children	Clients in this group are experiencing an increase in financial pressures. Their liquid assets are low and they are mostly interested in buying washers, dryers, medicine and food.
Middle-aged and married, with children	Clients in this group have a better financial position. This group is difficult to influence with advertising but are interested in buying new furniture and additional appliances.
Middle-aged and married, without children	Clients in this group are most satisfied with their financial position. They are interested in travel, recreation and self-education as well as buying luxuries and home improvements.
Retired couple	Clients in this group are undergoing a drastic cut in income and are interested in buying value-for-money goods as well as medical appliances and medical care
Solitary survivor	Clients in this groups may be described as “economy living” with special needs for medical care, affection and security.

Source: Lamb *et al.*, (2004:171); Dibb (2000:386); Proctor (1996:198)

3.7.5.2 Socio-economic status, income and occupation

Sometimes socio-economic status is expressed in terms of an individual's social class, which in turn represents a group of individuals with similar social rank. However, the variables used for grouping individuals into social class vary in different parts of the world. For example, in the United Kingdom, wealth and income would greatly determine a person's social class whereas in Russia, education and occupation are more valued (Dibb, 2000:389).

In developing countries, such as South Africa, income-based segmentation is useful because client demand follows a predictable pattern. As income rises, demand for luxury goods increases in relation to the percentage spending on basic needs (Bagozzi *et al.*, 2003:180). Therefore, in the South African context, income would play a greater role in determining a person's social class. However, a change in income not only affects an individual's ability to buy but also alters lifestyle expectations.

For instance, the aspirations of students graduating from university and beginning full-time employment change rapidly. This change in income could be reflected in the purchase of more fashionable clothing, cars and other luxury goods (Dibb, 2000:389). Therefore, income levels influence clients' wants and determine their buying power. This would also explain why it is still the single most used segmentation base for research purposes (Lamb *et al.*, 2004:169).

However, an individual's income level is mostly determined by his/her occupation. Therefore, both of these factors would affect clients' spending power as well as other factors such as their housing status and, for owner-occupiers, size and location of property. Another interesting finding is that a client's occupation would also strongly affect his/her choice of leisure and sporting activities. For example, social-trends research suggests that professionals are proportionally more likely to spend their leisure time swimming and cycling than skilled manual workers, who prefer activities such as snooker, pool, and billiards (Dibb, 2000:389).

However, socio-economic status also has drawbacks when used as a segmentation variable. First of all, it has also been argued that social class is not such an effective predictor of a household's level of disposable income, particularly in households where there are several wage earners (Lamb *et al*, 2004:169). Also, socio-economic status is not the accurate predictor of income and spending patterns today than was once the case.

This is because society is experiencing a changing social structure, which will also affect social class groupings. The suggestion is that people are more concerned with their quality of life rather than accumulating material possessions and moving up a social hierarchy (Proctor, 1996:199, 200). Marketers should therefore take these factors and new trends into consideration when using socio-economic status as a segmentation tool.

3.7.5.3 Gender

While this variable has obvious applications for such products as clothes, cosmetics and magazines, ever-greater attention has been paid in recent years to the ways in which it can be used as a key element in strategies to market a far wider range of products. In part, this has been brought about by a series of fundamental changes that are taking place within society, including a greater number of working women, and the generally higher levels of female independence (Slabbert, 2002:31).

These changes have also caused a shift in the insurance industry with the appearance of insurance companies such as "First for Women", which provides insurance products based on the needs of women. According to a press release made by company director, Mrs. Robyn Farrel, there has been a substantial increase in the number of women who are taking out short term insurance. She also stated that there has been an average growth of 25% in the number of women taking out policies over the three year period from 2000 to 2003. When comparing this to the percentage growth for men taking out insurance policies, which is only about one-quarter that of the rate of women, the commercial sense of targeting women for insurance products is quite evident (Farrel, 2003:1).

3.7.5.4 The advantages of demographic segmentation

Slabbert (2002:29) states that demographics are the most popular basis for segmenting client groups. This popularity may occur due to several advantages that such an approach can provide. One of the greatest advantages of demographic segmentation lies in the relative simplicity of collecting information concerning demographic variables such as age, occupation and gender. These variables are also relatively reliable and simple to measure (Ferrel & Hartline, 2005:145). Another considerable benefit is that segment sizes based on demographics are normally large because they parcel the total population into a limited number of segments (Slabbert, 2002:29). Communication with these segments is also relatively easy and the implementation of an adapted marketing mix unproblematic (Alfansi & Sargeant, 2000:65). Furthermore, the differences in client needs and usage rates vary closely with demographic variables (Lamb *et al.*, 2004:168; Slabbert, 2002:29). When taking into consideration all these advantages, companies should make demographics an obvious choice in the selection of segmentation bases. However, the disadvantages of demographic segmentation should also be taken into account.

3.7.5.5 The disadvantages of demographic segmentation

According to Spence *et al.* (1997:37), the drawback of demographic segmentation lies in the fact it is silent regarding client behaviour or motivations which would result in their purchasing behaviour. This is because the motives and values that drive actual purchases do not necessarily have anything to do with client demographics. For instance, most clients have the same basic needs for food, housing and transportation. These needs do not necessarily vary according to demographic characteristics (Ferrel & Hartline, 2005:146). There is thus a continual need to monitor the use of demographic segments to ensure that they still adequately reflect behaviour. Therefore, on its own, demographic segmentation is seldom sufficient as a basis for understanding and targeting clients, and should be supplemented with other data in order to make market segmentation more effective (Slabbert, 2002:32).

3.7.6 Segmentation using client relationship intention

Segmenting clients according to their relationship intention can be useful to a company, especially when applying a relationship marketing strategy. This is because the company first needs to identify the correct group of clients to focus this strategy on. Donaldson & O'Toole (2002:8) support this by stating that it is important to identify those clients with whom a relationship should be built and developed because not all are worth investing heavily in relationship building. This is because some clients would prefer a transactional approach where factors such as price and expenses would be the primary concerns. Kumar *et al.* (2003:669) described these clients as having a “transactional intention”. As the name suggests, a transactional intention is a short-term and opportunistic attitude of certain clients. Clients with transactional intention buy without any involvement or buy because it is forced on them because of high switching costs, low prices, more convenience, inertia, trend or social influence.

Other clients, however, would prefer a relationship approach where factors such as loyalty, trust and commitment are taken into consideration. Clients that fall into this group would be more ideal for a relationship marketing approach because their focus would rather be on building a long term relationship with a company than a transactional relationship. These clients would be referred to as having relationship intention. Kumar *et al.* (2003:667, 669) define relationship intention as an intention of a client to build a relationship with a company while buying a product or making use of a service attributed to the company. These clients possess a high affinity towards, are emotionally attached to, and possess a great amount of trust in the company.

Although such clients often constitute a small fraction of a company's client base, they are of great value because of their strong loyalty to the company. This is because they ensure repeat sales and referrals which lead to increased sales, market share and profits. Furthermore, it is also less expensive for a company to serve existing (loyal) clients than to attract new ones, thus reducing expenses (Lamb *et al.*, 2004:10). Also, if the relationship intention is high, the association between the client's lifetime duration and profitability will be positive and stronger. Thus it makes sense to identify these clients and invest in building

relationships with them, which will always be profitable in the long run (Kumar *et al.*, 2003:673). However, companies must be able to distinguish between clients who appear loyal based on their observed behaviour and clients that really intend to build a relationship. Otherwise, the company would end up investing incorrectly in building relationships with clients that appear loyal but do not have an emotional attachment to the company and are also reluctant to support a long-term relationship with the company (Kumar *et al.*, 2003:667). This is why it is important to determine clients' relationship intention by evaluating them according to their involvement, expectations, forgiveness, feedback and fear of relationship loss. These are the categories by which relationship intention are measured and will be discussed in more detail in chapter four.

3.8 CHAPTER SUMMARY

In this chapter the principles of market segmentation were discussed. This included the definition, goal, advantages and disadvantages of market segmentation as well as a discussion on the different bases used for market segmentation. These bases included psychographics, geographics, behaviour and demographics. The advantages and disadvantages for each base were discussed along with a description of the different variables used for each base.

The use of client relationship intention as a segmentation tool was also examined. However, the variables used for measuring client relationship intention will be discussed in more detail in the following chapter.

CHAPTER 4

THE CONSTITUTION OF RELATIONSHIP INTENTION

4.1 INTRODUCTION

As discussed in the previous chapter, clients can be segmented by means of their relationship intention. According to Kumar *et al.* (2003:670) a client's relationship intention is measured using five constructs. They are the client's involvement with the service, his/her expectations of the service, the willingness to forgive service failures, whether the client provides feedback to the company and whether the person would fear the loss of a relationship with the company's employees or with the company itself. These five constructs will be discussed in greater detail in this chapter, beginning with an analysis of a client's involvement with a service.

4.2 INVOLVEMENT

According to Kalamas, Laroche & Cezard (2002:294), clients participate in the service production and delivery process at varying levels of motivation. According to Varki & Wong (2003:90) this involvement influences the clients' interests in relationships with service providers, as well as their expectations of relational activities initiated by the service provider. Ford (2001:7) supports this by stating that a client's expectations about a relationship orientation versus a transaction orientation from a service provider, could be predicted on the grounds of his/her current involvement in a relationship with that provider (Ford, 2001:7). Therefore, clients who are more involved with a company express greater intrinsic willingness to maintain their relationship with the company (Varki & Wong, 2003:87).

4.2.1 Defining client involvement

According to Csipak, Chebati & Venkatesan (1995:230), there is lack of consistency in conceptualising and measuring involvement. This is because

there is a great diversity of research streams (for example advertising, products and purchasing decisions) which has resulted in different applications of the concept. In the process the literature became littered with numerous different definitions of involvement, making it difficult to fully grasp the concept.

This study, however, focuses on the relationship intention of clients. Therefore the concept of involvement which this study will focus on is that of a client's involvement in a relationship with a company. Kumar *et al.* (2003:670) defined this type of involvement as "the degree to which a person would willingly intend to engage in a relationship activity without any coercion or obligation".

4.2.2 Client involvement in services

A client's level of involvement has been hypothesised to be higher when purchasing a service in relation to the purchase of many goods (Csipak *et al.*, 1995:228). This is because services are produced and consumed simultaneously, which means that clients usually have a direct input in service provision. In other words, clients usually participate in the production and the delivery of services (Ennew & Binks, 1996:5). The provision of services therefore requires more personal interaction between the service provider and client, which adds an interpersonal dimension to this relationship. This, in turn, necessitates the need for a greater role of involvement of clients in services marketing (Varki & Wong, 2003:84).

It thus becomes evident that services marketing has to place considerable emphasis on the development and management of relationships with clients, particularly when clients are heavily dependent on credence qualities in service evaluation and where perceived risk is high. Since both these characteristics are relevant to financial services (such as insurance), client involvement will play an even greater role in this industry (Ennew & Binks, 1996:5, 11). However, apart from building relationships, financial services also need to formulate strategies for lowering levels of perceived risk and in doing so, reduce the propensity for clients to switch to competitors (Aldlaigan & Buttle, 2001:238).

The research of Csipak *et al.* (1995:237) also resulted in an interesting discovery. They found that for those clients who are highly involved, the use of channel specialists or intermediaries results in higher market effectiveness (Csipak *et al.*, 1995:237). In the insurance industry, these intermediaries are known as brokers. Brokers act as specialists mediating between insurance companies and prospective clients wishing to obtain an appropriate insurance policy (CDI, 2002). The use of intermediaries forms the basis for intensifying market coverage, which would also then result in increased economies of scale. Furthermore, these indirect channels (brokers) are perceived by clients as providing superior service quality in relation to the direct channel (insurance company) in terms of empathy, assurance, responsiveness and reliability (Csipak *et al.*, 1995:236-237).

4.2.3 Characteristics of highly involved clients

According to the literature, highly involved clients can be distinguished by their level of relationship intention, their evaluation of satisfaction and their formation of expectations. These characteristics will be discussed in greater detail.

4.2.3.1 Higher relationship intention

As already stated, highly involved clients are more inclined to support long-term company-client relationships. This is also the finding of Kumar *et al.* (2003:670) who established that a client with a high intention to engage in a relationship with a company will also be more involved with that particular company. Varki & Wong (2003:84) support this by stating that clients with higher involvement will exhibit greater willingness to engage in voluntary or “dedication based” relationships with companies.

This is because client involvement leads to increased personal interaction, which then causes higher personal and brand identification with the company. This, in turn, will produce stronger personal and brand relationship bonds with the service provider (Burnham, Frels & Mahajan, 2003:114). According to Kumar *et al.* (2003:670) this sense of identification with the company also causes clients to

be emotionally involved with the company and its employees. This would, in turn, make them feel guilty or uncomfortable if they were to acquire similar services from other companies. Csipak *et al.* (1995:235) also found that highly involved clients are more appreciative of good service than less involved clients. The reason for this could also lie with their emotional attachment to the company.

Highly involved clients, however, have specific needs from the companies they support. They want companies to communicate with them regularly and express a greater desire for fairness in treatment as well as being involved in creating solutions for their problems. This suggests that relationship marketing programmes have to be customised to meet the relational needs of more involved clients (Varki & Wong, 2003:83, 89).

4.2.3.2 Client satisfaction

The quality of the interaction between the client and the company as well as the degree of client participation in the relationship plays a definite role in clients' evaluation of their satisfaction (Ennew & Binks, 1996:6; Goodman, Fichman, Lerch & Snyder, 1995:1312). For clients dissatisfied with the company's performance, high involvement increased overall dissatisfaction. This is because highly involved clients have invested time and energy in their relationship with the company. If they experience dissatisfaction with the company's core product or service, they may feel that a personal investment is not yielding results and experience more overall dissatisfaction than clients who have a low involvement level (Goodman *et al.*, 1995:1312, 1320).

4.2.3.3 Formation of expectations

Highly involved clients differ significantly from less involved clients with regard to certain expectations. More involved clients have high expectations in terms of fair treatment, and also expect companies to understand their needs and adapt their services or products accordingly (Varki & Wong, 2003:89). Highly involved clients are also more aware of constraints on the service provider in terms of what can and cannot be delivered. As a result, these clients are likely to form more

realistic expectations about service quality. This, in turn would bridge the gaps between client expectations and the company's actual performance. Nevertheless, clients who are willing to participate actively in service delivery may expect to receive a better quality of service (Ennew & Binks, 1996:6).

4.2.4 Advantages of obtaining highly involved clients

Some of the characteristics of highly involved clients such as their propensity to build long term relationships as well as to form more realistic expectations, can be seen as advantageous. However, securing these types of clients for the company also has other advantages.

First of all, clients who participate actively in the provision of a service also assist in enhancing service quality by giving the company the opportunity to acquire suggestions directly from the client. This is especially so in the case of financial services, where the ability to meet the needs of clients is heavily dependent on the information provided by those clients. Client involvement therefore becomes an important influence on the perceptions of the overall quality of the service received (Ennew & Binks, 1996:5, 6). The contributions of these involved clients could therefore help the company redesign a product or create an entirely new service. Also, a client's engagement with these activities will contribute to a stronger relationship with the company as well as further increasing his/her current level of involvement (Goodman *et al.*, 1995:1312).

Secondly, greater client involvement in the provision of services should also enhance the ability of a company to meet the needs of these clients more effectively. This is because companies have a clearer understanding of the needs and circumstances of more involved clients. These clients, on the other hand, also have a better understanding of how and why decisions are made and how services are delivered. Therefore, higher client involvement leads to improved mutual understanding between the company and client (Ennew & Binks, 1996:6-9).

Finally, involvement could play an important part in segmenting the market. Kalamas *et al.* (2002:305), found that clients' involvement profiles are useful for

segmentation purposes and service positioning. This is because they acted as antecedents of service expectations and ultimate reflections of clients' values and lifestyles. From the facts obtained in the literature, it is also evident that involvement would play an integral part in the segmentation of the market according to clients' relationship intention.

This concludes the discussion on involvement. The next construct of relationship intention, namely expectations, will now be discussed.

4.3 EXPECTATIONS

According to Clow & Beisel (1995:33), any type of interaction that occurs between a client and a service provider is initiated and maintained due to the existence of expectations. Kumar *et al.* (2003:670) support this by stating that clients automatically develop expectations when they buy a product or service. However, Kumar *et al.* (2003:670) also stated that a client with higher expectations of a company will have more of an intention to build a relationship with that particular company, because they will be more concerned about the quality of the product or service. These clients would also like to see some enhancement in the company's services and would therefore be more likely to be involved in service delivery. Client expectations could therefore be seen as a factor influencing client relationship intention.

4.3.1 Defining client expectations

According to Coye (2004:55), expectations reflect an individual's subjective probabilities about the current or future existence of a particular state of affairs. However, according to Clow & Beisel (1995:33), client expectations are always concerned with future behaviour and are therefore predictors of how the company will react or behave. Spreng, Mackenzie & Olshavsky (1996:16) support this by defining expectations as beliefs about a product's attributes or performance at some time in the future. However, the term "expectation" has also been used to represent what clients would ideally want (Coye, 2004:55). A client's expectations can therefore be easily confused with his/her desires. The

difference between these two concepts, according to Spreng *et al.* (1996:17), is that expectations are beliefs about the probability that a product is associated with certain attributes, benefits, or outcomes; whilst desires are evaluations of the extent to which those attributes, benefits, or outcomes can lead to the attainment of a person's values.

4.3.2 Antecedents of client expectations

This study identified five antecedents of client expectations. They are the client's perception of service quality, the client's image of the company, clients' word-of-mouth, tangible cues linked to the company as well service promises made by the company.

4.3.2.1 Perceptions of service quality

Service quality is not only hypothesised as an antecedent of client satisfaction but also of client expectations (Clow & Kurtz, 1997:233). In fact, Clow & Beisel (1995:40) stated that the most important antecedent to client expectations is the level of satisfaction clients experienced the last time they patronised a company. If the experience was good (i.e. if their expectations were met or exceeded) then their expectations for the next encounter will be high, resulting in future patronage. Kalamas *et al.* (2002:295) also support this by affirming that clients who perceive past service performance as satisfactory will have positive future expectations.

Service quality is therefore continuously evaluated by the client based on all previous experiences with the company. However, Clow & Beisel (1995:42) found that this evaluation would also then affect the image which clients have of the company. This image is then fed back into the client's service quality evaluation, producing an unending cycle. Therefore, clients' perceptions of service quality and the image they have of the company are closely interlinked.

4.3.2.2 Company image

As was stated above, the client's service quality evaluations are filtered through the image clients have of a service provider. Clients' expectations of services and their evaluation of the service received are therefore influenced by the image they have of the company. If a client has a positive image of a company then one unsatisfactory service experience or service failure would have less impact on the client's evaluation of the service than if the client had a negative or low image of the company prior to the service experience. Also a positive experience will be seen as proof of the company's superior service if the client had a strong, positive view of the company but only a deviation of the norm if the client had a negative image of the company (Clow & Kurtz, 1997:233, 241).

However, Ojasalo (2001:208) pointed out that the image clients have of a company can sometimes lead to unrealistic expectations about what the company is actually capable of in terms of service delivery, creating a situation in which these expectations cannot possibly be fulfilled. Furthermore, Clow & Kurtz (1997:233, 240) also stated that a positive image of a service company can create situations where clients find excuses for poor service performance. Nevertheless, when clients have a positive image of a company it plays a role in their evaluation of service quality, which will then have a direct positive impact on client satisfaction.

4.3.2.3 Word-of-mouth communication

According to Kalamas *et al.* (2002:295) it is statements made by people, not the company, that give clients the best idea of what they can expect from a service. Csipak, Chebati & Venkatesan (1995:231) support this by stating that word-of-mouth communications have the strongest impact on client expectations, even more than a client's prior personal experience with the particular company. When it comes to services, such as insurance, word-of-mouth communications are the primary means by which clients gather information (Clow & Kurtz, 1997:232). Because of the experiential nature of services, word-of-mouth communications are also viewed as more reliable (Clow & Kurtz, 1997:232).

According to Kalamas *et al.* (2002:295), the experiences of other clients are also perceived as more trustworthy than other information sources due to the degree of similarity between recipient and communicator, and the lack of a financial motive on the part of the other person.

4.3.2.4 Tangible cues

Before and during the service encounter, clients look for tangible cues to indicate what to expect in terms of the company's capabilities and service performance. (Clow & Beisel, 1995:34). Tangibles such as the exterior of the company facility, interior décor, furniture and equipment as well as the dress of employees should impact both what clients would expect during the next service encounter and their image of the company (Kalamas *et al.*, 2002:295; Clow & Beisel, 1995:34). Tangible cues are also among the most important dimensions that clients use to evaluate service quality (Boshoff & Staude, 2003:11).

Other tangibles which are also of importance include the level of crowding and noise within a business facility. Although both of these situations could be viewed as being transitory in nature, it is considered that clients who arrive at a service company will reduce their expectations of the impending service experience if the noise level is high and the facility is overcrowded with current or prospective clients. The client would presume that the company is very busy and, as a result, will have less time to spend with each individual client (Clow & Beisel, 1995:35).

4.3.2.5 Service promises

According to Clow & Kurtz (1997:232), explicit service promises are personal and non-personal statements made by a service provider that influence client expectations and purchase intentions. Kalamas *et al.* (2002:295) support this by stating that service promises are among the most important criteria in the formation of client expectations and that they are positively related to a client's desired and predicted level of service expectations.

Explicit service promises come directly from the company and usually in the form of advertising, personal selling and contracts. Such promises and especially those provided through advertising make the benefits of the service realistic and clear. This is particularly important when the client has no other information or prior experiences on which to draw (Kalamas *et al.*, 2002:295). However, if the company promises a client that a product or service will perform in a certain way and this is negatively disconfirmed, then it is likely that the client will be dissatisfied with the information that was given, resulting in lower future expectations (Spreng *et al.*, 1996:18).

4.3.3 Service expectations of clients

Clients find it more difficult to form expectations of services than of products. This is due to the specific characteristics of services such as intangibility, perishability, inseparability and heterogeneity, making it hard for the client to grasp all the facets of a service (Van Montford, Masurel & Van Rijn, 2000:90, 91). This is especially so for professional services such as those offered by the insurance industry, where the field of expectations is much more complex. With this type of service it is necessary to evaluate the different categories of expectations and consider the relationships between them (Ojasalo, 2001:205).

Also, in professional services, solutions to clients' problems require in-depth and accurate information. This is why service providers are expected to engage in more information sharing with clients. Apart from dispensing information, the aim is also to create long-lasting client relationships (Ford, 2001:6; Ojasalo, 2001:210). According to Parks (2000:14) insurance is a relationship business. Tension in most relationships usually develops when one person fails to live up to the expectations of the other. By setting realistic expectations, insurers can meet the needs of clients effectively and in the process create long-term client relationships.

4.3.4 Importance of measuring client expectations

Expectations play a key role in the formation of perceived service quality (Ojasalo, 2001:207). This is because client satisfaction and service quality are

considered functions of the comparison between a client's expectations and the way the client perceives the actual service (Coye, 2004:54). Therefore, clients are only satisfied with a service experience if the service experience meets or exceeds their expectations (Clow & Kurtz, 1997:230). Consequently, client expectations may also play a significant role in the process of client switching (Ojasalo, 2001:207).

The success of a company will therefore depend on how well it meets or exceeds client expectations (Clow & Vorhies, 1993:22). By not ascertaining what client expectations are, managers may deprive themselves of valuable insights. It is therefore important for the company to discover which areas of service expectations, are highest and whether expectations differ between groups of clients (Pitt, Morris & Oosthuizen, 1996:8). By also knowing what drives client expectations companies will be better able to match them, use them for segmentation purposes and distinguish themselves from the competition (Kalamas *et al.*, 2002:304).

4.3.5 Managing client expectations

As was stated above, it is important to measure client expectations. However, the management of these expectations is also critical to the success of a service company (Clow & Vorhies, 1993:22). This is because as clients' expectations of the company increase, the probability that they will support the company will also increase. However, as these expectations rise, the probability that the company can meet these higher expectations will decrease. Managers should therefore promote positive client expectations to obtain maximum patronage without creating a large number of dissatisfied clients (Clow & Beisel, 1995:40).

The company should therefore aim to create realistic expectations for clients. Management must try to ensure that the client has clear expectations about what the company can actually deliver. If initial expectations are unrealistically high, it is necessary for the company to modify these expectations so that it can more closely fit what can be delivered (Coye, 2004:62, 63). In other situations, client expectations may be unrealistically low. Managers should therefore learn how to

manage runaway expectations. In order to do this they will have to guard against over or under-delivering. This would mean that companies should deliver exactly what they promise, every time. It also means that clients' expectations should be measured frequently (Coye, 2004:64; Pitt *et al.*, 1996:8).

However, according to Ojasalo (2001:206) this would require clients to sacrifice time and share (confidential) information. Thus, expectations management may cause annoyance and dissatisfaction in the short run. But on the other hand, Ojasalo (2001:210) also stated that if unrealistic expectations were left uncontrolled, it could present a danger to long-lasting client satisfaction. Long-term satisfaction, however, is more important for relationship longevity. Therefore, management of expectations may provide an opportunity for companies to achieve long-lasting client satisfaction, strong client relationships and competitive advantage.

In a more practical light, companies can manage expectations by managing the specific antecedents of those expectations. These antecedents include:

- **Image.** Too often inconsistencies occur between a company's marketing and operational procedures, resulting in confused clients. Occasionally an image is projected to the public which is impossible for the company to operationalise. The result is clients with high expectations that cannot be met. Therefore, the company must ensure that advertising, promotions, facility design, employee selection and training, distribution, and operating procedures must all be coordinated to project the desired image (Clow & Beisel, 1995:41-42);
- **Tangible cues.** Management must make use of these cues to convey appropriate messages to clients about the quality of their service so that it would match with their operational procedures (Clow & Beisel, 1995:41);
- **Word-of-mouth.** Companies must work towards reversing negative word-of-mouth communications. This can be done by ensuring that clients are satisfied with each transaction (Clow & Beisel, 1995:41). Managers may even broaden satisfied clients' word-of-mouth capabilities by persuading them to share their positive experience with family and friends, developing

communication materials for clients to make available to non-clients and by targeting opinion leaders in soliciting word-of-mouth information (Kalamas *et al.*, 2002:305); and

- **Service Promises.** This would involve making promises to clients that reflect reality and communicating to clients what to realistically expect from the company (Pitt *et al.*, 1996:8). It also translates into promoting reliability within the organisation by means of operational plans as well as the management and training of employees in order to meet those promises made to clients (Kalamas *et al.*, 2002:304).

This concludes the discussion on expectations. The relationship intention construct of forgiveness will now be discussed.

4.4 FORGIVENESS

According to Bejou & Palmer (1998:16), a trusting relationship between a company and a client may be more resistant to occasional service failures which may allow minor difficulties to be overcome. This would indicate, according to De Coverey, Holme, Keller, Mattison & Toyoki (2002:24) that strong relationships between clients and companies would reduce the chance of clients defecting. It would thus seem that those clients who are more "resistant" or forgiving in terms of service failures also show high relationship intention. Kumar *et al.* (2003:670) support this by stating that those clients who are willing to build a relationship with a company are also more willing to continue their support of the company even when their expectations are not always fulfilled.

4.4.1 Defining forgiveness

In context of interpersonal relationships, Enright, Freedman & Rique (1998:46, 47) defines forgiveness as people's willingness to abandon their resentment, negative judgement and indifferent behaviour toward others who unjustly hurt them. Forgiveness within the company-client relationship context could be seen as more loyal clients' willingness to overlook a negative service outcome or in other words, their willingness to "forgive" what they perceive as a service failure (Robbins & Miller, 2004:97). From the above it becomes apparent that the

concept of service failures should also be examined in order to fully understand the concept of client forgiveness.

4.4.2 Service failure

According to Hays and Hill (1999:209), service failure can be defined as a service encounter that results in a client being dissatisfied. In other words, a service failure occurs when the service failed to meet a client's expectations. Reasons for service failures are usually due to the unavailability of service, slow service and errors in delivery (Bejou & Palmer, 1998:11). The occurrence of these failures is inevitable, especially in the service sector. This is because there is a human element involved in delivery and because the client often has to be present to receive the service, making it almost impossible to hide any errors in service delivery (Boshoff & Staude, 2003:9; De Coverley *et al.*, 2002:24). If left unmanaged, these failures could bring about severe problems for a company since service failures are a major cause of client defection and could provoke clients to spread negative word-of-mouth to an average of ten to twenty people (Weun, Beatty & Jones, 2004:133; Mattila, 2001:583). However, instead of defecting or spreading negative word-of-mouth, clients could also opt to stay with a company anticipating that "things will get better" (Levesque & McDougal, 2000:20). This would show loyalty and forgiveness on the part of the client and therefore a stronger relationship intention.

4.4.3 The role of relationship intention on the outcome of service failures

According to Bejou & Palmer (1998:16) a trusting relationship between a company and its clients may be more resilient to occasional service failures. This is because emotional bonding moderates client responses to service failures thereby reducing the chances of these emotionally attached clients defecting (Mattila, 2004:143; De Coverley *et al.*, 2002:24). One reason for this is that they rely on their past emotional experiences and positive attitudes while making behavioural decisions and in the event of a service failure, give the company the benefit of the doubt. Conversely, clients which are not emotionally attached to a company are more likely to be driven by cognitive attitudes and

would rather base their future purchase decisions on information regarding the recent service failure (Mattila, 2004:137, 138; Robbins & Miller, 2004:98). Another reason why these emotionally attached clients tend to be more forgiving is their higher understanding of the problems faced by the company in trying to deliver consistently high standards of service (Bejou & Palmer, 1998:16). Non-loyal clients, on the other hand, tend to have a lower understanding of these problems and are less likely to forgive the company for service failures, even when they are successfully resolved (Craighead, Karwan & Miller, 2004:316).

However, emotionally-bonded clients could feel “betrayed” in the case of a service failure (Mattila, 2004:135). This is because these clients have committed themselves to the relationship and have invested more of their self-worth in their identification with the company. They have, therefore, more to lose than less committed clients (Robbins & Miller, 2004:104). However, higher emotional involvement only magnifies the immediate negative impact of service failures on client attitudes. These negative effects may not necessarily cause clients to actually defect (Mattila, 2004:143). Whether clients defect or not, depends on how the company manages service failures.

Craighead *et al.* (2004:315) support this with their research which found that loyal clients are more likely to suffer a decline in loyalty when problems are not resolved but are also more likely to increase or maintain loyalty should the problem have been resolved successfully. Robbins & Miller (2004:98) also found that poorly managed failures experienced by loyal clients will have a detrimental effect on their loyalty but that well-managed failures may have a positive influence on loyal clients. The successful management of service failures is therefore extremely important if companies wish to hold on to their loyal clients. Weun *et al.* (2004:134) referred to the management of service failures as “service recovery”.

4.4.4 Service recovery

According to Johnston & Hewa (1997:467), service recovery is defined as the actions of a company to mitigate the damage to a client that results from the company's failure to deliver a service as it is designed. Service recovery can thus

be viewed as an exchange, in which the client experiences a loss due to the service failure, and the company attempts to provide a gain, in the form of a service recovery, to make up for the initial loss (Levesque & McDougal, 2000:21). This is done with the objective of maintaining a relationship with the client (Boshoff & Staude, 2003:10). However, in order for the company to achieve this goal, service recovery strategies need to be developed and implemented.

4.4.5 Service recovery strategies

As already stated, failures in services are inevitable. The service sector should therefore recognise that failures will occur and develop the necessary recovery strategies that will resolve these problems. The literature identifies three different strategies for service recovery namely assistance, compensation and apology.

4.4.5.1 Assistance

Assistance involves taking actions to rectify the service failure by fixing the problem and lessening the client's inconvenience (Levesque & McDougal, 2000:22). It requires the company to take action by replacing or providing the service that has been denied (De Coverly *et al.*, 2002:27). Assistance is possibly the most effective single recovery strategy, because it can bring the client back to the original purpose of buying the service (Boshoff & Staude, 2003:10; Levesque & McDougal, 2000:22). It is also an effective method because the company can then provide individualised attention to its clients and also show them that they really care about their clients and their problems (Boshoff & Staude, 2003:10).

The company should therefore take time to explain decisions leading to the outcomes of service recovery (Robbins & Miller, 2004:105). This is because the client's satisfaction with the service recovery process is primarily influenced by communication. It is of particular importance that service providers communicate clearly, ensure that all issues are clarified properly and that staff dealing with the

complaint demonstrate their understanding and are reliable in solving the client's problem (Boshoff & Staude, 2003:15).

4.4.5.2 Compensation

When there is a breakdown in service delivery, it may well be that clients expect to have their ratio of outcomes adjusted in order to compensate for the service failure. In other words, compensation is given in order to restore the ratio of inputs to outputs, by "making it up to the client" for the inconvenience of service failure (Boshoff & Staude, 2003:10). This usually includes various forms of monetary compensation such as refunds, discounts or the extension of credit (Mattila, 2001:585).

Compensation may be perceived as beneficial to the client but the company could perceive these expenses as very costly. This may well be the case with non-loyal clients who are more likely to be concerned with a fair economic and tangible transaction in terms of service recovery, and less concerned about the relational and social elements. However, the benefits of very liberal outcomes such as full refunds and guarantees are most likely to outweigh the costs when provided to loyal clients (Robbins & Miller, 2004:97,105). This is because these clients have invested more in their relationship with the company and the assurance that they feel adequately compensated would also assure them not to fear the worst, thereby strengthening their loyalty to the company (Craighead *et al.*, 2004:317). However, if companies deliver the remuneration through unfair procedures or by uncaring employees, they are unlikely to reap the desired effects of client satisfaction, commitment, and trust (Tax, Brown & Chandrashekar, 2001:72).

4.4.5.3 Apology

The importance of the apology suggests that restitution is not only important in terms of economic cost, but also in terms of emotional costs (Tax *et al.*, 2001:72). Apology as a strategic tool is therefore more valuable when applied to clients who are emotionally involved with the company. However, apologising to

clients may only be effective when minor service problems are encountered. In the case of more severe service failures, an apology alone would be relatively ineffective. Clients would then expect some sort of gain for their loss (Levesque & McDougal, 2000:21). Therefore, apologies alone are relatively ineffective and clients generally expect some form of assistance or compensation for the inconvenience caused (De Coverly *et al.*, 2002:27).

4.4.6 Advantages of service recovery

The literature identified several reasons why companies should implement service recovery strategies. Successful service recovery ensures the avoidance of double failures, increases client loyalty, satisfaction and trust, and also helps to establish a positive image of the company.

4.4.6.1 Avoiding a double failure

Clients perceive poor service recovery as “double failures” in that both the initial experience and the recovery were unsuccessful. This additional failure results in uniformly negative post-failure attitudes, regardless of the degree of loyalty or emotional involvement of the client (Mattila, 2004:143). There are several reasons for this. First of all, clients have higher expectations for service recovery because they have already been burdened by the initial failure. This makes it difficult for the company to satisfy clients who experienced a service failure and easier for the clients to be disappointed by the service recovery.

Secondly, inadequate service recovery begins to reveal a pattern of poor service on the part of the company. Furthermore, when a company mishandles service recovery opportunities by being non-responsive, defensive, or inflexible, it signals to clients that it “doesn’t care” about them or their problems. Thus, an initial service failure due to incompetence may be compounded by a service recovery failure that conveys a lack of concern (Berry & Leighton, 2004:16). The company should therefore ensure the successful implementation of service recovery strategies to prohibit the occurrence of double failures.

4.4.6.2 Increasing client loyalty

As already stated, a successful service recovery can enhance client loyalty to a company. According to De Coverly *et al.* (2002:25), it can even turn highly agitated and angry clients into loyal ones. In fact, Merlo (2003:48) found that a successful service recovery programme can create more goodwill amongst clients than in a situation where the initial service went well in the first place.

Therefore “recovered” service failures can yield clients with increased loyalty toward the company and its services (Johnston & Hewa, 1997:467). This is supported by many authors such as Robbins & Miller (2004:96), Boshoff & Staude (2003:10), Stiefbold (2003:46) and Mattila (2001:585) who all found successful recoveries to have a positive impact on client loyalty.

4.4.6.3 Increasing client satisfaction

According to Mattila (2004:134), there is a positive relationship between service recovery performance and post recovery satisfaction. Thus, a successful service recovery will have a positive impact on a client’s post-recovery satisfaction and the client’s repurchase intent. However, a successful service recovery not only improves a client’s post-recovery satisfaction, but also significantly improves client perceptions of overall service quality (Berry & Leighton, 2004:16; Boshoff & Staude, 2003:10). This is because service recovery is perceived by clients as a true test of a company’s commitment to service quality. A successful conclusion to service recovery will therefore lead to enhanced perceptions of the company’s competence, thereby increasing the levels of trust the client has in the company (Boshoff & Staude, 2003:10).

4.4.6.4 Increasing client trust in the company

When a service failure occurs, a company fails to honour its promises to its clients and the trust which goes to the foundation of their relationship is undermined. However, through the service recovery process a service failure can be transformed into a positive event which would increase the client’s trust in and

commitment to a company (Weun *et al.*, 2004:133; Bejou & Palmer, 1998:11). This is because a company's favourable actions during service recovery demonstrate its reliability and trustworthiness to clients (Tax *et al.*, 2001:72). Therefore by means of a successful service recovery, the company not only resolves the client's problem but also restores the client's confidence in the service (Berry & Leighton, 2004:16,17).

4.4.6.5 Establishing a positive business reputation

According to Levesque & McDougal (2000:20), service recovery failures not only reduce client loyalty but also erode a company's reputation. This is because clients will tell approximately ten to twenty people about a negative experience with a company (such as a service failure) versus telling an average of only six people about a positive experience (Johnston & Hewa, 1997:468). Therefore, the company not only stands to lose its current clients, but also potential clients due to poor service recovery and the negative word-of-mouth it generates (Robbins & Miller, 2004:95). It is therefore important for the company to respond to service failures in such a way that clients are pleased with the outcome. This will not only deflect the spread of damaging word-of-mouth but actually increase clients' willingness to recommend a company (Berry & Leighton, 2004:16; Tax *et al.*, 2001:60). This is especially important for the insurance industry, since clients are much more likely to pass along opinions to others about financial services such as banks and insurance companies (Blackshaw, 2001:20).

4.4.7 Price-sensitivity

As already stated, clients are more "forgiving" when they are willing to continue their support of a company even when their expectations are not always fulfilled. However, these unfulfilled expectations are not only caused by poor service quality but could also be caused by higher prices (Kumar *et al.*, 2003:670). Therefore, clients who are more forgiving will also be willing to pay a higher price for the service. In other words, they are less price-sensitive. Krishnamurthi & Papatla (1996:133, 134) support this by stating that price sensitivity is progressively reduced with increased loyalty. Robbins & Miller (2004:98) also

found that clients in a closer relationship with a company are less likely to consider alternatives or shop for lower prices. This is why, according to Vence (2003:19), companies can always use price-sensitivity as a key indicator of a client's loyalty or relationship intention.

This concludes the discussion on forgiveness. The next relationship intention construct, namely feedback, will now be discussed.

4.5 FEEDBACK

As stated above, service recovery is important to any company if they wish to hold on to their clients. However, many unsatisfied clients do not voice their problems or concerns to the company and required recovery actions are never initiated (Berry & Leighton, 2004:16). Clients who give feedback are therefore in a better position to receive service recovery from a company. Having benefited from service recovery, these clients will then be more loyal to the company and will also trust the company more (Weun *et al.*, 2004:133; Bejou & Palmer, 1998:11). Therefore, according to Kumar *et al.* (2003:670), clients who are inclined to give feedback to the company, whether positive or negative, also tend to have a higher relationship intention.

4.5.1 Defining feedback

As stated above, feedback can either be positive or negative. Most of the literature, however, focuses on negative client feedback. This usually comes in the form of client complaints. According to Volkov (2004:114) client complaint responses can be described as “the set of all behavioural responses portrayed by clients which involve the communication of negative perceptions relating to a consumption episode and triggered by dissatisfaction with that episode”. Therefore, client complaints or negative feedback are the result of clients communicating their dissatisfaction or unmet expectations to the company. However, as will be discussed later on, this negative feedback could be a positive factor that contributes to the growth of a company and the establishment of strong client relationships.

4.5.2 Impact of client feedback on their relationship intention

When clients respond negatively to a service failure, companies should actually be assured that "complaining clients are among the most loyal" (De Coverly *et al.*, 2002:30). For example, in a study conducted by Maritz Automotive Research it was found that 60 percent of those car-buyers who complain about their vehicles' quality or dealership experience and whose complaint was resolved well, will return to that dealership when shopping for their next vehicle. In contrast, only 38 percent of non-complainers will return (Anon, 2004:8).

This is because clients who complain and receive a satisfactory response become more loyal to that company than those who have never complained because they now feel confident that the company will resolve any problems which occur (Disney, 1999:492). Also, clients who take the time to complain do so because they feel connected to a particular company. Rather than defecting, these clients will expend energy to try and make the company perform the way they think it should (Speer, 1996:13). Even when complaints are not resolved satisfactorily, clients who complain experience higher levels of repurchase intention compared to those who did not complain at all (Nyer, 2000:15). In other words, those clients who complain are more likely to repurchase the product or service and continue their relationship with a company than those who do not complain (Eccles & Durand, 1998:68).

4.5.3 The importance of obtaining feedback

It is important for a company to obtain feedback from clients for a number of reasons. It enhances client relationships, allows clients to vent their anger, provides useful information, identifies trouble areas and helps improve services. These benefits will now be discussed in greater detail.

4.5.3.1 Enhancing client relationships

In order for the company and its employees to know how and where to improve their effectiveness in their relationships with clients, they need feedback on client satisfaction or dissatisfaction with their performance. The feedback they receive

is then used to develop a composite picture of their service relationships with clients. This would then serve as the basis for improving employees' relationship skills by changing key behaviours and reducing or eliminating others. This process will therefore provide clients with more of the support they seek and ultimately improve clients' relationships with the employees they are in contact with (Church, Javitch & Burke, 1995:30-31).

By obtaining client feedback, employees can also obtain personal information about individual clients thereby getting "closer" to them and understanding them better (Zairi, 2000:331-332). This will allow the company to develop a strategic advantage over competitors by dealing with clients in terms of their personality and opinions instead of anonymous numbers (Volkov, 2004:114).

Furthermore, clients who choose to complain are offering companies the opportunity to demonstrate their trustworthiness as well as their commitment to client service (Geffken, 2002:30; Tax *et al.*, 2001:72). Therefore, when a client takes the time and trouble to complain about the company's service, it should be considered an opportunity to serve the client. The chances are good when a client extends that invitation, the company that takes it not as a complaint but as an opportunity to extend good service, will maintain a cherished relationship with that client for a long time to come (Michelson, 2003:25).

4.5.3.2 Allowing clients to vent their emotions

Clients who experienced a service failure have a definite need to be heard and require a forum in which they can vent their anger (Blackshaw, 2001:20). This is because clients would feel better about a source of dissatisfaction after they had expressed their frustration and displeasure through a complaint. In other words, complaining gives dissatisfied clients the chance to vent their unhappiness (Nyer, 2000:9-10). On the other hand, venting could also cause a short-term increase in negative emotions. These higher levels of negative emotions are usually present for no longer than two days (Nyer, 2000:10). However, when clients suppress their negative comments they usually dwell on the causes of their dissatisfaction. This, in turn, would only bring about greater dissatisfaction (Nyer, 2000:10).

4.5.3.3 Providing useful information

According to Nyer (2000:9), client complaints are very useful forms of client-initiated market information that can be used to make strategic and tactical decisions. First of all, when clients give feedback, they can convey feelings and impressions about the service which can be used to make projections about the future preferences of clients (Fundin & Bergman, 2003:55). This can then be used for upgrading services, adapting marketing practices or modifying promotional material and product information (Merlo, 2003:48). Furthermore, when clients provide information on staff performance (whether positive or negative) it can be highly motivational on employees because it allows them to see the direct impact of their work. Therefore, when clients provide positive feedback about an employee's performance, it should be publicly presented to the employee as an award. Negative feedback should also be presented as a challenge to improve on (Drouillard, 2005:20).

4.5.3.4 Identifying trouble areas and improving services

Measuring clients' attitudes toward key areas such as satisfaction with quality of service exposes the company's relative strengths and weaknesses (Weinfurther, 2004:42). Feedback could therefore help companies identify specific problem areas and create opportunities for correcting immediate problems as well as identify trouble areas in advance (Merlo, 2003:48; Blackshaw, 2001:20). Based on the feedback received, companies could then derive action plans that resolve the most critical issues, implement these actions and track progress with ongoing client research (Weinfurther, 2004:42). An ongoing dialogue with clients is therefore important in order to continually gain the necessary information needed for putting improvement plans into action (Buckingham, 2003:185; Zairi, 2000:331, 332).

4.5.4 Problems with obtaining feedback

The biggest problem that companies face in obtaining feedback is that most clients have a propensity not to complain when they have a problem with a product or service (Merlo, 2003:48; Michelson, 2003:22). The fact is, only as little

as 4 to 7 percent of dissatisfied clients ever complain (De Coverly *et al.*, 2002:25; Disney, 1999:492). The remaining “silent” clients continue being dissatisfied, which is why 63 percent of them will not support the company again and tell an average of nine or ten other people about their dissatisfaction (Michelson, 2003:22; De Coverly *et al.*, 2002:25).

There are many supposed reasons why clients rarely vocalise their dissatisfaction to companies. First of all, clients do not like complaining. Dissatisfaction is stressful and, for many people, complaining is also stressful which is why most clients avoid a “confrontation” with a company (Nyer, 2000:18; Bode, 1994:24). Some clients also think that complaining will not do any good and they feel that their time will only be wasted while others would feel awkward and pushy about complaining in the first place (Siegel, 2001:15; Speer, 1996:13). However, the most damaging reason why clients do not complain is that they feel it would be easier to just switch to another company (Speer, 1996:13). Indeed, in most cases, if a client is dissatisfied with a company’s product or service, he/she simply does not purchase from the company again and silently drifts across the street to the competitor (Michelson, 2003:22; Bode, 1994:24).

However, the problem does not lie solely with the client. A client’s fear about complaining is sometimes worsened by the attitude of employees receiving complaints. Employees sometimes appear indifferent and insensitive about the problems faced by clients by simply dismissing their complaints and even failing to apologise for any upset caused (Nyer, 2000:18). These employees view the job of handling client complaints as an arduous chore, just one of those “unpleasant realities” of doing business (Michelson, 2003:22). Many employees are also fearful or reluctant about asking clients for their opinions about the company and its offerings. They are anxious that clients might reply negatively to these questions and that management wouldn’t be able to respond to their complaints (Stimpson, 2004:23).

4.5.5 Suggestions for improving feedback response

Companies must encourage clients to raise complaints, problems and concerns (Nyer, 2000:19; Zairi, 2000:334). This could be done by creating an environment

that encourages complaints (Bendall, 2003:52). In such an environment, companies solicit feedback from clients without making them feel uncomfortable. This is done by making the client understand that the intent is not to assess any blame but to fix the client's problem (Michelson, 2003:23).

Furthermore, the company should implement a proactive strategy in order to obtain client feedback. Proactive methods involve the company making the initial contact, while reactive methods require the client to initiate a complaint to which the company reacts (Berry & Leighton, 2004:17). Although reactive methods are valuable in terms of recovering "lost" clients it is not that effective when used on its own (Bode, 1994:24). This is because most clients who wish to communicate their dissatisfaction are usually waiting for the company to take the initiative to ask (Stimpson, 2004:28).

It is therefore important for the company to have a systematic process for obtaining feedback from clients and a standard operating procedure which clearly defines how complaints are to be handled (Fundin & Bergman, 2003:55; Geffken, 2002:30). This will ensure that companies are capable of dealing with clients' complaints as quickly and effectively as possible (Zairi, 2000:334). Such a system will also ensure that clients receive a prompt reply on any suggestions, including a status report on what is happening as a result of the suggestion (Braun, 2002:16).

These procedures and processes would normally be utilised by a company's client complaints division. The employees stationed at these departments would therefore be responsible for handling most of the complaints and suggestions that the company receives. However, Fundin & Bergman (2003:58) found that when a client is dissatisfied, information about the claim is often transferred into the organisation via the service personnel. Companies should not view this in a negative light but, in fact, encourage clients to give feedback via any employee. This employee could then pass it on for corrective action as necessary (Disney, 1999:492). Companies should therefore train employees to listen to clients and change fundamental attitudes so that these complaints are viewed by employees as opportunities for positive change (Merlo, 2003:48).

Another method for improving feedback responses from clients is to consider rewarding them for their suggestions. These rewards can include discounts on future products or services and other incentives such as competition prizes or coupons (Buckingham, 2003:206; Braum, 2002:16). However, Brockhoff (2003:469) found that rewarding clients for feedback could “spoil” client behaviour. Clients might generate suggestions not because of their interest in improving a company’s services but because of their interest in winning the reward. The reward could therefore attract people who are neither potential clients nor represent the needs and service requirements of potential clients. Kumar *et al.* (2003:670) also argue that clients who provide feedback without any expectation of a reward possess a higher level of relationship intention. Therefore, clients who send feedback to a company with the expectation of receiving a reward in return may have no intention of acquiring the company’s service nor of building a long-term company-client relationship. However, according to Buckingham (2003:206), the best way for a company to reward clients for their input is for them to do all they can to implement their suggestions. When the company is successful in doing that, both the company and the client wins.

This concludes the discussion on feedback. The next relationship intention construct, namely fear of relationship loss, will now be discussed.

4.6 FEAR OF RELATIONSHIP LOSS

As already stated, clients with high involvement are emotionally attached to a company. This emotional involvement will cause clients to feel guilty if they should consider acquiring similar services from other companies. Apart from avoiding feelings of guilt, these clients would also be reluctant to switch because they fear the loss of emotional attachment, either with the brand or the employees with which the client is in contact with. Therefore, clients who fear losing their relationship with a company also show high intention towards relationship building (Kumar *et al.*, 2003:670).

4.6.1 Defining fear of relationship loss

Fear of relationship loss is a switching cost or barrier which deters clients from switching to a competitor's product or service (Aydin, Ozer & Arazil, 2005:91; Caruana, 2002:256). A barrier can represent any factor which makes it more difficult or expensive for clients to change from a current brand or service provider (Beerli, Josefa & Quintana, 2004:258; Jones, Mothersbaugh, Beatty & Sharon, 2000:261). There are a variety of different switching costs some of which the literature identified as transactional, contractual, lost performance, uncertainty, search and evaluation, setup and financial costs (Burnham *et al.*, 2003:109; Caruana, 2002:257; Jones, Mothersbaugh & Beatty, 2002:442). However, the specific switching cost this study will focus on is relational switching costs. According to Jones *et al.* (2002:443) this represents client "perceptions of the non-recoupable time, money and effort invested in establishing and maintaining a relationship". A more complete definition, however, is given by Caruana (2002:258), who defined relational switching costs as the "psychological or emotional discomfort due to the loss of identity and breaking of bonds which consist of personal relationship loss and brand relationship costs".

4.6.2 Types of relational switching costs

As stated above, there are two types of relational switching costs namely fear of losing relations with the employees of a company (personal relationship loss) and fear of losing a relationship with the brand name (brand relationship loss). These, along with additional relational switching costs will be discussed in greater detail.

4.6.2.1 Personal relationship costs

In any company-client relationship it is necessary for the client and the company itself to make an investment in that relationship. This can include emotional investments (Patterson, 2004:1306). When social bonds, personal rapport and trust have been built up over a period of time between the company and client, it

is likely to present a psychological exit barrier (Sharma & Patterson, 2000:474). Therefore, should the client decide to switch to an alternative provider he/she will be breaking the bonds of identification that have been formed with the company's employees (Burnham *et al.*, 2003:112).

4.6.2.2 Brand relationship costs

Brand relationship costs are formed when clients draw meaning from their purchases and form associations that become part of their sense of identity (Burnham *et al.*, 2003:112). This sense of identity is usually the result of clients who identify themselves with the corporate public image that the company wishes to portray to them and other stakeholders (Caruana, 2002:265). Should these clients then decide to end their relationship with a company they will also be breaking the bonds of identification that they have formed with the company's name or image (Burnham *et al.*, 2003:112).

4.6.2.3 Additional relational switching costs

Apart from the two main relational switching costs, the literature also identifies two "costs" that are associated with relational switching barriers. The first of these are the costs stemming from the uncertainty and risk associated with switching to an alternative provider (Aydin *et al.* 2005:91). This is partly due to clients' familiarity with their current provider which creates a level of comfort that is not immediately available with a new provider (Burnham *et al.*, 2003:112).

The client therefore wants to avoid the accompanying psychological and emotional stress as well as the risk and uncertainty that the termination of the current relationship could bring. This motivates a client to stay in the present relationship even when the relationship may be less than ideal (Sharma & Patterson, 2000:474). This shows the possibility that those clients who have remained with a company for a long time may lack the will to change providers using the argument of "the devil you know is better than the devil you don't" (Caruana, 2002:257; Bejou & Palmer, 1998:16).

Another reason why clients hold on to their current relationship with the company is loss of preferential treatment. This can include special privileges such as securing an appointment at short notice or obtaining preferential seating in a restaurant. It can also include price specials or volume based discounts. From the company's perspective, this kind of treatment is seen as rewards of loyalty to regular clients. From the client's perspective, however, these benefits are seen as an augmentation of the core service, thereby creating positive incentives to remain in a relationship (Patterson, 2004:1306; Jones *et al.*, 2002:442, 443). This type of treatment could be viewed as bribes that companies disburse in order to retain their clients. However, this is not necessarily the case in services. Jones *et al.* (2002:443) stated that due to the highly personalised nature of services, preferential treatment may be the result of strong relationships with service personnel. When clients end their relationship with a company, these privileges will be lost, thus providing them with a strong motive to remain loyal to the company (Patterson, 2004:1306). Apart from this, switching costs are also influenced by other factors in the service sector.

4.6.3 Switching costs in services

According to Patterson & Smith (2003:115) emotional or psychological costs are more significant in the client service setting. This is because interpersonal relationships are perceived as more important in services given the high level of personal interaction between the company and client, the intangible nature of the service, the heterogeneity of service outcomes as well as the prominent role clients play in service production (Jones *et al.*, 2000:261). This is especially the case in high contact services (such as personal fitness training and medical services) where clients often form quasi-friendships with individual service personnel (Patterson, 2004:1306). Furthermore, because of the experiential nature of services, clients may also face a considerable risk in switching to an alternative service provider because the service cannot be evaluated before actual purchase (Caruana, 2002:258). This is especially so for those services that are intrinsically difficult to evaluate and for which there is only a limited number of suppliers such as legal or medical services (De Ruyter, Bloemer & Wetzels, 1997:439).

4.6.4 Effects of high relational switching costs

The presence of high relational switching costs has certain effects on clients such as high relationship intention as well as increased satisfaction and forgiveness. This will now be discussed in greater detail.

4.6.4.1 High relationship intention

As already stated, a client's fear of losing a relationship with a company shows high intention towards relationship building. This is supported by Caruana (2002:260) who stated that stronger affective and cognitive loyalty can be expected from clients with higher relational switching costs. Jones *et al.* (2002:442, 448) also found that these costs can be associated with higher client involvement and greater interpersonal bonds with a company and would also influence clients' feelings of trust and safety as well as their desire to salvage a relationship in which much has already been invested.

4.6.4.2 Decreasing importance of satisfaction

The influence of satisfaction on intentions to stay with a company may decrease as relational switching costs rise (Jones *et al.*, 2000:261, 262). This is because the social and psychological benefits clients obtain from their relationships with service personnel go beyond satisfaction with the core service. Social benefits received from relationships are in fact independent of the benefits received from the product or service. Therefore, as interpersonal relationships become stronger, the relationship between the client's satisfaction with the core service and his/her repurchase intentions will diminish (Jones *et al.*, 2000:261, 262). Oliver (1999:33) supports this by stating that satisfaction is a necessary step in loyalty formation, but that it becomes less significant as loyalty begins to develop through other mechanisms such as social bonding at the institutional and personal level.

4.6.4.3 Increased forgiveness

Social bonds, personal rapport and trust (psychological and emotional costs) present a psychological exit barrier, even when performance of the core service

is less than satisfactory (Caruana, 2002:257; Sharma & Patterson, 2000:474). These barriers are therefore important because they assist companies in deterring client switching due to periodic service failures which would normally have led to client defections (Patterson, 2004:1312). The social benefits obtained from relationships with companies therefore encourage clients to forgive and remain with their service provider even when the company failed in meeting client expectations (Jones *et al.*, 2000:261,262).

4.6.5 Managing relational switching costs

The management of switching costs (by increasing switching costs as a method of client retention) are discouraged by most of the literature found on the subject (Beerli *et al.*, 2004:258, 259; Patterson, 2004:1312, 1313; Patterson & Smith, 2003:116; Jones *et al.*, 2000:269). This is because high contractual, financial or other costs, which provide no intrinsic benefits to the client, can create feelings of entrapment, causing them to engage in company-focused sabotage such as negative word of mouth (Jones *et al.*, 2000:269). This negative word-of-mouth then creates client awareness of these switching costs which could hamper the company in acquiring new clients (Patterson, 2004:1312, 1313).

However, positive barriers such as a client's interpersonal relationship with a company provide intrinsic benefits which do not necessarily lead to feelings of entrapment and would then be less likely to result in sabotage-type behaviours (Jones *et al.*, 2000:269, 270). These positive barriers are also seen as the most challenging for clients to overcome and loom larger when they consider switching (Burnham *et al.*, 2003:120; Caruana, 2002:260).

A company's relationship marketing strategy should therefore include the creation of relationship barriers that could be employed as a mechanism for client retention (Patterson, 2004:1312; Patterson & Smith, 2003:116).

One such strategy would be to train frontline personnel in building close relationships with clients. This could be done by addressing staff on the importance of personalised client greetings and coaching them on how to make a client feel genuinely welcome. The aim of this is for clients to gradually get to

know the company's personnel on such a level that they enjoy the social interaction, thereby creating an opportunity for personal relationships to be developed (Patterson & Smith, 2003:115).

However, if clients remain with a company only because of their relationships with specific service personnel, high staff turnover could also result in high turnover in clients due to their greater loyalty to these personnel than to the company itself (Jones *et al.*, 2000:269, 270). To avert this danger, a client could be introduced to and served alternatively by two or more employees on different occasions. The company policy should therefore ensure that clients develop social bonds with more than one employee (Patterson & Smith, 2003:115).

Apart from personal relationships, companies should also aim at building stronger brand relationships with clients. As already stated, brand relationships loss costs are seen as clients' identification with the public image that the company puts across. Careful consideration for the public relations side of the company should thus be heeded, including the events that the company may decide to support or sponsor (Caruana, 2002:265).

Furthermore, because of their strong impact on relational switching costs, companies should also consider implementing a policy that empowers frontline staff to offer regular clients special treatments and benefits. This can include special deals, appointments at short notice, urgent attention when needed, service over and above what is expected, and other behaviours deemed out of the ordinary but that are highly valued (Patterson & Smith, 2003:115).

4.7 CHAPTER SUMMARY

In this chapter, the constitution of relationship intention was discussed. This included the concepts of client involvement, expectations, forgiveness, feedback and fear of relationship loss. Although each concept was discussed within a separate framework, they all examined the impact they have on a client's relationship intention. This concludes the literature study. The following chapter will focus on the results of the empirical research.

CHAPTER 5

RESULTS OF THE EMPIRICAL INVESTIGATION

5.1 INTRODUCTION

In this chapter the results obtained from the empirical research are analysed and interpreted. This is done by examining the data in terms of the branches of the surveyed company (herewith referred to as the company) that participated in the survey, as well as the demographic details of the respondents who took part in this survey. These demographics include the length of client relationships, gender, first language, occupation, income, academic qualifications, age, family status and geographic region.

By using these demographic segments, the relationship intention scores of respondents are compared to each other. Lastly, the respondents' overall satisfaction with the service was also analysed and interpreted

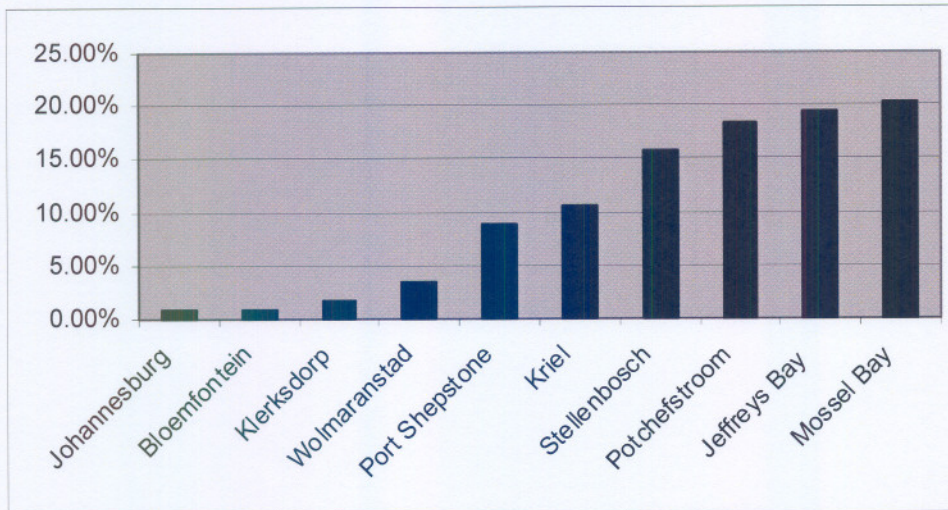
5.2 BRANCHES THAT PARTICIPATED IN THE SURVEY

Ten branches of the company submitted completed questionnaires (see 1.5.2.4.2). The names of these branches are provided in Table 5.1 along with the number of respondents that came from each branch (which is shown in the Frequency or F column). The percentage that these respondents make of the total population is shown in the Percentage or P column. The cumulative frequency and cumulative percentage numbers are also supplied in the CF and CP columns respectively.

In Figure 5.1 the branches that participated in the study are shown in terms of the number of respondents that came from each branch as a percentage of the total sample.

Table 5.1 Branches that participated in the survey (total sample)

Branch	F	P (%)	CF	CP (%)
Johannesburg	1	0.88	1	0.88
Bloemfontein	1	0.88	2	1.76
Klerksdorp	2	1.75	4	3.51
Wolmaranstad	4	3.51	8	7.02
Port Shepstone	10	8.77	18	15.79
Kriel	12	10.53	30	26.32
Stellenbosch	18	15.79	48	42.11
Potchefstroom	21	18.41	69	60.52
Jeffreys Bay	22	19.30	91	79.82
Mossel Bay	23	20.18	114	100.00

Figure 5.1 Branches that participated in the survey (total sample)

As shown in Table 5.1 and Figure 5.1 most of the respondents (23) came from Mossel Bay (20.18% of the sample). Only 1.76% of the respondents came from Johannesburg and Bloemfontein respectively, with one respondent each.

5.3 LENGTH OF COMPANY-CLIENT RELATIONSHIPS

The current length of the relationship each respondent has with the insurance company was determined by means of a multiple choice question format where different timeframes were given as possible answers. These timeframes are shown in Table 5.2 along with the number of respondents who have been with the company respective to each timeframe (this is shown in the Frequency or F column) as well as the percentage that these respondents make of the total

population (which is shown in the Percentage or P column). The cumulative frequency and cumulative percentage numbers are also supplied in the CF and CP columns respectively. In Figure 5.2, the number of respondents who have been with the company in relation to these different timeframes is shown by means of a percentage of the total sample.

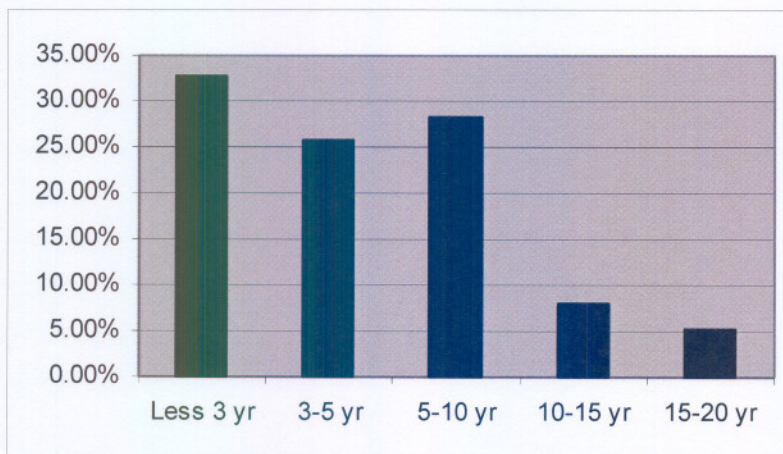
As shown in Table 5.2 and Figure 5.2 respectively, 37 respondents (32.74%) have been with the company for less than three years, whilst 29 respondents (25.66%) have been with the company for three to five years. Also, 32 respondents (28.32%) have been with the company for five to ten years, whilst 15 respondents (13.27%) have been with the company for more than ten years. The relationship intention (RI) scores for these groups are shown in Table 5.3. A group's RI scores consist of that group's scores when measured in terms of the RI constructs of involvement, expectations, forgiveness, feedback and fear of relationship loss.

Table 5.2 Length of company-client relationship (total sample)

Duration	F	P (%)	CF	CP (%)
Less than 3 years	37	32.74	37	32.74
3 to 5 years	29	25.66	66	58.41
5 to 10 years	32	28.32	98	86.73
10 to 15 years	9	7.96	107	94.69
15 to 20 years	6	5.31	113	100.00

Frequency missing = 1

Figure 5.2 Length of company-client relationship (total sample)



5.3.1 Length of company-client relationship and involvement

As shown in Table 5.3, all the d-values (see 1.5.2.4.3) calculated when comparing clients with different relationship lengths in terms of their RI scores, produced practically insignificant effect sizes. However, medium-sized d-values for involvement were found when comparing those clients with a relationship length of three years or less with those with a relationship length of between five and ten years ($d = 0.44$), as well as those with a relationship length of between ten and twenty years ($d = 0.44$). The highest involvement score (mean = 75.67%) was for the group with a relationship length of between ten and twenty years. The lowest involvement score (mean = 69.19%) was for the group with a relationship length of three years or less.

5.3.2 Length of company-client relationship and expectations

No significant d-values were identified when comparing clients with different relationship lengths in terms of their expectations (see Table 5.3). The highest expectations score (mean = 59.66%) was for those with a relationship length of between three and five years whilst the lowest expectations score (mean = 54.67%) was for those with a relationship length of between ten and twenty years.

5.3.3 Length of company-client relationship and forgiveness

As shown in Table 5.3, those with a relationship length of three years or less showed no practical significant difference ($d = 0.04$) when compared to those with a relationship of between ten and twenty years in terms of their forgiveness. Furthermore, those respondents with a relationship length of between three and five years also showed no practical significant difference ($d = 0.03$) when compared to those respondents with a relationship length of between five and ten years. However, d-values of 0.25 and 0.28 were found when comparing those with the shortest relationship length (i.e. those with a relationship length of three years or less) with those with a relationship length of between three to five years and five to ten years respectively. The highest forgiveness score (mean =

61.84%) was for those with a relationship length of between three and five years whilst the lowest forgiveness score (mean = 56.13%) was for those with a relationship length of three years or less.

5.3.4 Length of company-client relationship and feedback

There were no practically significant differences in effect sizes when comparing clients with different relationship lengths in terms of feedback (see Table 5.3). The highest feedback score (mean = 89.06%) was for those with a relationship of between five to ten years whilst the lowest feedback score (mean = 84.06%) was for those with a relationship length of between ten and twenty years.

Table 5.3 RI scores on length of client relationships

RI construct	Relationship length	Mean (%)	St. Dev ¹	d-value			
				Less 3 years	3-5 years	5-10 years	10-20 years
Involvement	Less 3 years	69.19	12.92	-	0.34	0.44	0.44
	3-5 years	74.25	14.98	0.34	-	0.04	0.09
	5-10 years	74.84	10.74	0.44	0.04	-	0.06
	10-20years	75.67	14.74	0.44	0.09	0.06	-
Expectations	Less 3 years	57.50	18.26	-	0.12	0.02	0.14
	3-5 years	59.66	16.58	0.12	-	0.14	0.25
	5-10 years	57.19	18.00	0.02	0.14	-	0.13
	10-20years	54.67	19.59	0.14	0.25	0.13	-
Forgiveness	Less 3 years	56.13	18.42	-	0.25	0.28	0.04
	3-5 years	61.84	22.67	0.25	-	0.03	0.20
	5-10 years	61.25	16.63	0.28	0.03	-	0.18
	10-20years	57.11	23.53	0.04	0.20	0.18	-
Feedback	Less 3 years	87.03	12.22	-	0.01	0.16	0.19
	3-5 years	86.90	12.85	0.01	-	0.17	0.17
	5-10 years	89.06	12.79	0.16	0.17	-	0.34
	10-20years	84.67	11.87	0.19	0.17	0.34	-
Fear of relationship loss	Less 3 years	61.14	22.78	-	0.01	0.08	0.10
	3-5 years	61.38	21.26	0.01	-	0.07	0.11
	5-10 years	63.13	23.52	0.08	0.07	-	0.18
	10-20years	58.67	25.47	0.10	0.11	0.18	-
Total	Less 3 years	66.59	10.09	-	0.25	0.34	0.09
	3-5 years	69.44	11.27	0.25	-	0.05	0.13
	5-10 years	70.04	7.78	0.34	0.05	-	0.18
	10-20years	67.76	12.68	0.09	0.13	0.18	-

¹ Standard deviation

5.3.5 Length of company-client relationship and fear of relationship loss

As shown in Table 5.3 there were also no significant differences in effect sizes when comparing clients with different relationship lengths in terms of fear of relationship loss. The highest fear of relationship loss score (mean = 63.13%) was for those with a relationship of between five to ten years, whilst the lowest fear of relationship loss score (mean = 58.67%) was for those with a relationship length of between ten and twenty years.

5.3.6 Length of company-client relationship and the total RI score

A comparison between the total RI scores of respondents of different relationship lengths also did not produce any practically significant differences in d-values (see table 5.3). The highest RI score (mean = 70.04%) was for those with a relationship length of between five and ten years whilst the lowest RI score (mean = 66.59%) was for those with a relationship length of three years or less.

5.3.7 Length of company-client relationship and price sensitivity

As shown in Table 5.4, there were not any significant d-values found when comparing clients with different relationship lengths in terms of their price sensitivity. The highest score (mean = 58.62%) was for those with a relationship length of three to five years, whilst the lowest score (mean = 52.43%) was for those with a relationship length of three years or less. Take note, however, that a higher mean resembles lower price sensitivity and *vice versa* (see 1.5.2.3).

Table 5.4 Price sensitivity of clients in relation to length of relationship

	Relation-ship length	Mean (%)	St. Dev	d-value			
				Less 3 years	3-5 years	5-10 years	10-20 years
Price sensitivity	Less 3 years	52.43	23.26	-	0.26	0.13	0.08
	3-5 years	58.62	23.86	0.26	-	0.13	0.14
	5-10 years	55.48	20.47	0.13	0.13	-	0.03
	10-20years	54.67	27.74	0.08	0.14	0.03	-

5.4 GENDER

The gender of respondents was determined by means of a dichotomous question format. Respondents simply had to choose between answers which would verify whether they are male or female. The gender characteristics of the total sample are summarised in Table 5.5. This Table shows the amount of respondents who are either male or female (as shown in the frequency or F column) as well as the percentage that these respondents make of the total sample (which is shown in the Percentage or P column).

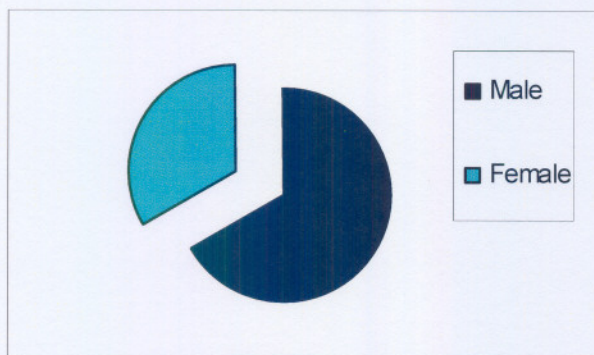
The cumulative frequency and cumulative percentage numbers are also supplied in the CF and CP columns respectively. In Figure 5.3 the number of men and women who make the total sample is shown by means of a pie-chart.

Table 5.5 Differences in gender (total sample)

Gender	F	P (%)	CF	CP (%)
Male	73	66.36	73	66.36
Female	37	33.64	110	100.00

Frequency missing = 4

Figure 5.3 Differences in gender (total sample)



As shown in Table 5.5 and Figure 5.3, almost two-thirds of the respondents were men with 73 respondents (66.36%), and only about one-third were women with 37 respondents (33.64%). A comparison between the RI scores of men and women is summarised in Table 5.6.

5.4.1 Gender and RI scores

As shown in Table 5.6, all the d-values found when comparing men and women in terms of their RI scores produced practically insignificant d-values. Expectations, however, showed a relatively higher d-value of 0.32. The expectations score are 55.62% for men and 61.11% for women.

The highest mean for men was for feedback with 86.99%, and the lowest mean for men was for expectations with 55.62%. The highest mean for women was also for feedback with 87.30%, and the lowest mean was for forgiveness with 57.12%.

Table 5.6 Relationship intention scores in terms of gender

RI construct	Male		Female		d-value
	Mean (%)	St. Dev	Mean (%)	St. Dev	
Involvement	73.47	12.81	71.08	14.20	0.17
Expectations	55.62	17.16	61.11	17.37	0.32
Forgiveness	59.22	19.88	57.12	18.89	0.11
Feedback	86.99	12.66	87.30	12.17	0.02
Fear of relationship loss	61.30	22.09	60.54	23.90	0.03
Total RI score	68.30	9.71	67.79	10.41	0.05

5.5 FIRST LANGUAGE

The first language used by respondents was determined by means of a multiple choice question format. Different language groups were given as possible answers but only two languages were marked by the respondents namely English and Afrikaans. The differences between respondents in terms of their first language are shown in Table 5.7. In Table 5.7 the amount of English and Afrikaans first language users is shown in the Frequency or F column as well as the percentage that these respondents make of the total sample (which is shown in the Percentage or P column). The cumulative frequency and cumulative percentage numbers are also supplied in the CF and CP columns respectively. In Figure 5.4 the number of English and Afrikaans speaking individuals who make the total sample is shown by means of a pie-chart.

As can be seen in Table 5.7 and Figure 5.4, the overwhelming majority of respondents were Afrikaans-speaking with 102 of the respondents (92.73%). Only eight respondents (7.27%) were English-speaking.

Figure 5.4 First language used by respondents (total sample)

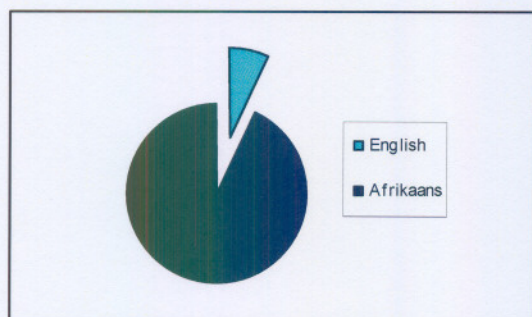


Table 5.7 First language used by respondents (total sample)

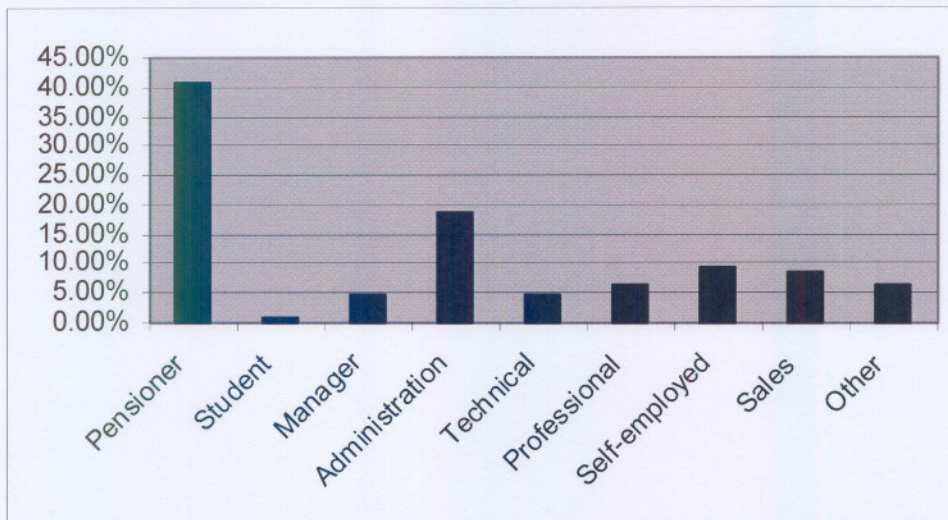
First Language	F	P (%)	CF	CP (%)
English	8	7.27	8	7.27
Afrikaans	102	92.73	110	100.00

Frequency missing = 4

5.6 OCCUPATION

The occupations of respondents were determined by means of a multiple choice question format. The different areas of occupation are listed in Table 5.8 along with the number of respondents who are employed in each area (which is shown in the Frequency or F column), as well as the percentage these respondents make of the total sample (which is shown in the Percentage or P column). The cumulative frequency and cumulative percentage numbers are also supplied in the CF and CP columns respectively. In Figure 5.5, the different areas of occupation are shown in terms of the percentage of the total sample who are employed in these areas.

From Table 5.8 and Figure 5.5 it is evident that 44 of the respondents are pensioners, making them the largest percentage of the sample (40.74%). Another group that is significant is administrative personnel who make 18.52% of the population with 20 respondents. Students form less than one percent of the population with only one respondent.

Figure 5.5 Occupation (total sample)**Table 5.8 Occupation (total sample)**

Occupation	F	P	CF	CP
Pensioner	44	40.74	44	40.74
Student	1	0.93	45	41.67
Manager	5	4.63	50	46.30
Administration	20	18.52	70	64.81
Technical	5	4.63	75	69.44
Professional	7	6.48	82	75.93
Self-employed	10	9.26	92	85.19
Sales	9	8.33	101	93.52
Other	7	6.48	108	100.00

Frequency missing = 6

Because pensioners claim a large segment of the study sample, their RI score was determined along with their income distribution, price-sensitivity and length of relationship with the insurance company. This information is summarised in Tables 5.9, 5.10, 5.11 and 5.12 respectively.

5.6.1 Relationship intention scores of pensioners

As shown in table 5.9, there were not any practically significant d-values found when comparing pensioners to the rest of the sample in terms of their RI scores. However, a relatively higher d-value of 0.43 was found when comparing these two groups in terms of their forgiveness. Pensioners showed a lower forgiveness score (mean = 53.71%), whilst the rest of the population showed a higher forgiveness score (mean = 62.03%). For pensioners, the highest score amongst

the different RI constructs was for feedback (mean = 85.23%), and the lowest score was for forgiveness (mean = 53.71%). For the remainder of the population, the highest score amongst the different RI constructs was also for feedback (mean = 88.10%), whilst the lowest score was for fear of relationship loss (mean = 59.15%).

Table 5.9 RI score of pensioners and the working population

RI construct	Pensioners		Working population		d-value
	Mean (%)	St. Dev	Mean (%)	St. Dev	
Involvement	74.02	14.27	71.80	13.46	0.16
Expectations	56.51	17.84	59.84	17.59	0.19
Forgiveness	53.71	19.13	62.03	18.39	0.43
Feedback	85.23	13.89	88.10	11.48	0.21
Fear of relationship loss	65.24	24.17	59.15	21.10	0.25
Total RI score	68.00	11.26	68.33	9.65	0.03

5.6.2 Income of pensioners and the working population

As shown in Table 5.10, 75% of pensioners earn between R5 001 and R10 000 per month. Also, 50.82% of the working population earns between R5 001 and R10 000 per month. However, only 4.54% of pensioners earn more than R15 000 per month, whilst 29.52% of the working population earn more than this amount per month.

Table 5.10 Income distribution: Pensioners & working population

Income Level	Pensioners				Working population			
	F	P	CF	CP	F	P	CF	CP
Less than R5 000	8	18.18	8	18.18	9	14.75	9	14.75
R5 001 - R10 000	25	56.82	33	75.00	22	36.07	31	50.82
R10 001 - R15 000	9	20.45	42	95.45	12	19.67	43	70.49
R15 001 - R20 000	1	2.27	43	97.73	7	11.48	50	81.97
R20 001 - R25 000	0	0.00	43	97.73	2	3.28	52	85.25
R25 001 - R30 000	0	0.00	43	97.73	2	3.28	54	88.52
R30 001 and more	1	2.27	44	100.00	7	11.48	61	100.00

5.6.3 Price sensitivity of pensioners and the working population

A comparison between pensioners and the rest of the population in terms of their price sensitivity produced a practically insignificant d-value of 0.27 (see Table 5.11). The mean for pensioners was 50.70%, whilst the mean for the rest of the

population was 57.14%. Take note, however, that a higher mean resembles lower price-sensitivity and *vice versa*.

Table 5.11 Price sensitivity of pensioners and the working population

	Pensioners		Working population		d-value
	Mean (%)	St. Dev	Mean (%)	St. Dev	
Price sensitivity	50.70	23.64	57.14	21.81	0.27

5.6.4 Length of company-client relationship of pensioners

As shown in Table 5.12, 61.36% of the pensioners who took part in this study have only been with the company for five years or less. Only 6.82% of pensioners have been with the company for longer than ten years.

Table 5.12 Length of client relationships of pensioners

Duration	F	P	CF	CP
Less than 3 years	17	38.64	17	38.64
3 to 5 years	10	22.73	27	61.36
5 to 10 years	14	31.82	41	93.18
10 to 15 years	2	4.55	43	97.73
15 to 20 years	1	2.27	44	100.00

5.7 GROSS INCOME

The gross income of each respondent was determined by means of a multiple choice question format. The different income segments are listed in Table 5.13, along with the number of respondents who earn an income equivalent to each segment (which is shown in the Frequency or F column) as well as the percentage that these respondents make of the total sample (which is shown in the Percentage or P column).

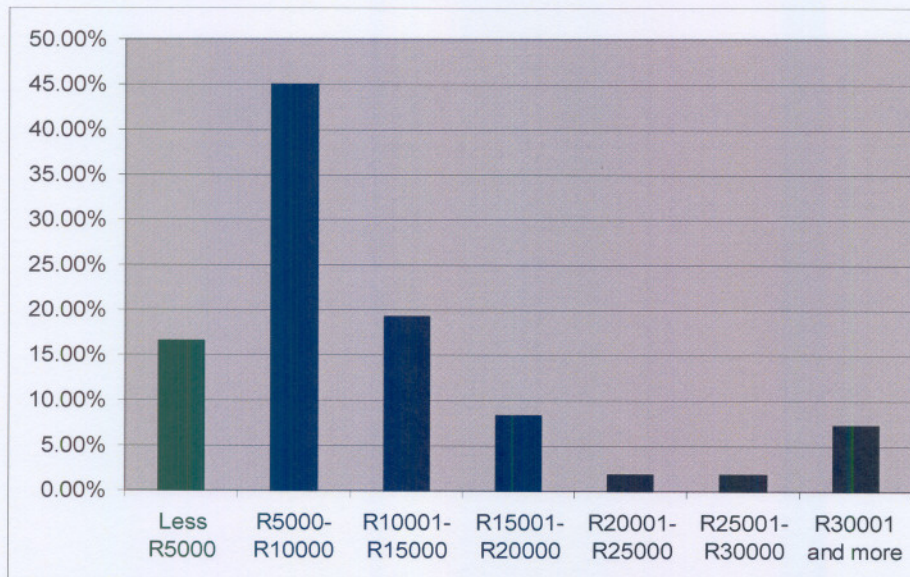
The cumulative frequency and cumulative percentage numbers are also supplied in the CF and CP columns respectively. In Figure 5.6 the different income groups are shown in terms of their representation of the total sample by means of a percentage.

Table 5.13 Income (total sample)

Income	F	P (%)	CF	CP (%)
Less than R5 000	18	16.51	18	16.51
R5 000 - R10 000	49	44.95	67	61.47
R10 001 - R15 000	21	19.27	88	80.73
R15 001 - R20 000	9	8.26	97	88.99
R20 001 - R25 000	2	1.83	99	90.83
R25 001 - R30 000	2	1.83	101	92.66
R30 001 and more	8	7.34	109	100.00

Frequency missing = 5

As shown in Table 5.13 and Figure 5.6, 18 respondents (16.51%) earn R5 000 or less per month. The largest segment of the population (49 respondents = 44.95%) earns between R5 000 and R10 000 per month. Also, 21 respondents (19.27%) earn between R10 001 and R15 000 per month, whilst 21 respondents (19.27%) earn more than R15 000 per month. Take note that the income groups named above were used for a comparison between different income groups in terms of their RI scores.

Figure 5.6 Income (total sample)

5.7.1 Income groups and involvement

As shown in Table 5.14 there were not any significant effect sizes found when comparing different income groups in terms of their involvement. However, relatively higher d-values were obtained when a comparison was made in terms

of the involvement between the lowest income group (i.e. those who earn R5 000 or less per month), and the higher income groups (i.e. those who earn more than R5 000 per month). The highest involvement score (mean = 73.57%) was for the highest income group (i.e. those who earn more than R15 000 per month). Take note that the highest income group resembles the last four income groups as shown in Table 5.13 and Figure 5.6. The lowest involvement score (mean = 69.35%) was for the lowest income group (i.e. those who earn R5 000 or less per month).

5.7.2 Income groups and expectations

In terms of expectations, there were no practically significant effect sizes found between the different income groups (see Table 5.14). However, a medium-sized d-value of 0.47 was found when comparing those who earn R5 000 or less per month with those who earn between R10 001 and R15 000 per month. These two groups also showed the highest and lowest expectations scores with 62.94% for those who earn R5 000 or less per month, and 56.19% for those who earn between R10 001 and R15 000 per month.

5.7.3 Income groups and forgiveness

As shown in Table 5.14, there were no practically significant effect sizes found when comparing the different income groups in terms of their forgiveness. The highest forgiveness score (mean = 61.27%) was for the highest income group (i.e. those who earn more than R15 000 per month), whilst the lowest score (mean = 57.59%) was for the lowest income group (i.e. those who earn R5 000 or less per month)

5.7.4 Income groups and feedback

In terms of feedback, medium-effect d-values were found when comparing those who earned between R10 001 and R15 000 per month with those who earn R5 000 or less per month ($d = 0.44$), those who earn between R5 001 and R10 000 per month ($d = 0.68$) and those who earn more than R15 000 per month ($d = 0.62$) (see Table 5.14). The other d-values were all practically insignificant. The highest feedback score (mean = 89.38%) was for those who earn between

R5 001 and R10 000 per month, whilst the lowest feedback score (mean = 80.00%) was for those who earn between R10 001 and R15 000 per month.

Table 5.14 RI scores for income

RI construct	Income group	Mean (%)	St Dev	d-value			
				IG A ²	IG B ³	IG C ⁴	IG D ⁵
Involvement	IG A	69.35	14.61	-	0.20	0.21	0.29
	IG B	72.28	14.99	0.20	-	0.01	0.09
	IG C	72.46	13.46	0.21	0.01	-	0.08
	IG D	73.57	12.66	0.29	0.09	0.08	-
Expectations	IG A	62.94	12.13	-	0.31	0.47	0.21
	IG B	56.33	21.28	0.31	-	0.01	0.15
	IG C	56.19	14.31	0.47	0.01	-	0.20
	IG D	59.52	16.27	0.21	0.15	0.20	-
Forgiveness	IG A	57.59	16.95	-	0.00	0.02	0.20
	IG B	57.69	20.71	0.00	-	0.01	0.17
	IG C	57.94	20.61	0.02	0.01	-	0.16
	IG D	61.27	18.81	0.20	0.17	0.16	-
Feedback	IG A	86.11	9.79	-	0.27	0.44	0.20
	IG B	89.38	11.92	0.27	-	0.68	0.06
	IG C	80.00	13.78	0.44	0.68	-	0.62
	IG D	88.57	12.36	0.20	0.06	0.62	-
Fear of relationship loss	IG A	69.02	21.07	-	0.33	0.57	0.45
	IG B	61.13	23.64	0.33	-	0.18	0.09
	IG C	56.83	21.25	0.57	0.18	-	0.10
	IG D	59.05	22.24	0.45	0.09	0.10	-
Total	IG A	69.25	7.27	-	0.12	0.39	0.04
	IG B	67.69	12.65	0.12	-	0.15	0.09
	IG C	65.80	8.78	0.39	0.15	-	0.34
	IG D	68.89	9.17	0.04	0.09	0.34	-

5.7.5 Income groups and fear of relationship loss

As shown in Table 5.14, medium effect sizes were also obtained when fear of relationship loss scores were compared between the lowest income group (i.e. those who earn R5 000 or less per month) and those who earn between R10 001 and R15 000 per month ($d = 0.57$); and those who earn more than R15 000 per month ($d = 0.45$). The other d-values were all practically insignificant. The

² Income group A: Less than R5 000 per month

³ Income group B: Between R5 001 and R10 000 per month

⁴ Income group C: Between R10 001 and R15 000 per month

⁵ Income group D: More than R15 000 per month

highest fear of relationship loss score (mean = 69.02%) was for the lowest income group (i.e. those who earn R5 000 or less per month), whilst the lowest fear of relationship loss score (mean = 56.83%) was for those who earn between R10 001 and R15 000 per month.

5.7.6 Income groups and the total RI scores

When comparing the different income groups in terms of the total RI scores, there were also no practically significant d-values found (see Table 5.14). The highest RI score (mean = 69.25%) was for the lowest income group (i.e. those who earn R5 000 or less per month), whilst the lowest RI score (mean = 65.80%) was for those who earn between R10 001 and R15 000 per month.

5.7.7 Income groups and price-sensitivity

The price sensitivity scores of the different income groups are summarised in Table 5.15. Although the d-values were not practically significant, it is interesting to note that the highest income group (i.e. those who earn more than R15 000 per month) showed relatively higher d-values when compared to those who earn R5 000 or less ($d = 0.33$), those who earn between R5001 and R10 000 per month ($d = 0.44$), and those who earn between R10 001 and R15 000 per month ($d = 0.47$). The other d-values were practically insignificant. The highest mean (62.86%) was for the highest income group (i.e. those who earn more than R15 000 per month), and the lowest mean (51.43%) was for those who earn between R10 001 and R15 000 per month. Take note, however, that a higher mean resembles lower price-sensitivity and *vice versa*.

Table 5.15 Price sensitivity of different income groups

	Income group	Mean (%)	St. Dev	d-value			
				IG A	IG B	IG C	IG D
Price sensitivity	IG A	55.56	22.29	-	0.13	0.17	0.33
	IG B	52.34	34.16	0.13	-	0.04	0.44
	IG C	51.43	24.14	0.17	0.04	-	0.47
	IG D	62.86	19.27	0.33	0.44	0.47	-

5.8 ACADEMIC QUALIFICATIONS

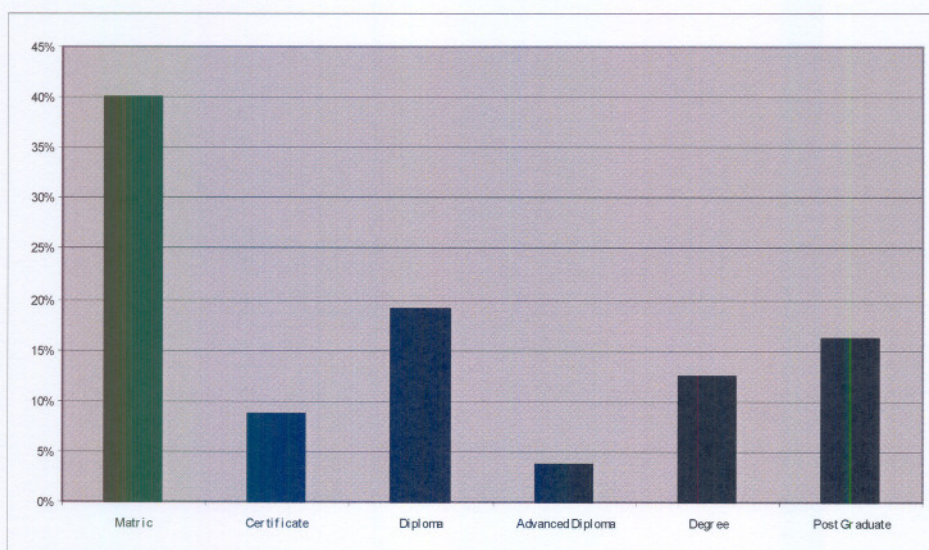
The level of education of each respondent was determined by means of a multiple choice question format where respondents had to indicate their highest academic qualification. The different academic qualifications are listed in Table 5.16, along with the number of respondents who showed each of these as their highest qualification (which is shown in the Frequency or F column), as well as the percentage that these respondents make of the total sample (which is shown in the Percentage or P column). The cumulative frequency and cumulative percentage numbers are also supplied in the CF and CP columns respectively. In Figure 5.7, those groups with different levels of education are shown in terms of the percentage of the total sample.

Table 5.16 Academic Qualification (total sample)

Qualification	F	P (%)	CF	CP (%)
Matric	42	40.00	42	40.00
Certificate	9	8.75	51	48.57
Diploma	20	19.05	71	67.62
Advanced Diploma	4	3.81	75	71.43
Degree	13	12.38	88	83.81
Post Graduate	17	16.19	105	100.00

Frequency missing = 9

Figure 5.7 Academic Qualification (total sample)



As shown in Table 5.16 and Figure 5.7, a large number of the sample (42 = 40%) only has matric as their highest qualification. Also, 9 respondents (8.75%) obtained a certificate. A majority of 54 respondents (51.43%) have obtained a tertiary qualification. RI scores for qualification were compared between groups who have a tertiary qualification (54 respondents) to those who do not (51 respondents). The results of these scores are summarised in Table 5.17.

5.8.1 Academic qualification and relationship intention scores

As shown in table 5.17 there were not any practically significant d-values obtained when comparing those with a tertiary qualification to those without a tertiary qualification in terms of their RI scores. However, a relatively larger d-value of 0.32 was found when comparing these two groups in terms of their forgiveness scores. Those without a tertiary education showed a forgiveness score of 55.88%, whilst those with a tertiary education showed a forgiveness score of 62.16%. For those without a tertiary education the highest score amongst the different RI constructs was for feedback (mean = 88.20%), whilst the lowest overall score was for forgiveness (mean = 55.88%). For those with a tertiary education, the highest score amongst the different RI constructs was also for feedback (mean = 86.85%) whilst the lowest overall score was for expectations (mean = 58.52%).

Table 5.17 RI scores for academic qualification

RI construct	Non-tertiary qualification		Tertiary qualification		d-value
	Mean (%)	St Dev	Mean (%)	St Dev	
Involvement	72.12	12.89	73.49	14.29	0.10
Expectations	58.20	16.37	58.52	19.56	0.02
Forgiveness	55.88	18.76	62.16	19.55	0.32
Feedback	88.20	11.55	86.85	13.01	0.10
Fear of relationship loss	61.67	22.24	60.86	23.06	0.03
Total RI score	67.44	9.43	69.04	11.09	0.14

5.8.2 Academic qualification and income distribution

In Table 5.18 the frequency distribution of income is shown for those who have obtained a tertiary qualification in comparison to those who have not. As shown

in Table 5.18, 26.53% of those without a tertiary qualification fall into the lowest income group (i.e. those who earn R5 000 or less per month), whilst only 5.66% of those with a tertiary education fall into this group. Also, 24.52% of those with a tertiary education earn more than R15 001 per month, whilst only 12.24% of those without a tertiary education earn more than R15 001 per month.

Table 5.18 Income distribution: Tertiary & Non-tertiary qualification

Income level	Non-tertiary qualification				Tertiary qualification			
	F	P	CF	CP	F	P	CF	CP
Less than R5 000	13	26.53	13	26.53	3	5.66	3	5.66
R5 001 – R 10 000	22	44.90	35	71.43	24	45.28	27	50.94
R10 001 – R 15 000	8	16.33	43	87.76	13	24.43	40	75.47
R15 001 – R 20 000	2	4.08	45	91.84	5	9.43	45	84.91
R20 001 – R 25 000	2	4.08	47	95.92	0	0.00	45	84.91
R25 001 – R 30 000	0	0.00	47	95.92	2	3.77	47	88.68
R30 001 and more	2	4.08	49	100.00	6	11.32	53	100.00

Frequency missing = 3 (2 non-tertiary qualification and 1 tertiary qualification)

5.9 AGE

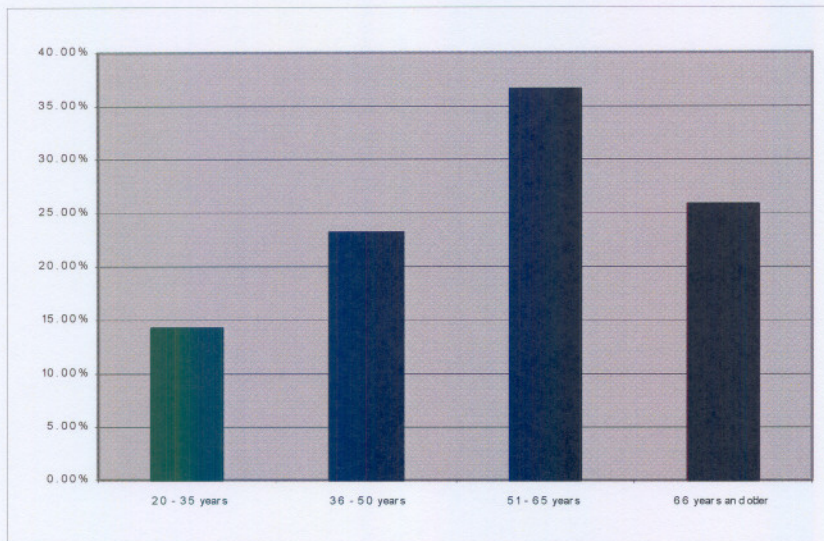
Respondents' age was determined by means of a multiple choice question format where different age groups were given as possible answers. These age groups are shown in Table 5.19 along with the number of respondents who fall into every age group (this is shown in the Frequency or F column), as well as the percentage that these respondents make of the total sample (which is shown in the Percentage or P column).

The cumulative frequency and cumulative percentage numbers are also supplied in the CF and CP columns respectively. In Figure 5.8 the number of respondents who fall into these different age groups are shown by means of a percentage of the total sample.

Table 5.19 Age differences (total sample)

Age	F	P (%)	CF	CP (%)
20 - 35 years	16	14.29	16	14.29
36 - 50 years	26	23.21	42	37.50
51 - 65 years	41	36.61	83	74.11
66 years and older	29	25.89	112	100.00

Frequency missing = 2

Figure 5.8 Age differences (total sample)

As shown in Table 5.19 and Figure 5.8, the majority of the sample (70 respondents = 62.50%) is 50 years and older. Twenty-six respondents (23.21%) are between the ages of 36 and 50 years, whilst only 16 respondents (14.29%) are between the ages of 20 and 35 years. The RI scores for these age groups are summarised in Table 5.21.

5.9.1 Age and involvement

As shown in Table 5.20, there were no practically significant effect sizes found when comparing different age groups in terms of their involvement. However, those aged 20 to 35 years showed relatively higher *d*-values when compared to those aged 36 to 50 years ($d = 0.22$), and those older than 50 years ($d = 0.24$). This contrasts sharply with the *d*-value of 0.05 for the comparison between those aged 36 to 50 years to those older than 50 years of age. The highest involvement score (mean = 73.02%) was for those aged than 50 years whilst the lowest involvement score (mean = 69.38%) was for those 20 to 35 years of age.

5.9.2 Age and expectations

Although the *d*-values for expectations were also not practically significant, those aged between 36 and 50 years showed relatively higher *d*-values when

compared to those aged 20 to 35 years ($d = 0.32$) and those aged older than 50 years ($d = 0.36$) (see Table 5.20). This contrasts sharply with the practically insignificant d -value of 0.07 for the comparison between those aged 20 to 35 years and those aged older than 50 years. The highest expectations score (mean = 63.08%) was for those aged 36 to 50 years, whilst the lowest expectations score (mean = 56.23%) was for those aged older than 50 years.

Table 5.20 RI scores for different age groups

RI construct	Age group	Mean (%)	St Dev	d-value		
				20-35 years	36-50 years	Older than 50
Involvement	20-35 years	69.38	13.52	-	0.22	0.24
	36-50 years	72.31	11.77	0.22	-	0.05
	Older than 50	73.02	14.91	0.24	0.05	-
Expectations	20-35 years	57.50	17.32	-	0.32	0.07
	36-50 years	63.08	14.36	0.32	-	0.36
	Older than 50	56.23	18.87	0.07	0.36	-
Forgiveness	20-35 years	60.00	19.01	-	0.28	0.22
	36-50 years	65.26	16.12	0.28	-	0.48
	Older than 50	55.57	20.20	0.22	0.48	-
Feedback	20-35 years	90.00	10.33	-	0.54	0.20
	36-50 years	84.23	10.65	0.54	-	0.24
	Older than 50	87.39	13.36	0.20	0.24	-
Fear of relationship loss	20-35 years	54.17	22.43	-	0.33	0.35
	36-50 years	61.54	19.26	0.33	-	0.04
	Older than 50	62.49	23.84	0.35	0.04	-
Total	20-35 years	66.58	8.69	-	0.36	0.08
	36-50 years	69.68	8.47	0.36	-	0.18
	Older than 50	67.55	11.51	0.08	0.18	-

5.9.3 Age and forgiveness

As shown in Table 5.20, a medium-sized effect size ($d = 0.48$) was found when comparing those aged between 36 and 50 years with those aged older than 50 years in terms of their forgiveness. The forgiveness scores of the above-mentioned age groups are 65.26% and 55.57% respectively. The other d -values were all practically insignificant.

5.9.4 Age and feedback

A medium sized d-value of 0.54 was also found when comparing those aged between 20 and 35 and those aged between 36 and 50 years in terms of feedback (see Table 5.20). The average feedback scores of the above-mentioned age groups are 90% for those aged 20 to 35, and 84.23% for those aged 36 to 50 years. The other d-values were all practically insignificant.

5.9.5 Age and fear of relationship loss

Although the effect sizes for fear of relationship loss were not practically significant, those aged 20 to 35 years showed relatively higher d-values when compared to those aged 36 to 50 years ($d = 0.33$) and those older than 50 years ($d = 0.35$) (see Table 5.20). This contrasts sharply with the practically insignificant effect size ($d = 0.04$) for the comparison between those aged 36 to 50 years and those older than 50 years. The highest fear of relationship loss score (mean = 62.49%) was for those older than 50 years whilst the lowest fear of relationship loss score (mean = 54.17%) was for those aged 20 to 35 years.

5.9.6 Age and total relationship intention score

As shown in Table 5.20, there were also no practically significant effect sizes found when comparing the different age groups in terms of their total RI scores. The highest RI score (mean = 69.68%) was for those aged 36 to 50 years, whilst the lowest RI score (mean = 66.58%) was for those aged 20 to 35 years.

5.9.7 Age and income distribution

In Table 5.21 the frequency distribution of income for the respective age groups is summarised. As can be derived from Table 5.22, 31.35% of those aged between 20 and 35 years earn R5 000 or less per month, whilst only 12.50% of those between the ages of 36 and 50 years earn this amount per month. Also, 14.49% of those aged 50 years earn R5 000 or less per month.

Table 5.21 Income distribution for the respective age groups

Income	20 - 35 years			
	F	P	CF	CP
Less than R5 000	5	31.25	5	31.25
R5 001 - R 10 000	7	43.75	12	75.00
R10 001 - R 15 000	1	6.25	13	81.25
R15 001 - R 20 000	0	0.00	13	81.25
R20 001 - R 25 000	1	6.25	14	87.50
R25 001 - R 30 000	1	6.25	15	93.75
R30 001 and more	1	6.25	16	100.00
Income	36 - 50 years			
	F	P	CF	CP
Less than R5 000	3	12.50	3	12.50
R5 001 - R 10 000	10	41.67	13	54.17
R10 001 - R 15 000	5	20.83	18	75.00
R15 001 - R 20 000	3	12.50	21	87.50
R20 001 - R 25 000	0	0.00	21	87.50
R25 001 - R 30 000	0	0.00	21	87.50
R30 001 and more	3	12.50	24	100.00
Income	Older than 50 years			
	F	P	CF	CP
Less than R5 000	10	14.49	10	14.49
R5 001 - R 10 000	32	46.38	42	60.87
R10 001 - R 15 000	15	21.74	57	82.61
R15 001 - R 20 000	6	8.70	63	91.30
R20 001 - R 25 000	1	1.45	64	92.75
R25 001 - R 30 000	1	1.45	65	94.20
R30 001 and more	4	5.80	69	100.00

5.9.8 Age and price sensitivity

As shown in table 5.22, there is a medium-sized d-value ($d = 0.48$) found when comparing those aged between 36 and 50 years to those older than 50 years. A relatively large d-value ($d = 0.39$) was also found when comparing those aged 36 to 50 years with those aged 20 to 35 years. This contrasts sharply with the d-value of 0.09 for the comparison between those aged 20 to 35 years to those aged older than 50 years.

Table 5.22 Price sensitivity of different age groups

	Age group	Mean (%)	St Dev	d-value		
				20-35 years	36-50 years	Older than 50
Price sensitivity	20-35 yr	53.75	23.91	-	0.39	0.09
	35-50 yr	63.08	16.68	0.39	-	0.48
	Older than 50	51.47	24.02	0.09	0.48	-

5.10 GEOGRAPHICAL REGIONS

The different geographical regions where respondents reside were determined by means of a multiple choice question format where respondents had to choose between rural, semi-rural and urban. Table 5.23 shows the number of respondents who reside in each of these areas (as shown in the Frequency or F column) as well as the percentage that these respondents make of the total sample (which is shown in the Percentage or P column). The cumulative frequency and cumulative percentage numbers are also supplied in the CF and CP columns respectively. In Figure 5.9, the number of respondents who reside in each of the regions are shown by means of a pie-chart.

As shown in Table 5.23 and Figure 5.9, the largest majority of the sample (94 or 83.93%) is semi-rural (i.e. those who reside in towns). Only 9.82% of the population stated that they reside in urbanised areas or cities.

Figure 5.9 Area (total sample)

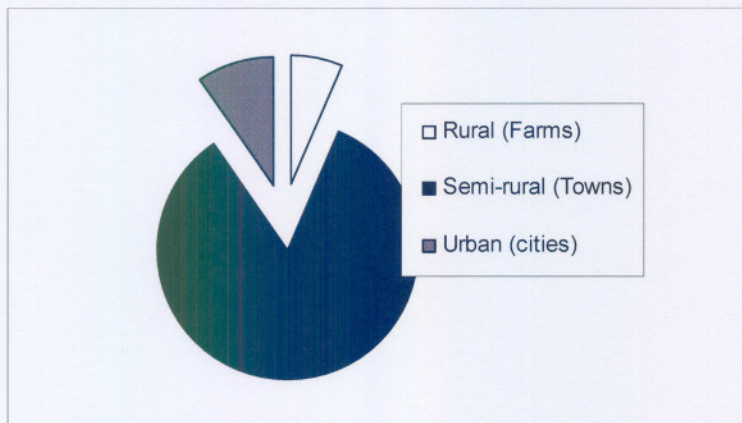


Table 5.23 Regions (total sample)

Area	F	P	CF	CP
Rural (Farm)	9	6.25	7	6.25
Semi-rural (Town)	94	83.93	101	90.18
Urban (City)	11	9.82	112	100.00

Frequency missing = 2

5.11 SERVICE SATISFACTION

According to Table 5.24, 78 respondents (68.42%) answered “yes, definitely” and 33 respondents (28.95%) answered “yes” when asked if they were satisfied with the service they received. Only one client stated that he was not satisfied with the service and two remained neutral. The overwhelming majority of the respondents (97.37%) are therefore satisfied with the service they receive from the insurance broker, with an average satisfaction score of 93%.

Table 5.24 Service satisfaction (total sample)

Response	F	P	CF	CP
No, definitely not	0	0.00	0	0.00
No	1	0.88	1	0.88
Neutral	2	1.75	3	2.63
Yes	33	28.95	36	31.58
Yes, definitely	78	68.42	114	100.00

5.12 SUMMARY

In this chapter the results obtained from the empirical research were analysed and interpreted. This was done by examining the data in terms of the branches that participated in the survey as well as the demographic details of the respondents who took part in this survey. These demographics included length of client relationships, gender, first language, occupation, income, academic qualification, age, family status and geographical region. By using these demographic segments, the relationship intention scores of respondents were compared to each other. The respondents' overall satisfaction score was also analysed and interpreted.

In the next chapter, the summary of this study, as well as the conclusions and recommendations derived from the results of the empirical investigation will be discussed.

CHAPTER 6

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

In this chapter the research study will be summarised and conclusions on the relationship intention of short term insurance clients based on the empirical results will be presented. Recommendations will also be given with regards to the relationship intention of short-term insurance clients together with recommendations for future research.

6.2 SUMMARY

This study aimed to investigate the relationship intention of short term insurance clients. This was done in order to distinguish those clients with a relationship approach from those with a transactional approach. In other words, this study aimed to identify those clients who wish to support long-term relationships with the surveyed short-term insurance company. This was done by means of a literature review and an empirical investigation.

The literature review consisted of three chapters with each chapter coinciding with one of the objectives set for this study. In Chapter two, the theory behind relationship marketing was evaluated with the goal of investigating relationship marketing as a framework for relationship intention. The chapter started with a discussion on the different definitions of relationship marketing which was followed with a comparison between relationship and transactional marketing as well as a discussion on relationship marketing in services. The importance of trust, commitment, value and service quality in terms of relationship marketing was also investigated. This was followed with a discussion on the benefits associated with relationship marketing both from the company and the client's perspective.

In Chapter three segmentation principles were evaluated with the goal of investigating different segmentation bases and suggesting relationship intention

as one such base. This chapter began with a discussion on the different definitions of market segmentation after which the goal, benefits and problems associated with market segmentation were discussed. This was followed by an analysis of the different bases for market segmentation after which a discussion on segmentation using relationship intention followed.

In Chapter 4 the constitution of relationship intention was discussed according to five constructs. These constructs are the client's involvement with the service, his/her expectations of the service, the willingness to forgive service failures, whether the client provides feedback to the company and whether the person would fear the loss of a relationship with the company's employees or with the company itself. The goal of this chapter was therefore to constitute relationship intention in terms of these five constructs.

The empirical investigation was undertaken with the goal of testing the dimensions of relationship intention among a sample of short-term insurance clients. This was done by means of a descriptive research design using a survey method. Convenience sampling was used to study the target population which consisted of clients of a short-term insurance company. These clients, who varied between different demographic and geographic profiles, were asked to complete a questionnaire which measured their relationship intention and also identified their specific demographic profile. The data obtained from these questionnaires were analysed using SAS/STAT software and the results of this analysis are shown in Chapter 5.

6.3 CONCLUSIONS

As shown in Chapter 5, the data did not produce any practically significant effect sizes (d-values) when comparing the RI (relationship intention) scores of different groups to each other. The reason behind these low d-values could be explained by the fact that the study and measurement of relationship intention is an entirely new area of research enquiry. According to Cohen (1988:25), small effect sizes are likely in new areas of research enquiry as the phenomena under study are usually not under good experimental or measurement control. Apart from this,

the reason behind these small d-values could lie in the fact that the overall majority of the respondents who took part in this survey already possess a high relationship intention. The reason why all the respondents in this study showed such high RI scores could be explained by the following:

- First of all, by filling in the questionnaire, these respondents were willing to supply feedback regarding the company. According to the literature this would act as proof of a high level of relationship intention (see section 4.5).
- The respondents were also willing to divulge personal information about themselves (such as their personal income) and their relationship with the company. According to Fletcher & Peters (1997:524) the fact that clients are willing to share such information could be interpreted as a powerful signal that they are committed to their relationship with the company.
- The respondents also had an average satisfaction score of 93%, thereby showing a very high level of satisfaction with the service they receive (see section 5.12). According to the literature, client satisfaction has a positive influence on relationship strength and relationship longevity (see section 2.8.3). Therefore, those respondents who show a high level of satisfaction would also show a high level of relationship intention.

By taking these factors into consideration it is evident that virtually all of the respondents who took part in this survey already possess a high level of relationship intention. None of the respondents could therefore be labeled as having a “poor” relationship intention. However, distinctions could be made between those respondents who have an excellent relationship intention and those who have a relationship intention which could be classified as good.

These distinctions could be made by comparing different demographic groups within the survey in terms of their RI scores. Although such comparisons would yield small d-values (due to the fact that they all showed above average RI scores), these d-values could be compared to one another in order to identify those demographic groups who show a higher level of relationship intention. According to Cohen (1988:25) such comparisons are justified. This is because, when referring to effect sizes, the terms “small”, “medium” and “large” could be

seen as relative, not only to each other, but also to the area of behavioural science or research method employed in any given investigation.

As stated previously, the target population consisted of clients of a short-term insurance company. Apart from the fact that the respondents are all clients of the same company, these respondents also share other similarities. As shown in Chapter 5, 92.73% of the sample is Afrikaans speaking and 85.71% of the sample is above the age of 36 (see section 5.5 and section 5.9). Also, 90.18% of the sample lives in rural areas (farms) or semi-rural areas (towns) (see section 5.10). The population under study therefore consists of short-term insurance clients within the older, rural Afrikaans-speaking community.

Some specific conclusions drawn from the results will be explained by means of the demographic information obtained from respondents. These demographics include length of client relationships, gender, occupation, income, academic qualification and age.

6.3.1 Conclusions regarding length of relationships & relationship intention

The majority of the respondents who took part in this survey (58.40% of the sample) have only been with the company for less than five years. These client relationships are still relatively short in comparison to the history of the broker company (which stretches over twenty years). Those clients with the "shortest" relationship with the company (i.e. those with a relationship of three years or less), have the lowest involvement score (69.19%, see section 5.3.1). Higher involvement scores were found for those clients who have a relationship with the company that stretches for longer than three years (74.25%, 74.84%, 75.67%, see Table 5.3). The involvement scores for these clients also remain relatively consistent as the length of the client-company relationship progresses.

It would also seem that those clients with the shortest relationship (i.e. those with a relationship of three years or less) are less forgiving than those who have been with the company between three and ten years. However, it is interesting to note

that forgiveness then decreases as clients forge longer relationships with the company (i.e. when the relationship progresses beyond ten years).

6.3.2 Conclusions regarding gender & relationship intention

The majority of the respondents who took part in this survey were male (66.36% of the sample). From the data obtained, it would appear that women scored higher than men when measured in terms of expectations (see section 5.4.1). Apart from expectations, there were no practically significant differences between men and women with regards to their RI scores.

6.3.3 Conclusions regarding occupation & relationship intention

A large percentage of the sample (40.74%) is pensioners. It is interesting to note that pensioners showed lower forgiveness than the rest of the population (see section 5.6.1). Pensioners also earn less than the rest of the population and are slightly more price-sensitive (see sections 5.6.2 and 5.6.3). It is also interesting to note that 61.36% of the pensioners who took part in this study have only been with the company for five years or less (see section 5.6.4).

6.3.4 Conclusions regarding income & relationship intention

Most of the respondents who took part in this survey (64.22% of the sample) earn between R5 000 and R10 000 per month (see section 5.7). From the data obtained it would appear that those who earn the lowest income (i.e. those who earn R5 000 or less per month) are not as involved as those who earn a higher income (i.e. those who earn more than R5 000 per month). It would seem that involvement increases as the client's income increases (see section 5.7.1). However, the lowest income group gave higher scores when measured in terms of their fear of relationship loss (see section 5.7.5). Those who earn the highest income (i.e. those who earn more than R15 000 per month) showed the lowest price sensitivity. The rest of the income groups (i.e. those who earn R15 000 or less per month) showed higher price sensitivity (see section 5.7.7).

6.3.5 Conclusions regarding academic qualification & relationship intention

From the data obtained it would appear that the sample is almost evenly split between those who have obtained a tertiary qualification (51.43%) and those who have not (48.57%) (see section 5.8). It is interesting to note that those who obtained a tertiary qualification appeared to be more forgiving than those who have not obtained a tertiary qualification (see section 5.8.1). It would also appear that those with a tertiary qualification earn a higher income per month than those who did not obtain a tertiary qualification (see section 5.8.2).

6.3.6 Conclusions regarding age & relationship intention

As stated previously, a large percentage of the sample (85.71%) is above the age of 36 (see section 5.9). From the data obtained, it would appear that the youngest age group (i.e. those between the ages of 20 and 35) had the lowest involvement score (see section 5.9.1). The youngest age group also had the lowest fear of relationship loss score when compared to the older age groups (i.e. those older than 35 years) (see section 5.9.5). However, those aged 20 to 35 years did show higher feedback scores when compared to those clients between the age of 35 and 50 years (see section 5.9.4).

It would appear that clients between the ages of 36 and 50 scored the highest in terms of expectations and forgiveness. The youngest age group (20 – 35 years) and the oldest age group (i.e. those older than 50) gave lower expectations and forgiveness scores. It is interesting to note that the lowest forgiveness score was for those clients older than 50 years (see sections 5.9.2 and 5.9.3).

The data also shows that the youngest age group earns less per month than the other age groups. Those aged between 36 and 50 years earn the highest income, whilst the oldest income group earns slightly less (see section 5.9.7). Also, it was found that those clients between the ages of 36 and 50 were less price-sensitive than those clients aged 20 to 35 years and older than 50 years (see section 5.9.8).

6.4 RECOMMENDATIONS

The recommendations given will be derived from the conclusions as shown above. These recommendations will also be discussed by means of the demographic information obtained from respondents. These demographics include length of client relationships, gender, occupation, income, academic qualification and age. Recommendations will also be given with regard to the information obtained from the data which was compared to findings in the literature review.

6.4.1 Recommendations related to the length of client relationships

It would appear that clients cross an “involvement barrier” when their relationship with the surveyed short-term insurance company (from here on referred to only as the company) progresses beyond three years. In other words, clients show little involvement in the first three years of their relationship with the company, but then become more involved in their relationship as this barrier is crossed. The reason for this could lie in the fact that new clients first need to develop trust in the company before they can start investing heavily in relationship building (see section 2.5).

The establishment of trust is therefore important when initialising relationships with new clients. However, it is also important to realise that a client usually possesses a high degree of perceived risk when acquiring a service. This is because services are deeds, performances, or efforts that cannot be physically possessed, making them inherently intangible (Lamb *et al.*, 2004:438). Clients are therefore faced with not knowing what to expect of a service until they have consumed it (see section 2.4). This is especially the case in financial services, such as insurance, where clients are heavily dependent on credence qualities in service evaluation and where perceived risk is high (see section 4.2.2). In establishing trust with new clients, the company must therefore strive to lower the perceived risk that clients associate with the purchase of insurance services. Clients should therefore have knowledge that the service outcome will be satisfactory. The company could do this by initially explaining to new clients how

the company manages its service process and, in the case of a claim, explain beforehand how the claims process is managed and carried out by the company.

The company must also communicate the reliability of the company's service delivery as well as the competence of the company's employees in offering superior service. This is because the expectation of reliable service and competent performance from a service provider is seen to be a precursor to the development of client trust (Sirdeshmukh *et al.*, 2002:17). However, the company must live up to these expectations by actually demonstrating their reliability and competence (see section 2.5.2). A client's first claim is therefore extremely important, as it is a test of the company's ability to live up to its promises. The company's employees should therefore be highly supportive to a client when he/she issues a first claim. Therefore, the company should ensure that when a client issues a first claim, it is concluded in a swift and professional manner (see section 2.5.4).

It is also important to realise that personal interaction plays an important role in the establishment of strong personal relationships between a company and its clients (see section 4.2.3.1). Therefore, in order to induce clients to become more involved in their relationship with the company it is important to increase personal interaction between the company's clients and its employees. Every service encounter should therefore be seen as a social encounter and an opportunity for the company's employees to become familiar with the client. After several encounters follow each other in a continuous or discrete fashion, relationships may emerge between the client and the company's employees (see section 2.4). However, if clients remain loyal to the company only because of their relationships with specific employees, staff turnover could also result in client turnover. The company should therefore ensure that a client is introduced to and served alternatively by two or more employees on different occasions. This will ensure that clients develop strong relationships with more than one employee (see section 4.6.5).

However, it should be noted that the company must adapt its communications and dealings with clients as they cross the involvement barrier and become more

involved in their relationship with the company. This is because highly involved clients expect the company to communicate with them on a regular basis. They also wish to be involved in creating solutions to their problems and expect services to be adapted to their specific needs (see section 4.2.3.1 and section 4.2.3.3). The company should therefore utilise communications such as emails or monthly newsletters aimed at their more involved clients. These communications could be seen as opportunities for the company to acquire suggestions directly from their clients which could aid the company in redesigning a product or creating an entirely new service. At the same time, these communications could be utilised to market these products or services to the company's existing client base.

It is interesting to note that more involved clients also prefer using a broker or intermediary when buying services such as insurance (see section 4.2.2). Therefore, with the rise in direct insurance companies, brokers should see the development of strong client relationships as a top priority. Csipak *et al.* (1995:236) also found that clients perceive indirect channels or brokers as providing superior service quality in relation to direct channels in terms of empathy, assurance, responsiveness and reliability. The service quality standards mentioned above should be used in the broker company's communications with its existing clients as well as in marketing efforts aimed at potential clients.

Apart from showing lower involvement scores, it would appear that those clients who have only been with the company for three years or less also appear less forgiving than those clients who have stayed with the company for a longer period (i.e. those who have a relationship of between three and ten years). This could be due to the fact that new clients still need to develop trust in the company and in its service delivery before they could be expected to show higher tolerance for service failures or rises in premiums. However, when a client's relationship with the company progresses beyond ten years it would seem that their forgiveness decreases considerably. These clients have been with the company for a very long period of time and have built a strong relationship of trust with the company. A service failure or a rise in their monthly

premium could be seen as an act of "betrayal". This is because these clients have committed themselves to the relationship and have invested more of their self-worth in their identification with the company (see section 4.3.3).

However, Mattila (2004:143) found that higher emotional involvement only magnifies the immediate negative impact of service failures on client attitudes. These negative effects may not necessarily cause these clients to defect and shift to the competition. It all would depend on how the company manages service recovery. According to the literature there are three strategies used for service recovery, namely assistance, compensation and apology (see section 4.4.5). A combination of these strategies should be used when dealing with more involved clients. The company should start by apologising to the client. According to De Coverly *et al.* (2002:27) apology is a valuable strategic tool when applied to clients who are emotionally involved with the company. However, apologising to clients may only be effective when minor service problems are encountered. Should the service failure resemble a major problem, the company should assist the client by immediately fixing the problem and lessening the client's inconvenience. It is important that the company provide individualised attention to the client and explain decisions leading to the outcomes of service recovery.

The company must also ensure that the employees dealing with the complaint demonstrate their understanding and are reliable in solving the client's problem. Should the client have suffered extensive financial losses, the company must consider compensating the client either through refunds or discounts. This is because more involved clients have, according to Craighead *et al.* (2004:317), invested more in their relationship with the company and the assurance that they feel adequately compensated would also assure them not to fear the worst, thereby strengthening their loyalty to the company.

6.4.2 Recommendations related to gender

There seems to be no difference between men and women with regards to their relationship intention except in the area of expectations. Women, it seems, tend

to form higher expectations of their service providers and are representing a fast growing market segment within the insurance industry (see section 3.7.5.3). According to research done by Financial Inc. (2003:20), one of the largest independent insurance agencies in the United States, women are also less likely to shop around for better prices than men. It therefore makes commercial sense to target women for insurance products by means of a relationship marketing strategy. The company could also utilise women's higher expectations levels in the implementation of such a strategy.

According to Coye (2004:54), client satisfaction and service quality is considered a function of the comparison between a client's expectations and the way the client perceives the actual service. Therefore, clients are only satisfied with a service experience if the service experience meets or exceeds their expectations. According to Storbacka *et al.* (1994:23) client satisfaction, in turn, would lead to relationship strength which would then lead to relationship longevity and client relationship profitability. Taking this into consideration, a relationship marketing strategy aimed at women should start by assessing women's expectations of the service. In other words, women should be asked from the beginning what their expectations of the service are. This will enable the company to better match these expectations, thereby increasing their satisfaction with the service they receive.

The company should also utilise one of the factors or antecedents that contribute to the formation of client expectations, namely word-of-mouth (see 4.3.2.3). According to Clow & Kurtz (1997:232), word-of-mouth is the primary means by which clients gather information when it comes to services such as insurance. This is supported with research sponsored by the Insurance Advocate (2003:7), a magazine that covers issues affecting the insurance industry, which found that 72% of people who comparison shop for better insurance rates ask friends or relatives about possible alternatives. Only 18% of those surveyed picked insurance providers on the basis of radio, TV or newspaper advertisements.

This is because it is statements made by people, not companies, that give clients the best idea of what they can expect from a service (Kalamas *et al.*, 2002:295,

305). The company should therefore broaden their female client's word-of-mouth capabilities by persuading them to share their positive experience with other women. They should also develop communication materials, such as information sheets and brochures, for female clients to make available to non-clients. Furthermore, the company could also target opinion leaders such as respected businesswomen or other influential women within the community to endorse their services (see section 4.3.5).

6.4.3 Recommendations related to occupation

As stated in the conclusions regarding occupation, pensioners tend to be less forgiving than the rest of the population. This could be due to the price-sensitivity of pensioners which is caused by the loss in income resulting from earning a monthly pension as opposed to a monthly salary. The literature agrees with this by stating that households and individuals experience a drastic cut in income when they enter retirement which results in them having to switch to “economy living” and purchasing only “value-for-money” goods and services (see Table 3.2). However, this does not mean that retired couples and individuals do not represent a profitable market for short-term insurance providers. According to Foscht, Angerer, Swoboda & Moazedi (2005:15), the world is facing a demographic transition where the population share of ageing people to the rest of the population is growing at an unprecedented rate. At the moment, about ten percent of the world population is above the age of 60. By 2050, this percentage will be twice as high.

Taking this into consideration, pensioners could represent a growing and profitable niche market within the insurance industry. However, the strategies used for marketing products to and building long-term relationships with pensioners must be adapted to their specific needs and preferences. Foscht *et al.* (2005:17) found that the areas of price and guarantee must have priority when developing marketing strategies for people over the age of 50 years. Therefore, the company should first focus on pricing when marketing products to pensioners and also take into consideration the price sensitivity of pensioners when building long-term relationships with them. Insurance products should be developed that

fall within the price range of pensioners and arrangements must be made that will ensure that price fluctuations in monthly premiums remain minimal for these clients. The company should also consider offering additional products or services to pensioners. According to Larson (1995) offering more choices to clients is a sure way of keeping them satisfied and thereby retaining them. Larson (1995) also found that retired couples, compared to all other consumer segments, spend the most on health insurance. Short-term insurance providers could see this as an opportunity by partnering with health insurance companies in offering specialised health insurance products for these clients.

Secondly, the company must focus on establishing trusting relationships with pensioners. This also becomes evident when taking into consideration that most of the pensioners involved in this survey have only been clients of the company for five years or less. According to the literature, some of the special needs of pensioners and solitary survivors are affection and security (see Table 3.2). Personal contact is therefore important and should retired couples or individuals visit a branch office for any reason, the company should ensure that their employees provide individualised and caring attention to these clients.

6.4.4 Recommendations related to income

As stated previously (see section 6.3.4), it would appear that those clients earning the lowest income (i.e. R5 000 or less per month) are less involved in their relationship with the company compared to higher income groups. The reason for this could lie in the fact that lower income groups showed higher price sensitivity. This, in turn, could lead to the assumption that these clients are more prone to switching to alternative service providers based on price differences. However, it was also found that the lowest income group showed the highest fear of relationship loss score when compared to other income groups.

The reason for this could partly be due to these clients' familiarity with the company which creates a level of comfort that is not immediately available with a new provider (see section 4.6.2.3). Clients within the lowest income segments may not have the capital to expose themselves to the risk and uncertainty

associated with the termination of their current relationship with the company and initiating a new relationship with another insurance provider. However, according to the research study of Financial Inc. (2003:20), the American people are becoming more educated about different insurance products and, empowered by the internet, can easily compare different premiums offered by companies. The process of switching to alternative insurance providers are therefore made easier by the fact that consumers could compare the rates offered by different insurance providers simply by doing research over the internet. As the internet is becoming less expensive and more accessible to South Africans this type of switching behaviour may also spread locally. Building long-term relationships with lower income segments may therefore prove to be a risky and potentially costly investment, as clients' knowledge of the insurance industry improves.

Furthermore, lower income segments are less likely to spend as much on short-term insurance as those in higher income segments. According to Larson (1995), an increase in income results in an increase in spending on all types of insurance. This is because people with higher monthly incomes tend to own more valuable vehicles and homes, are more likely to receive health coverage by their employers and are more likely to feel the need to protect their assets through life insurance. However, the company must also take into consideration that, as people progress in their careers, they could significantly increase their monthly income as a result. Building long-term relationships with clients within the lower income segments may therefore provide a positive return on investment in future. The company should therefore identify those clients who show high potential future earnings. Demographics such as age and academic qualification could prove helpful in identifying such clients.

6.4.5 Recommendations related to academic qualification

As stated in the conclusions regarding academic qualification, those clients who have obtained a tertiary qualification (herewith referred to as tertiary educated or TE clients) showed higher forgiveness scores than those clients who did not obtain a tertiary qualification (herewith referred to as non-tertiary educated or NTE clients) (see section 6.3.5). One could therefore presume that TE clients are

more tolerant of service failures than NTE clients. It was also found that TE clients earn a higher monthly income than NTE clients. However, there were no differences found in terms of price sensitivity between TE and NTE clients. The reason for this is not altogether clear but the company should see this as an advantage when building long-term relationships with those clients who obtained a tertiary qualification. A further advantage of building strong relationships with TE clients is the fact that they earn a higher monthly income. As stated previously, an increase in income results in an increase in spending on all types of insurance. Developing relationship marketing strategies specifically for TE clients could therefore be beneficial to the company.

6.4.6 Recommendations related to age

As shown in the conclusions regarding age, those clients aged 20 to 35 years (herewith referred to as the youngest age group) have the lowest involvement score. It was also found that these clients earn the lowest monthly income compared to clients in other age groups. Also, the youngest age group showed higher price sensitivity scores compared to those aged 35 to 50 years (herewith referred to as the middle-aged group). One could thus assume that the youngest age group is more prone to switching to alternative service providers based on price differences which would explain why they are not as involved in their relationship with the company. The youngest age group also showed the lowest fear of relationship loss scores when compared to older age groups (i.e. those older than 35 years). Clients within the youngest age group are therefore not as emotionally connected to the company's brand or to the company's employees. Therefore, developing relationship marketing strategies for these clients should be done with caution.

However, this does not imply that clients within a younger age group could not represent a profitable niche market in the insurance industry. Usually, insurance companies tend to ignore young adults as they do not wish to insure those who are "not responsible". However, when larger companies tend to ignore whole segments of the insurance market, they create opportunities for companies that target high-risk clients or tailor products to minority markets. An example of such

a minority market is college and university students. The average age of students is rising with the result that a growing number of students no longer qualify under their parents' policies or through an employer (Larson, 1995). Therefore, students could present a growing and profitable market segment for insurance companies. However, the use of a relationship marketing strategy would probably not be best suited for these clients.

Clients that would respond more favourably to relationship marketing strategies are those aged between 36 and 50 years. These clients showed the highest scores in both expectations and forgiveness. Therefore, these clients hold high expectations of the company but will also be more forgiving should their expectations not be met. Clients in this age group also earn a higher monthly income and are less price sensitive than the other age groups. The literature agrees with this by stating that people in their middle age are usually most satisfied with their financial position (see Table 3.2). Larson (1995) also found that middle-aged households with children spend the most on insurance compared to other households. It would therefore make sense to target these clients for relationship marketing strategies.

For those clients older than 50 years, the data shows that their forgiveness decreases whilst their price sensitivity increases (see section 6.3.6). The reason for this could lie in the fact that many of the clients within this age group have retired, thereby reducing their income and increasing their price sensitivity. As stated previously, these clients could still represent a profitable market segment for the company. However, pricing strategies should form part of the relationship marketing strategies used for these clients.

6.5 RECOMMENDATIONS FOR FUTURE RESEARCH

This study aimed at measuring the relationship intention of clients in the short-term insurance industry. Future research studies in the field of relationship intention should aim to measure the relationship intention of clients in other industries as well as other sectors within the insurance industry (such as life insurance). The researchers involved in these studies must also take note that

those clients willing to take part in such surveys might show high RI scores due to the fact that these clients are willing to provide feedback concerning their relationship with the company. Providing feedback to a company (or to an independent researcher doing a survey amongst a company's clients) is seen as a construct of relationship intention (see section 4.5 and section 6.3). Researchers should therefore use incentives or change their approach to attract a wider variety of respondents.

6.6 FINAL CONCLUSION

In conclusion, the goal behind this study was to investigate the relationship intention of short-term insurance clients (see section 1.4.1). The objectives which supported this goal were formulated in section 1.4.2 and the process through which each of these objectives were met will now be discussed:

- **To investigate relationship marketing as a framework for relationship intention.** A literature review was undertaken with regard to relationship marketing and the results were discussed in Chapter 2. The findings from Chapter 2 were then applied in recommendations related to the relationship intention of short-term insurance clients.
- **To investigate different segmentation bases and suggest relationship intention as one such base.** A literature review was undertaken with regard to the principles behind market segmentation and the results were discussed in Chapter 3. The different segmentation bases, including relationship intention, were discussed. The findings of this chapter were used in the development of a questionnaire which aimed to develop a demographic profile of those clients which showed a higher relationship intention.
- **To constitute relationship intention in terms of involvement, expectations, forgiveness, feedback and fear of relationship loss.** A literature review was undertaken where each of the five abovementioned elements were constituted as constructs of relationship intention. The results that were obtained were discussed in Chapter 4 and were employed in the

development of a questionnaire which measured the relationship intention of clients in the short-term insurance industry.

- **To test the dimensions of relationship intention empirically among a sample of short-term insurance clients.** A questionnaire was developed which measured the relationship intention of short-term insurance clients and also determined their demographic profile. This questionnaire was then used in a survey amongst clients of the short-term insurance company and the results were discussed in Chapter 5.

In Chapter 6 the conclusions and recommendations derived from the results shown in Chapter 5 concedes to the fact that the research was successful in meeting the stated goal and objectives of this study.

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APPENDIX A

QUESTIONNAIRE DISTRIBUTED TO SHORT-TERM INSURANCE CLIENTS

AFRIKAANS VERSION

VRAELYS AAN KLIËNTE VAN <NAAM VAN MAATSKAPPY>

Geagte kliënt

Die inligting uit hierdie vraelys sal gebruik word vir navorsing wat deur die Noordwes-Universiteit (Potchefstroom kampus) uitgevoer word. Die doel van die navorsing is om die verhoudingsvoorkeure van kliënte binne die korttermyn versekeringsbedryf te bepaal. Die inligting wat ingesamel gaan word sal ook u makelaar help om hul diens aan u te verbeter. Die navorsing word onafhanklik uitgevoer en die voltooide vraelyste sal slegs deur die betrokke navorsers verwerk word. Daar word **nie** van u verwag om u naam of kontakbesonderhede aan ons te verskaf nie. Ons kan u dus verseker dat u anoniem sal bly en dat u eerlike beantwoording van die vraelys op geen wyse aan u identiteit gekoppel kan word nie. Behalwe vir demografiese besonderhede bestaan die vraelys uit vrae aangaande u verbintenis met <naam van maatskappy>.

Die vraelys sal u nie meer as **7 minute** neem om te voltooi nie. Wanneer u die vraelys voltooi het, plaas dit eenvoudig terug in die koevert wat aan u verskaf is. U hoef geen onkoste aan te gaan nie sedert die koevert en die pos daarvan reeds vooraf betaal is. U kan die geseëde koevert oorhandig aan enige personeel lid van <naam van maatskappy> met die wete dat dit nie deur hulle opgemaak sal word nie. Indien u meer gerus sou voel is u meer as welkom om die brief aan u naaste poskantoor te oorhandig.

Baie dankie vir u ondersteuning.

A. VOLTOOI ASB DIE VOLGENDE VRAE AANGAANDE U VERBINTENIS MET <NAAM VAN MAATSKAPPY>

- 1 = Nee, beslis nie
- 2 = Nee
- 3 = Neutraal
- 4 = Ja
- 5 = Ja, beslis

1	Is u tevrede met die diens wat u van <naam van maatskappy> ontvang?	1 2 3 4 5
2	Sou u graag insette wil lewer om <naam van maatskappy> se diens te verbeter?	1 2 3 4 5
3	Beteken u verbintenis met <naam van maatskappy> vir u meer as net die aankoop van versekering?	1 2 3 4 5
4	Hou u daarvan om as 'n kliënt van <naam van maatskappy> geïdentifiseer te word?	1 2 3 4 5
5	Sou u skuldig voel indien u daaraan sou dink om soortgelyke versekering van ander makelaars / versekeraars te verkry?	1 2 3 4 5
6	Het u enige unieke, persoonlike verwagtinge oor die diens wat u van <naam van maatskappy> ontvang?	1 2 3 4 5
7	Sou u graag <naam van maatskappy> se diens aan u wil verander sodat dit inpas by u eie persoonlike verwagtinge?	1 2 3 4 5
8	Sal u bekommerd wees indien die kwaliteit van diens wat u van <naam van maatskappy> ontvang, soms laer as die standaard is wat u van hulle verwag?	1 2 3 4 5
9	Is u gewillig om <naam van maatskappy> te vergewe indien die kwaliteit van hulle diens soms laer is as die standaard wat u van hulle verwag?	1 2 3 4 5

10	Is u gewillig om <naam van maatskappy> te vergewe indien die kwaliteit van hulle diens soms laer is as die standaard van hul mededingers?	1 2 3 4 5
11	Sal u dit aanvaar indien <naam van maatskappy> 'n premie vra wat effens hoër is as die van hul mededingers?	1 2 3 4 5
12	Sal u positiewe terugvoer aan <naam van maatskappy> verskaf indien hul diens aan u verwagtinge voldoen het?	1 2 3 4 5
13	Sal u negatiewe terugvoer aan <naam van maatskappy> verskaf indien hul diens nie aan u verwagtinge voldoen het nie?	1 2 3 4 5
14	Sou u verkies dat <naam van maatskappy> u beloon (bv. met 'n premieverlaging) indien u positiewe of negatiewe terugvoer aan hulle verskaf?	1 2 3 4 5
15	Is u bekommerd dat u moontlik u verbintenis met <naam van maatskappy> sal verloor indien u dit sou oorweeg om na hul mededinging oor te skakel?	1 2 3 4 5
16	Is u bekommerd dat u moontlik u verhoudings met die personeel van <naam van maatskappy> sal verloor indien u dit sou oorweeg om na hul mededinging oor te skakel?	1 2 3 4 5
17	Is u bekommerd dat u moontlik die dienste van <naam van maatskappy> sal verloor indien u dit sou oorweeg om na hul mededinging oor te skakel?	1 2 3 4 5
18	Is dit u voorneme om 'n positiewe langtermyn verhouding met <naam van maatskappy> te bou?	1 2 3 4 5

B. PERSOONLIKE BESONDERHEDE

Trek asb 'n kruis in die relevante blokkie.

1. By watter tak is u tans 'n kliënt van <naam van maatskappy>?

Pretoria / Johannesburg	1
Vanderbijlpark	2
Kriel	3
Potchefstroom	4
Klerksdorp	5
Wolmaranstad	6
Bloemfontein	7
Suidkus (Port Shepstone)	8
Jeffreysbaai	9
Stellenbosch	10
Wes-Kaap (Kaapstad)	11
Suid-Kaap (Mosselbaai)	12
Botsure (Gabarone)	13

2. Hoe lank is u al 'n kliënt van <naam van maatskappy>?

Minder as 3 jaar	1
3 - 5 jaar	2
5 - 10 jaar	3
10 - 15 jaar	4
15 - 20 jaar	5

3. Geslag

Manlik	1
Vroulik	2

4. U huistaal

Afrikaans	1
Engels	2
Zulu	3
Ander (spesifiseer)	7

5. Beroep

Pensioenaris	1
Werkloos	2
Huisvrou	3
Boer	4
Bestuurder	5
Administratief (klerklik)	6
Tegnies	7
Professioneel (bv. prokureur)	8
Entrepreneur	9
Verkope en verwante dienste	10
Ander (spesifiseer)	11

6. Bruto inkomste per maand

Minder as R5000	1
R 5 001 – R 10 000	2
R 10 001 – R 15 000	3
R 15 001 – R 20 000	4
R 20 001 – R 25 000	5
R 25 001 – R 30 000	6
R 30 001 en meer	7

7. Hoogste akademiese kwalifikasie

Matriek	1
Sertifikaat	2
Diploma	3
Gevorderde diploma	4
Graad	5
Nagraadse kwalifikasie	6

8. Ouderdom

20 – 35	1
36 – 50	2
51 – 65	3
66 en ouer	4

9. Familie status

Afgetrede weduwee of wewenaar	1
Afgetrede paartjie	2
Geskei	3
Enkellopend	4
Getroud met kinders	5
Getroud sonder kinders	6

10. Area waarin u woon

Platteland (plaas)	1
Dorp	2
Stedelik	3

**EINDE VAN VRAELYS
DANKIE VIR U TYD**

APPENDIX B

QUESTIONNAIRE DISTRIBUTED TO SHORT-TERM INSURANCE CLIENTS

ENGLISH VERSION

QUESTIONNAIRE TO CLIENTS OF <NAME OF COMPANY>

Dear Client

The information from this questionnaire will be used for research that is being conducted by the North-West University (Potchefstroom campus). The aim of this research is to determine the relationship preferences of consumers within the short term insurance industry. The information gathered will also allow your broker to improve their service to you. This research is carried out independently and the completed questionnaires will only be analysed by researchers associated with this study. You do **not** have to supply us with either your name or contact details. We can therefore assure you of your anonymity and that your honest opinion on the questions will not be related to your identity in any way. Apart from demographic details there will also be questions regarding your association with <name of company>.

The questionnaire will not take you more than **7 minutes** to complete. When completed, simply place the questionnaire in the provided envelope and seal it. There are no costs involved since the envelope and its postage are already paid for. You may hand the envelope over to any employee of <name of company> with the knowledge that it will not be opened by any of the staff. However, if it would make you feel more comfortable you are more than welcome to mail the envelope at your local post office. Thank you for your support

A. PLEASE COMPLETE THE FOLLOWING QUESTIONS CONCERNING YOUR ASSOCIATION WITH <NAME OF COMPANY>

- 1 = No, definitely not
- 2 = No
- 3 = Neutral
- 4 = Yes
- 5 = Yes, definitely

1	Are you satisfied with the service you receive from <name of company>?	1 2 3 4 5
2	Would you like to contribute to improving the service of <name of company>?	1 2 3 4 5
3	Does your association with <name of company> mean more to you than just the acquirement of insurance?	1 2 3 4 5
4	Do you like being identified as a client of <name of company>?	1 2 3 4 5
5	Would you feel guilty if you were to contemplate acquiring similar insurance from other insurers / brokers?	1 2 3 4 5
6	Do you have any unique, personal expectations about the service you receive from <name of company>?	1 2 3 4 5
7	Would you like to modify the service you receive from <name of company> so that it corresponds with your own personal expectations?	1 2 3 4 5
8	Would you be concerned if the quality of the service you received from <name of company> were sometimes below the standard you expect from them?	1 2 3 4 5
9	Are you willing to forgive <name of company> if the quality of their service is sometimes below the standard which you expect from them?	1 2 3 4 5
10	Are you willing to forgive <name of company> if the quality of their service is sometimes below the standard of their competitors?	1 2 3 4 5

11	Would you accept it if <name of company> asked a premium that is slightly higher than that of their competition?	1	2	3	4	5
12	Would you provide positive feedback to <name of company> if their service met your expectations?	1	2	3	4	5
13	Would you provide negative feedback to <name of company> if their service did not meet your expectations?	1	2	3	4	5
14	Would you prefer <name of company> to reward you (for example with a lower premium) if you supply them with either positive or negative feedback?	1	2	3	4	5
15	Are you concerned that you might lose your association with <name of company> if you were to contemplate switching to their competition?	1	2	3	4	5
16	Are you concerned that you might lose your relationships with the employees of <name of company> if you were to contemplate switching to their competition?	1	2	3	4	5
17	Are you concerned that you might lose the services of <name of company> if you were to contemplate switching to their competition?	1	2	3	4	5
18	Do you intend to build a positive long-term relationship with <name of company>?	1	2	3	4	5

B. PERSONAL DETAILS

Please draw a cross in the relevant space.

1. At which branch are you currently a client of <name of company>?

Pretoria / Johannesburg	1
Vanderbijlpark	2
Kriel	3
Potchefstroom	4
Klerksdorp	5
Wolmaranstad	6
Bloemfontein	7
South Coast (Port Shepstone)	8
Jeffreysbay	9
Stellenbosch	10
Western-Cape (Cape Town)	11
Southern-Cape (Mosselbaai)	12
Botsure (Gabarone)	13

2. How long have you been a client of <name of company>?

Less than 3 years	1
3 - 5 years	2
5 - 10 years	3
10 - 15 years	4
15 - 20 years	5

3. Gender

Male	1
Female	2

4. Your first language

Afrikaans	1
English	2
Zulu	3
Xhosa	4
Sesotho	5
Setswana	6
Other (specify)	7

5. Occupation

Pensioner	1
Unemployed	2
Student	3
Farmer	4
Manager	5
Administrative (clerical)	6
Technical	7
Professional (e.g. attorney)	8
Self-employed	9
Sales and related services	10
Other (Specify)	11

6. Gross income per month

Less than R5000	1
R 5 001 – R 10 000	2
R 10 001 – R 15 000	3
R 15 001 – R 20 000	4
R 20 001 – R 25 000	5
R 25 001 – R 30 000	6
R 30 001 and more	7

7. Highest academic qualification

Matric	1
Certificate	2
Diploma	3
Advanced diploma	4
Degree	5
Postgraduate qualification	6

8. Age

20 – 35	1
36 – 50	2
51 – 65	3
66 and older	4

9. Family status

Retired widow / widower	1
Retired couple	2
Divorced	3
Single	4
Married with children	5
Married without children	6

10. Area in which you live

Rural (Farm)	1
Semi-rural (Town)	2
Urban	3

**END OF QUESTIONNAIRE
THANK YOU FOR YOUR TIME**