Dynamic Customer Relationship Management: Incorporating Future Considerations into the Service Retention Decision

Katherine N. Lemon

Tiffany Barnett White

Russell S. Winer


Katherine N. Lemon is an Assistant Professor at the Carroll School of Business, Boston College, Chestnut Hill, MA. Tiffany Barnett White is an Assistant Professor of Business Administration at the University of Illinois @ Urbana. Russell S. Winer is the J. Gary Shansby Professor of Marketing Strategy at the Haas School of Business, University of California at Berkeley. The authors wish to thank Jim Bettman, Bill Boulding, Julie Edell, Joel Huber, Rick Staelin and Devanathan Sudharshan, and three anonymous JM reviewers for their valuable comments.

Please address all correspondence to: Katherine N. Lemon, Wallace E. Carroll School of Business, 448 Fulton Hall, Boston College, 1400 Commonwealth Avenue, Chestnut Hill, MA 02467, Voice: 617-552-1647, FAX: 781-862-9704, Email: lemonka@bc.edu.
Dynamic Customer Relationship Management: Incorporating Future Considerations into the Service Retention Decision

ABSTRACT

In previous research, a consumer’s decision to continue a service relationship is traditionally conceptualized as a function of the integration of customers' current and past levels of utility from a given service experience. We argue that current and past service experience should be augmented by incorporating future utility considerations as well. We therefore develop a "forward-looking" model that incorporates both expected future use and anticipated regret on consumers' decisions to keep or drop a service. Strong empirical support is found for the hypothesis that expectations of high future use positively affect retention, over and above the effects of satisfaction. The results provide new insights into the antecedents of customers’ perceptions of expected future usage. Customers appear to update their expectations of future use following an adaptive expectations approach. We also find support for the hypothesis that anticipated regret affects the customer decision. Consumers who are asked to anticipate regret associated with mistakenly discontinuing a service relationship are less likely to drop than those who are not asked to anticipate regret. As hypothesized, we find differential effects of anticipated regret for on-going services and transaction-based services. Taken together, the empirical findings support a forward-looking model of customer retention. The importance of incorporating these future-focused aspects into models of customer retention and marketing mix strategy is also discussed.
INTRODUCTION

The trend in marketing towards building relationships with customers continues to grow, and marketers have become increasingly interested in retaining customers over the long-term. Not surprisingly, many practical and theoretical models of customer retention have explored satisfaction as a key determinant in customers’ decisions to keep or drop (i.e., discontinue) a given product or service relationship (Bolton 1998, Boulding et al. 1993, Rust and Zahorik 1993, Rust et al. 1995, Zeithaml and Parasuraman 1996). Indeed, satisfaction measures have accounted for up to 40% of the variance in models of customer retention (Reichheld 1996).

Though robust, we argue that the findings regarding the role of customer satisfaction, traditionally conceptualized as a mental integration of customers’ expected and experienced (i.e., past and current) level of utility from a given product or service experience, can be augmented by incorporating future utility considerations as well. Specifically, we advance the notion that when deciding whether or not to continue a service relationship, consumers not only consider current and past evaluations of the firm’s performance (e.g., overall satisfaction, service quality or perceived quality), they also incorporate future considerations regarding the service. Accordingly, we examine two anticipated future states – the anticipation of future benefits (modeled as expected future use) and the anticipation of future regret – and demonstrate the impact of these factors, over and above current and previous satisfaction, on consumers’ keep/drop decisions.

Current models of customer retention have not incorporated a future orientation. We propose that this omission leads to incorrectly specified models of customer retention and, more importantly, less than optimal marketing decisions aimed at maximizing the likelihood of customer retention. Understanding that consumers take future considerations into account when making decisions about the firm should influence customer acquisition and retention strategies, and all elements of the traditional marketing mix.
In the sections that follow, we review literature that motivates the inclusion of future considerations into models predicting consumers’ keep/drop decisions. We then focus on the relationship of expected future usage and the consumer’s decision, and describe a study designed to test the hypotheses. Particular emphasis is placed on the manner in which the anticipation of future usage moderates the impact of satisfaction on this decision. In addition, we explore the antecedents of customer perceptions of expected future use, and show how the omission of this construct may lead marketing managers to incorrect assessments and decisions. Next, we discuss the proposed effects of a second forward-looking component, anticipated regret, on consumers’ decisions to keep or drop a given service. We describe a second study designed to test the hypotheses. In addition, we conceptually distinguish the decision to continue or discontinue an on-going service relationship from the decision to re-purchase (or re-visit) a given service or establishment (i.e., a more transaction-based service), highlighting the differential impact of anticipated regret on these disparate service types. Finally, we discuss the findings from both studies and the implications of our findings for marketing theory, marketing practice and future research.

THEORETICAL BACKGROUND

In this research we focus on the extent to which consumers take future considerations into account when deciding whether to maintain or to end a given service relationship. Of particular relevance to this discussion is research in marketing and organizational behavior that has examined the impact of mental simulation (of future and past events) on individuals’ decision making and behavior. Mental simulation has been described by Taylor and Schneider (1989) as “. . . the cognitive construction of hypothetical scenarios or the reconstruction of real scenarios,” (p. 175). Taylor and Schneider (1989) note that mental simulation serves many functions; such simulation can serve a planning function, help set expectations and potentially lead to behavioral confirmation. Kahneman and Miller (1986) suggest that mental simulation may also serve a “norm setting”
function, making expectations explicit, such that the norms or expectations imagined in the simulation may be accessed when making future decisions.

Of particular relevance is the general finding that future-oriented mental simulation can substantially impact individuals’ current behaviors (e.g., Sherman and Anderson 1987, Taylor and Pham 1996, Taylor et al., 1998). Taylor and Pham (1996) found, for example, that when subjects engaged in future-oriented mental simulation, the likelihood of action in the current time frame that was consistent with the futuristic mental simulation was substantially increased. Similar results were found by Taylor et al. (1998), who demonstrated that subjects’ task performance was affected by the extent to which they mentally simulated possible future outcomes. Finally, in a study more closely related to the keep/drop decision, Sherman and Anderson (1987) found that outpatients at a psychiatric clinic were less likely to terminate therapy if they imagined staying.

In addition to these mental simulation findings, there is also literature in marketing supporting the notion that consumers incorporate future expectations into their purchase decisions (Bridges et al. 1995, Boulding et al. 1993, Holak et al. 1987, Jacobsen and Obermiller 1990, Winer 1985). When considering the purchase of high technology products, for example, Holak et al. (1987) found that consumers incorporate their expectations of the timing of the next generation technology into their current purchase and upgrade decisions (see also Bridges et al. 1995). With respect to price, Jacobsen and Obermiller (1990) found that consumers incorporate future price expectations into their current time period purchase decisions. Winer (1985) also found that consumer expectations of future price play a key role in the purchase decision for durables. More broadly, research in the area of economics has long supported the idea that expectations should be incorporated into micro models of consumer behavior (e.g., Shaw 1984). In general, these studies suggest that consumers may seek to maximize long-term utility by “holding out” in their purchase decisions for greater net economic or performance gains in future time periods.
Taken together, this discussion suggests that incorporating a forward-looking component into the keep/drop decision can yield richer insights into the consumer’s keep/drop decision than models that assume consumers integrate only past and current experiences. For example, satisfaction, a key antecedent to the consumer’s decision to keep or drop a service relationship, has traditionally been conceptualized as a measure of past and current utility. According to the traditional expectancy disconfirmation model, for example, consumers compare current product or service experiences to current expectations (which are a function of previous product/service experiences) to form satisfaction judgments, which are a function of the difference between these expectations and the consumer’s current experiences (e.g., Oliver 1977, Oliver and Winer 1987, Oliver and Swan 1989). In addition to satisfaction, however, to what extent do future-oriented factors influence the keep/drop decision? In addressing this question, we examine what, on the surface, may appear to be paradoxical consumer decision making. For example, consider the highly satisfied customer who chooses to discontinue the service relationship. Alternatively, consider a customer who appears to be highly dissatisfied, yet remains in the service relationship. Traditional retention models, which assume a positive association between satisfaction and the decision to continue or discontinue a service relationship, would predict the opposite outcomes.

We propose that this may be because such models have omitted key situational variables. Situational variables may influence the benefits these consumers expect to receive from the firm in a manner that is conceptually distinct from assessments of their current levels of satisfaction (see Belk 1974 for a discussion of other situational effects on buyer behavior). We propose a model that acknowledges the importance of consumer satisfaction on this decision, but that also helps to account for apparent inconsistencies in this link between satisfaction and retention by incorporating future oriented situational aspects into the model of the customer retention decision.
THE FORWARD-LOOKING MODEL OF THE KEEP/DROP DECISION

Traditional models of the keep/drop decision have assumed that past-focused measures (such as overall satisfaction or perceived value) capture all aspects of the customer’s underlying utility that factor into this decision. We propose a model that examines the effects of two future-focused measures, expected future use and anticipated regret, on this decision. Before we discuss either of these factors in depth, we provide an overview of the proposed model, and briefly discuss its contribution to the marketing field. The model we propose can be seen in Figure 1. Traditional models have focused on the unshaded portion of the figure. The focus of this research is on the shaded portions of the figure—expected future use (and its antecedents) and anticipated regret.

[INSERT FIGURE 1 ABOUT HERE]

Given that the focus of this paper is the additional explanatory power these future-oriented factors add to the model, we do not examine the antecedents of overall satisfaction in this research. Rather, we make the simplifying assumption that satisfaction arises and is updated through some underlying consumer behavior process—a process that has been examined extensively in the literature (see Oliver 1997 for a complete review). However, as can be seen in Figure 1, we examine the effects of expected future use and anticipated regret directly on the keep/drop decision. In addition, we postulate an updating mechanism for customer perceptions of expected future use and examine potential antecedents of this construct.

EXPECTED FUTURE USE AND THE KEEP/DROP DECISION

In this paper, we propose that expected future use is an indicator of a customer’s underlying expected utility from the service. We argue that, when making the keep/drop decision, consumers seek to maximize long-term utility in such a manner that they may discount past expectations or current experiences in the face of an expectation of a change (i.e., an increase or decrease) in benefits received (in the form of usage) from consuming the product or service.
We examine whether a customer expects to use a service more or less frequently in the future and predict that greater expectations of future usage will be positively associated with the customer’s utility and, therefore, customer retention. In addition, we examine potential antecedents of customer perceptions of expected future use, and propose an updating mechanism for the construct. First, we look at the effects of expected future use on the keep/drop decision. Based upon the above discussion, we propose that customers who expect to use the service more will be more likely to stay.

**H1:** Higher levels of expected future usage will be associated with a higher probability of remaining in the service relationship.

For the purposes of this model and research, several assumptions are made about the customer’s keep/drop decision. The customer is assumed to have already adopted the service in a previous period. He or she is also assumed to have the opportunity to utilize or to consume the service in the present time frame. It is proposed that the customer decides to continue or drop the service based upon past experience, experience in the current time period and expectations of future experiences. Finally, in this research, we are examining the customer’s keep/drop decision for an individual service.

We also assume that customer usage of a service is determined by the underlying utility for such usage. Specifically, a customer is assumed to have a set of underlying preferences or a utility function associated with usage of the service. We assume that customers’ predictions of expected future use of a service operate as a good proxy for the customers’ expectations of utility to be derived from the service (akin to Winer’s 1985 notion of subjective expected value). This utility-based framework has been widely used. In the new product adoption literature, it has been used to characterize the process by which a consumer decides to adopt a new product (Chatterjee and Eliashberg 1989, Roberts and Urban 1988). It has also been utilized to characterize customer brand choice decisions (e.g., Guadagni and

---

1 It is important to note that consumer perceptions of expected future use are conceptually and actually distinct from the decision to continue or discontinue; i.e., we are not describing a tautological relationship. This distinction arises from the fact that it is possible for consumers to have low EFU and to continue a service relationship, or to have high EFU and to discontinue a service relationship, particularly in the case of on-going service relationships.
Little 1983, Gupta 1988). Finally, customers are assumed to decide to drop a service if the perceived utility of continuing the service is below some customer specific, yet unobserved, threshold value.

**Operationalizing the Model**

**Keep/Drop Probability Equation.** The customer's decision to keep or drop the service is proposed to be a function of the underlying utility the customer receives (or expects to receive) from the service. We propose that customer expectations of future use of the service (EFU) serve as an indicator of this (unobserved) utility. Therefore, the first set of equations model the probability of the customer continuing his or her relationship with the service as a function of the customer's expected utility from the service (from the current time period forward) where expected future use (elicited at time $t$) is an indicator of expected utility from time $t$ forward. In addition to EFU, we also incorporate traditional past-focused perceptions through a measurement of the customer’s overall satisfaction with the service use elicited at time $t$ (OVSAT).

Specifically, the consumer will remain in the service relationship if:

Utility from Keeping the service $>$ Utility from Dropping the service

where:

$\text{Utility} = f(\text{OVSAT}, \text{EFU})$

Because utility is a latent variable, we only observe the customer’s keep/drop decision in a given time period (keep=1, drop=0). This decision is modeled as a logit model in which we assume the consumer chooses the option with the highest utility. In particular, the probability that the consumer keeps the service is the probability that the utility from keeping is greater than the utility from dropping. In logit form, this is modeled as follows:

$$P_n(\text{keep}) = \frac{1}{1 + e^{V_{\text{keep}}-V_{\text{drop}}}}$$

(1)

where:

$P_n(\text{keep}) = \text{the probability that consumer } n \text{ chooses to keep the service}$
\[ P_n(\text{drop}) = \text{the probability that consumer } n \text{ chooses to drop the service,} \]
with \[ P_n(\text{drop}) = 1 - P_n(\text{keep}) \]

\[ V_{\text{keep}} = \text{the utility associated with keeping the service} \]
\[ V_{\text{drop}} = \text{the utility associated with dropping the service.} \]

Specifically, this utility equation has the following form:

\[ V_{\text{keep}} = Util_{nt} = \beta_0 + \beta_1 EFU_{nt} + \beta_2 OVSAT_{nt} + \epsilon_{nt} \] (2)

where:

\[ EFU_{nt} = \text{Expected Future Usage of the service (elicited at time } t) \]
\[ OVSAT_{nt} = \text{Consumers’ overall satisfaction with the service} \]

and where the error terms are assumed to have a Type I extreme value distribution.

**Expected Future Use Equation.** The keep/drop decision model will be estimated using a recursive system of two equations: the keep/drop equation and the expected future use integration (updating) equation. We propose that customers update their assessment of expected future use in each time period, and that this updating provides further rationale for the use of EFU as an indicator of the underlying utility associated with continuing (or dropping) the service. How do consumers update expected future use of the service? Past research (Boulding, Kalra, Staelin and Zeithaml 1993, Hamer, Liu and Sudharshan 1999, Jacobson and Obermiller 1990) suggests that customers may use an integration or averaging model to update their expectations. This approach has been used extensively in the choice modeling literature to model the customer’s brand loyalty updating process (e.g., Guadagni and Little 1983, Gupta 1988). Adopting this model, which is consistent with Nerlove’s (1958, 1983) model of expectations formation (see Winer 1985 for discussion), we propose that customers will update their future use expectations in the following way. Following Boulding et al. (1993), we expect customers to update EFU (measured at point \( t \), for interval \( t \) which follows) based
upon prior period’s EFU (measured at point $t-1$, for interval $t-1$ which follows) and a determination of actual usage in the current time period (measured at point $t$).

**H2a:** Customers’ expectations of future use from the prior time period ($EFU_{t-1}$) will be positively related to customers’ expectations of future use in the current time period ($EFU_t$).

**H2b:** Customers’ actual usage in time $t$ ($Usage_t$) will be positively related to customers’ expected future use in time $t$ ($EFU_t$).

Therefore, we propose that customers update their expectations of future use as follows (in the equations that follow, the $n$ subscripts have been omitted for notational convenience):

$$EFU_t = \gamma_0 + \gamma_1 EFU_{t-1} + (1 - \gamma_1) Use_t + \gamma'Z_{t-1} + \eta_t$$  \hspace{1cm} (3)

where:

- $EFU_t$ = Customer’s Expected Future Use, measured at point $t$, for interval $t$ which follows
- $EFU_{t-1}$ = Customer’s Expected Future Use, measured at point $t-1$ for interval $t-1$ which follows
- $Use_t$ = Customer Usage in the $t$ time period
- $Z_{t-1}$ = vector of cross-sectional marketing mix variables.

To recap, we propose that customers’ expectations of future use will influence their decisions of whether to remain in or leave an ongoing service relationship, over and above the effects of satisfaction. In addition, we postulate a relatively simple updating mechanism to gain insight into the antecedents of EFU. As our primary interest in this research is to understand the role of forward-looking aspects in the customer’s keep/drop decision, this simple approach seems appropriate.

**STUDY ONE**

**Overview.** The goal of this first study is to establish the basic notion that future considerations affect keep/drop decisions. In this study, we examine the relationship between consumers’ future expectations of their own behavior and the consumers’ keep/drop decision in an actual consumer service context. Specifically, we examine the differential impact of expected future
use and overall satisfaction on this decision, testing H1. We also examine the factors that influence the consumer’s perceptions of expected future use through the EFU integration model (H2a and H2b). In this first study, we utilize attitudinal and behavioral data from a consumer subscription service. The longitudinal nature of the data allows us to test the proposed relationships.

**The Data.** The empirical analysis was conducted on data collected from consumers of an interactive television entertainment service. Consumers chose to subscribe to this service and have the opportunity to keep or to drop the service monthly. They also choose levels of usage and specific service aspects that suit their needs, and the firm can monitor these choices. There is a monthly fee for this service that does not vary by usage level. Upon subscription, consumers also pay an initial fee to purchase necessary hardware.

The data were assembled using a panel design so that changes in consumer’s opinions and behavior over time could be measured. A random sample of 490 households was selected from a sampling frame of current subscribers. The first wave of questionnaires was mailed to customers in the sample, who were informed that the firm had authorized the study but that their responses would remain confidential. They were offered a small gift as a participation incentive. The second survey was mailed to respondents of the first survey, five months following the initial wave. One hundred ninety-one (191) households completed both waves of the survey for a two-wave response rate of 39%. Of these 191 households, 47 households decided to drop the service by the end of the observation period. These 191 households (144 continue, 47 drop) were utilized for this analysis.2

**Construct Operationalization.** The constructs and their associated measures are displayed in Table 1. The measurement descriptions indicate the specific point or time interval when (or over

---

2 To examine the possibility of non-response bias, we compared the % of respondents who chose to keep the service (75.4%) to the firm’s overall retention rate for the same period. The two were not statistically different, suggesting the sample did not differ markedly from the overall customer base. Some households dropped the service after the first wave of surveys. Estimating the model on this early sample produced results consistent with those reported here.
which) each variable was measured. As an initial test of the effect of future considerations on the keep/drop decision, we examine the consumer’s expectations of his/her own future use of the service.

[INSERT TABLE 1 ABOUT HERE]

The questionnaire elicited measures of overall consumer satisfaction, expectations of future usage and current usage levels, and ratings of various service aspects. Consumers’ expectations of future use of the service were measured by asking respondents directly about their future usage expectations. Overall satisfaction was measured on a 7-point scale, ranging from “very dissatisfied” to “very satisfied.” Therefore, higher numbers were indicative of greater levels of satisfaction.

**Estimation.** The keep/drop decision is estimated as a logit model, where the decision of whether or not to remain in the service relationship was modeled as a function of EFU, overall satisfaction (OVSAT) with the service (equations (1) and (2)). The results reflect the effect of the independent variables on the consumer’s decision to continue the service relationship. The logistic regression procedure from SAS 6.12 was utilized for the estimation. The expected future use equation (3) is estimated two ways: with and without the restriction that the coefficients on EFU, and Usage, must sum to 1. The resulting parameter estimates provide insights regarding the effect of each of the variables in the model on the customer’s evaluation of expected future usage and the overall decision to continue or drop.

**Results**

We first tested the effects of the model specified in equation (3), with overall satisfaction and EFU in a single model (Model 1, Table 2). While the EFU parameter is significant ($\beta_{\text{EFU}} = 0.597, p < .0001, \chi^2 = 59.88, p < .0001$), the satisfaction parameter is not significant in this model ($\beta_{\text{OVSAT}} = 0.188, p = .17$). This suggests, in line with our prediction (H1), that, over and above the effects of

---

3 It is important to note that the simple correlation between expected future use and satisfaction variable is not high ($\rho=.4$). Therefore, multicolinearity does not appear to be a major concern in this study.
satisfaction, consumers will be more likely to remain in a given service relationship when they anticipate high expected future use.

[INSERT TABLE 2 ABOUT HERE]

It was surprising to find that OVSAT was not significant in the proposed model. To examine this finding further, we compared the full model to models that include only the individual effects of overall satisfaction or EFU on the keep/drop decision. The results from these models are presented in Table 2 (Model 2 and Model 3). First, in a model estimating the effects of satisfaction on the keep/drop decision, we find that this variable contributes significantly to the variance in subjects’ keep/drop likelihood ($\beta_{OVSAT} = 0.473$, $\chi^2 = 17.42$, $p < 0.0001$, Model 1). As expected, higher satisfaction was associated with a greater likelihood of remaining in the service relationship.

Similarly, in a model testing only the effects of EFU, we find evidence that consumers are forward-looking with respect to their continuation decisions. Specifically, the effect of EFU was positive and significant ($\beta_{EFU} = 0.641$, $\chi^2 = 57.97$, $p < .0001$, Model 2), suggesting that consumers who anticipated high expected future use were indeed more likely to continue.

Together, these results suggest that EFU mediates the effect of satisfaction on the keep/drop decision, contributing to the keep/drop decision over and above satisfaction perceptions. To examine this, we use $\rho^2$, a measure suggested by Ben-Akiva and Lerman (1985): $\rho^2 = (1 - \text{AIC}/\mathcal{L}(0))$ where AIC is the Akaike information criterion that corrects $\ell(\beta)$ for the number of estimated parameters.$^4$

Using this statistic, we find that, when only the satisfaction variable appears in the equation, the model explains a moderate amount of variance, as $\rho^2 = 0.063$ (Model 2, Table 2). When expected future use is added, however, the explanatory power of the model increases substantially, $\rho^2 = .253$

---

$^4$ Utilizing the Schwartz Bayesian Criterion (SBC) instead of AIC leads to similar conclusions (see Table 2)
When adjusting for the additional parameters, we find that the model in which expected future use is the sole explanatory variable does as well as the model with both expected future use and satisfaction: $\bar{\rho}^2 = .253$ (Model 3, Table 2).

Finally, in order to examine the extent to which expected future use might have a differential effect on satisfied and dissatisfied consumers, we examine the interaction of satisfaction and EFU. We test the traditional interaction term (OVSAT*EFU) and find that this interaction is not significant, and does not add explanatory power to the model ($\beta = 0.008$, $p=.91$, $\chi^2 = 0.011$). To investigate this effect further, a dummy variable for satisfied/dissatisfied was constructed from the respondents’ overall satisfaction scores. Respondents whose response to this question was greater than the median (4, on a 7-point scale) were coded as “satisfied.” Although dissatisfied customers had lower EFU, on average, than satisfied customers, we find no significant difference between dissatisfied and satisfied customers ($\beta = 0.213$, $p= 0.25$). These results provide additional support for H1, suggesting that regardless of level of satisfaction, EFU influences the keep/drop decision.

**Expected Future Use Updating/Integration Model.** The results shown in Table 3 strongly support the expected future use updating model. Customers appear to place more weight on current usage experience than prior measures of expected future use when updating their assessments of expected future use ($\text{EFU}_{t-1} = 0.267$, $\text{Use}_t = 0.733$ (restricted model, see Table 3), but both factors are significant. The restriction that the parameters for $\text{EFU}_{t-1}$ and $\text{Use}_t$ must sum to 1 is not binding, providing additional evidence for the updating model. Finally, neither of the communications variables is significant in this equation. Results for this model are presented in Table 3.

---

5 In addition to the results presented above, we also created calibration and hold out samples to determine how well expected future use and/or overall satisfaction predict the customer keep/drop decision. These results also support the hypotheses and are available directly from the authors.

6 Alternatively, a log-likelihood ratio test provides the same conclusion. The addition of OVSAT to the model solely containing EFU results in only a slight improvement in the log-likelihood ($\chi^2=1.91$, not significant).
Study One Discussion

This study provides evidence to support the proposed effects of expected future use and satisfaction (H1) on the consumers’ keep/drop decision. Generally, the results suggest that consumers factor expectations of future use as well as their current evaluations of the service when deciding whether or not to remain in a service relationship. The results of this study also suggest that expected future use mediates the effect of satisfaction on the keep/drop decision. In other words, although level of satisfaction clearly affects this decision, we find evidence that high expectations of future use may “override” low satisfaction, and that low expectations of future use may, in fact, override high levels of satisfaction. Another way of thinking about this is as follows: satisfaction with the current experience may interact with specific aspects of the consumer’s situation to influence the consumer’s perception of expected future use.

The results of the first study suggest that it is important to include this future temporal component in a model of the keep/drop decision. However, it is important to consider alternative explanations for our results. One alternative explanation for these results may be that EFU (as operationalized) is an equivalent measure to keep/drop, as a consumer who plans to drop the service (in the future) will also plan not to use the service (in the future). The results support our conceptual model that EFU and keep/drop are not equivalent. We find that, even for those who drop the service in the following three months, their planned use of the service is significantly greater than zero (EFU_Drop=1.24 times/wk). This suggests that consumers do forecast use (however poorly) and that these forecasts should be incorporated into models of the customer keep/drop decision. Incorporating a consumer’s perceptions of expected future use as an antecedent to the keep/drop decision provides a more complete model of the customer’s decision. We find that incorporating a step-ahead forecast of

---

7 EFU means for dissatisfied customers: EFU if keep=3.00, EFU if drop=1.00; EFU means for satisfied customers: EFU if keep=4.58, EFU if drop=3.60.
EFU greatly enhances the retention model and has significant managerial implications, suggesting that perhaps consumers’ expectations of future use could even be managed by the firm.

Alternatively, an explanation for our results could be that consumer usage of the service is significantly different from satisfaction and, therefore, that expected future use perceptions are just capturing this “usage component” and not a future-focused aspect of the keep/drop decision. To rule out this explanation, we compare a model with current (i.e., actual) usage and satisfaction to our proposed model. We find that the proposed model explains significantly more variance (Current usage and satisfaction: $\rho^2 = 0.073$; EFU and satisfaction: $\bar{\rho}^2 = 0.253$).

Finally, it is important to note that this model implicitly assumes that all customers have the same threshold for the keep/drop decision. Consider the following: customer A is a “light cellular phone user” with typical use of 100 minutes/month. Customer B is a “heavy user” with typical use of 1000 minutes/month. Such a light user (customer A) might drop the service if his expected usage falls to less than 50 minutes/month; a heavy user (customer B) might only drop if her expected usage falls below 500 minutes/month. We tested a model in which we allowed for heterogeneity across consumers by examining the effect of a customer’s future use expectations, relative to that customer’s prior use, on the decision. The results for this relative EFU model were consistent with results reported above.

The results of study one suggest that a customer’s estimation of how much they will utilize the service in the future period is a much better predictor of customer retention than traditional models focusing on overall evaluations of the service. Given this robust result, it is important to understand factors that affect customer’s expectations of future use. Consistent with an adaptive expectations model, customers appear to be updating their future use expectations, utilizing both their most recent usage patterns and prior expectations as inputs into their current expectations of future use. Given the apparent importance of expected future use as a determinant of the keep/drop decision, understanding its antecedents will be key for marketers interested in retaining customers.
In this first study, we explored the impact of one future-oriented consideration, expected future use, on consumers’ decisions to remain-in or leave an on-going service relationship. We now turn to an examination of the manner in which the keep/drop decision is influenced by the anticipation of regret over erroneously dropping a given service. We will also examine the degree to which the impact of anticipated regret may be moderated by the type of service in question.

**ANTICIPATED REGRET AND THE KEEP/DROP DECISION**

Just as consumers may be motivated in their keep/drop decisions to make decisions that maximize their future utility, they may be similarly motivated to make decisions that minimize negative future outcomes. In this research we focus on one type of negative future outcome or state, namely post-outcome regret. Regret is defined by Zeelenberg (1999) as a negative, cognitively-based emotion experienced by individuals when they realize or imagine that their present situation could have been more positive if they had behaved differently. *Anticipated regret*, then, is considered to occur when prior to or in the process of making a given decision an individual considers the possibility of post outcome (i.e., future) regret. Recent research suggests that not only do individuals anticipate post-behavioral affective consequences of their actions and take these consequences into account when making decisions (Bell 1982, Janis and Mann 1977, Kahneman and Tversky 1982a, Miller and Taylor 1995, van der Plight et al. 1998), but also that they are motivated to make decisions that *avoid* potential regret (Connelly et al. 1997, Josephs et al. 1992; Simonson 1992). Zeelenberg and Beattie (1996) show, for example, that even in situations in which individuals exhibit a clear preference for a course of action (or inaction), anticipation of regret can influence this preference.

In light of this research, we explore the impact of anticipated regret on consumers’ decisions to keep or drop a given service relationship. In our earlier theorizing on the impact of future anticipated states, we argued that consumers may seek to maximize long-term utility in such a manner that they may discount past expectations or current experiences in anticipation of positive (or
negative) product or service outcomes in the future. The preceding literature suggests that the avoidance of regret may be one type of positive future outcome that consumers seek in their current keep-drop decisions. Accordingly, we test the notion that regardless of their current level of satisfaction, consumers will be less willing to drop a given service relationship if they expect to experience regret over doing so. The predicted negative relationship between the amount of anticipated regret and the likelihood of discontinuing can be stated formally as follows:

H3: All else equal, consumers who anticipate regret associated with discontinuing a service relationship will be less likely to drop than consumers who do not anticipate regret.

Of additional relevance to regret research is Kahneman and Miller’s (1986) norm theory, which advances the notion that choices of conventional or default options are associated with lower regret. According to norm theory, individuals feel greater regret for actions that deviate from the norm or default option, “because it is easy to imagine doing the conventional thing (cf. Simonson 1992, p. 105).” In support of this theory, Simonson (1992) demonstrated that the consumers’ choice probabilities for a given default option could be increased by asking them to anticipate the regret that might be associated with deviating from that default and experiencing a negative outcome as a result of that action. This “omission bias,” the tendency for people to regret negative outcomes that stem from actions (commissions) more than equivalent outcomes that stem from inactions (omissions), has been empirically demonstrated by several researchers (Gilovich and Medvec 1995, Gleicher et al. 1990, Kahneman and Tversky 1982a, Landman 1987, Spranca 1991).

When applied to the keep-drop decision, norm theory research suggests that consumers who anticipate regret associated with keeping or dropping a given service “in error” may attempt to alleviate that regret by choosing the safer option. However, how the safe option is determined remains unclear. In resolving this uncertainty it is important to conceptually distinguish the decision to keep a service to which a consumer currently subscribes on an on-going basis (on-going services) from the decision to “re-purchase” a service that is consumed on a transaction-by-transaction basis.
(transaction-based services). On-going service relationships are conceptualized here as entailing a series of exchanges between a consumer and service provider in which an implicit or explicit, formal or informal, agreement has been reached between parties to continue exchanges for some period (e.g., health club, video rental or HMO membership). In contrast, more transaction-based relationships (e.g., restaurants, hotels) are those in which no such agreement exists. In these cases, a service provider may be chosen multiple times, but among actively considered alternatives and on the basis of its superiority on key dimensions (e.g., convenience, price) in a given purchase situation. With the exception of Bolton (1999), most customer retention research focuses on transaction-based services, in which the keep/drop decision is modeled as the consumer’s “repurchase intent.”

The conceptual distinction between these two service types suggests that the choice of the “safe” option in the keep/drop decision may vary by service type. In particular, the distinction suggests that while on-going service relationships are more likely to continue unless they are ended, transaction-based services are more likely to end unless continued. In other words, the keep/drop decision for those in transaction-based relationships represents one in which an action is necessary to keep or re-purchase the service and the inactive option is actually to fail to re-purchase the product or service. The converse is true of on-going service relationships. Here, the decision to dispose of the service relationship requires an action and the default or inactive option is to keep the service. Thus, continuing the relationship represents the inactive, safe option for on-going services, but the active (and therefore less safe) option for more transaction-based services.

In light of this distinction, we explore the differential impact of anticipated regret on consumers’ decisions to remain-in or leave on-going service relationships versus their decisions to repurchase a transaction-based service. We predict that the influence of anticipated regret will vary significantly between the two types of service relationships. To the extent that discontinuing an on-going service relationship requires an action on consumers’ parts, we expect both the anticipation of
regret, as well as the effect of that anticipated regret, to be greater for these keep/drop decisions versus the transaction-based repurchase decision. Specifically, we hypothesize the following:

**H4a:** Consumers who consider decision-related regret will anticipate greater regret for dropping an on-going service relationship in error than for discontinuing a transaction-based relationship in error. **H4b:** All else equal, consumers who anticipate regret associated with dropping an on-going service relationship in error will be less likely to discontinue the service relationship than those making transaction-based repurchase decisions.  

**Anticipated Regret and Satisfaction**

Of additional interest is an understanding of the manner in which the anticipation of regret might interact with consumers’ satisfaction perceptions to influence customer retention. In particular, we seek to understand the extent to which the effect of anticipated regret may vary for satisfied versus dissatisfied consumers. We have argued that consumers who anticipate regret associated with discontinuing a service relationship in error will be less likely to drop than consumers who do not anticipate such regret. In addition, much of the research studying the link between satisfaction and retention has demonstrated that consumers who are dissatisfied are significantly more likely to drop a service than those who are satisfied (Cronin and Taylor 1992, LaBarbera and Mazursky 1983, Taylor and Baker 1994). In other research, Tsiros and Mittal (2000) demonstrate that experienced regret has a negative influence on satisfaction. Research by Inman, Dyer and Jia (1997) provides additional evidence of the differential impact of regret on outcome satisfaction versus dissatisfaction. These researchers examined the effects of regret on post-choice valuation and demonstrated that the effect of experienced regret was bigger for those who were disappointed (or dissatisfied) than for those where or elated (or satisfied). Similarly, relative to satisfied consumers, the anticipation of regret may be a more effective deterrent to dropping for those consumers who are dissatisfied. In line with this reasoning, we argue that the effect of anticipated regret will be greater for those consumers who are

---

8 It should be noted that our focus in these hypotheses is on the effects on anticipated regret over dropping (or discontinuing) a given service “in error.” One might also examine the effects of anticipated regret over keeping a service in error. We would expect that this type of regret would be more influential for transaction-based than on-going service types (since keeping the service reflects a change from the default for transaction-based services).
dissatisfied (relative to those who are relatively satisfied) with a given product or service provider. Specifically, we hypothesize the following:

**H5a:** Relative to satisfied consumers, the effect of regret (vs. no regret) on dissatisfied consumers’ likelihood of remaining in a given service relationship will be greater.

Additionally, following H4b, we hypothesize that the type of service in question will further moderate the proposed interaction between regret and satisfaction. Specifically:

**H5b:** Relative to satisfied customers, dissatisfied consumers asked to anticipate regret associated with dropping an on-going service relationship in error will be less likely to discontinue (i.e., drop) the service relationship than those dissatisfied consumers making transaction-based repurchase decisions.

**STUDY TWO**

This study was designed to test the individual and interactive effects of satisfaction and anticipated regret on consumers’ decisions to continue or to discontinue exchanges with on-going as well as transactional service providers (H3, H4a, H4b, H5a, H5b). Through a controlled laboratory experiment, we independently manipulate satisfaction, anticipated regret and the nature of the service in question (i.e., on-going vs. transactional).

**Method.** The experiment was constructed using a 2 (Anticipated Regret: Regret, No Regret) X 2 (Satisfaction: Satisfied, Dissatisfied) X 2 (Service Type: On-going, Transactional) completely between-subjects design. Subjects, 160 upper-class undergraduates at a Midwestern university, were randomly assigned to one of eight experimental conditions. Subjects completed the experiment in exchange for extra course credit in a marketing management course. The experiment was embedded within a larger project relating to students’ on-line purchase behaviors.

**Procedure.** All subjects read a hypothetical service description, describing either an on-going relationship or a transaction-based service of a similar nature. Both services were described as on-line (i.e., Internet) grocery store delivery services named either QuickRuns (on-going) or Deliver-me.com (transaction-based). The service descriptions were pre-tested by a group of subjects (n = 25) from the population studied and found to be conceptually similar in concept and attractiveness. The
scenarios chosen were also determined to be distinct in that, as expected, the on-going service description was indeed considered more relational than the transaction-based service. To test these perceptions pre-test subjects were asked to answer the following questions: To what extent is the relationship you read likely to be long-term? How likely is it that, the next time you need to grocery shop, you would use the Quickruns service? How committed would you be to this company? How likely are you to frequent this company on a regular basis? How much of an obligation would you feel to do business with this company (relative to its competitors)? Responses to these questions were used to form a “relationship” composite (α = .91). Six scenarios were tested. Scenarios with the highest (X = 6.4) and lowest (X = 2.5) scores on these scales were used in the experiment.

**Manipulated Variables.** All subjects were asked to imagine they began using the service 18 months ago. Both service types (i.e., on-going and transactional) were described as on-line grocery stores that deliver grocery, personal care items, books, and etc. directly to one’s home. In order to manipulate the type of service in questions, half the subjects read a description of a transaction-based service relationship. These subjects were asked to imagine that they use the service in question on a pay-as-you-go basis; paying only a small delivery fee, plus the cost of groceries, each time they use the service. The description stated explicitly that if subjects did not use the service, they pay nothing (i.e., they acquire the goods from some other source). The other half of the subjects read on-going service relationship descriptions. These participants read the same general description of the on-line grocery store, but were asked to imagine that they were members of a “Home Delivery Club.” Instead of a delivery fee, these individuals were told that they pay a small monthly membership fee in addition to the cost of goods purchased. It was stated explicitly to these subjects that they paid no initiation fee for joining the club and that they could discontinue their membership at any time without financial penalty. In this sense, the scenarios varied only in the presence or absence of an on-going, non-financial “membership;” there was no greater economic loss or disadvantage associated
with keeping or dropping either type of service. The satisfaction manipulation was also included in
the description. This variable was manipulated by informing half the subjects that “lately you have
been particularly satisfied [dissatisfied] with the quality of service provided by this company.”

In this experiment anticipated regret was manipulated by explicitly priming subjects to think
about the regret they might feel if they either stopped using the transaction-based service or
discontinued the on-going service relationship in error. All subjects, regardless of condition, were
asked to imagine either that they were in need of groceries this month (transaction-based conditions)
or that they were in need of groceries and had just received their monthly membership renewal notice
in the mail (on-going conditions). In both conditions, it was clear that the keep/drop decision was
imminent. To induce the anticipation of regret, half the subjects were also asked to imagine that, as
they are making their decision, they see an advertisement for the firm in question that makes them
consider the regret they would feel if they either did not use the service this month (transaction-
based) or if they discontinued the (on-going) membership “and found out later that [they] shouldn’t
have.” The remaining subjects (no regret condition) were given no information relevant to regret or
the anticipation of regret. This control group of subjects served as both a baseline for assessing the
extent to which individuals consider regret in the absence of experimental priming and as a
comparison group (i.e., to those in the primed regret conditions) allowing a test of the effect as well
as the extent of anticipated regret experienced by subjects across the various experimental conditions.

**Dependent Measures.** The dependent measure of interest, consumers’ assessments of how
likely they would be to use [continue using] the service again this month, was measured immediately
afterwards. These intentions were measured on a 7 point scale ranging from 1- not very likely to use
[continue using] the service again this month to 7- very likely to continue.

---

9 Because we are interested in the effects and not the triggers of anticipated regret, we deliberately provided no
information regarding: a) the nature of the commercial; or b) why the participant found out later he/she “shouldn’t have”
dropped the service. This manipulation is in line with those used in prior experiments in the marketing literature (e.g.,
In addition, subjects were asked to assess how much regret they would anticipate over dropping or discontinuing their hypothetical service relationship in error. These responses were also measured on a 7-point scale ranging from 1-not much to 7-a great deal. Next, subjects were asked to rate both how favorably they would evaluate the service and how much they like the idea of a service such as Quickruns.com (or Deliver_me.com).\footnote{Responses on this variable indicate that, as expected, those subjects in the satisfied conditions rated their services significantly higher than those in the dissatisfied conditions (F (1, 152) = 265.05; p < .0001).} However, since (as expected) no significant effects were found between conditions on this latter variable, it will be excluded from further discussion. Finally, as part of the debriefing procedure, subjects were asked to report their conjectures about the purpose and intent of the experiment. 153 subjects reported no knowledge about the purpose of the experiment while seven subjects indicated that some, albeit small, level of hypothesis guessing might have taken place. These subjects were excluded from further analysis.

**Results**

The effects reported below were tested using a multi-factor analysis of variance (ANOVA). Unless otherwise specified, two-tailed significance tests were used to estimate all simple effects. In Table 4, we report all effects estimated regarding the key dependant variable. Additionally, we provide the means of the key dependent measure, namely willingness to remain in the service in question, across experimental conditions.

Hypothesis 3 predicts that, all else equal, consumers asked to anticipate regret associated with dropping a service in error would be less likely to drop the service than those who were not asked to make this consideration. The hypothesis was supported by a significant main effect for regret condition (F (1, 152) = 17.48; p < .0001). Subjects in the regret condition were significantly more likely (than those in the control) to remain in the service relationship (X\text{regret} = 5.0; X\text{control} = 4.2).
Our next prediction, Hypothesis 4a, was that the extent to which consumers actively considering anticipated regret expect to actually anticipate regret over dropping a given service would be affected by the type of service in question. Specifically, we hypothesized that individuals would anticipate greater regret over dropping on-going versus transaction-based services in error. Our findings support this prediction. We find a significant interaction effect between the regret condition and service type variable ($F(1, 152) = 4.91, p < .05$). As expected, among those in the anticipated regret conditions, those subjects in the on-going service relationships reported that they would anticipate feeling more regret over dropping their service in error than did those in the transaction-based services ($X_{\text{on-going}} = 5.1$, $X_{\text{trans-based}} = 4.2$; $t(152) = 2.16; p < .05$). Also as expected, the difference between anticipated regret for those in on-going versus transaction-based service relationships was not statistically significant for those in the control (or no regret) groups ($X_{\text{on-going}} = 3.9$, $X_{\text{trans-based}} = 4.2$; $t(152); p > .5$).

In Hypothesis 4b, we predicted that the effect of regret would be moderated by the type of service considered such that the effect of regret on the keep/drop decision would be greater for on-going than transaction-based services. Thus, we sought a significant regret by service type interaction. Our results also show support for this hypothesis. Specifically, the predicted interaction was significant ($F(1, 152) = 4.77; p < .05$). In line with the theory developed, subjects were more greatly affected by concerns for regret in the on-going service conditions ($X_{\text{regret}} = 5.3$ vs. $X_{\text{control}} = 4.1$) than in transaction-based service conditions ($X_{\text{regret}} = 4.7$ vs. $X_{\text{control}} = 4.3$). Additional analysis revealed that, as expected, the simple effect of regret was significant within levels of both service types ($t(152) = 4.52; p < .001$) and ($t(152) = 1.41; p_{1\text{-tailed}} < .05$) respectively.

With respect to the predicted regret by satisfaction interaction, our hypothesis (H5a) was supported. The regret by satisfaction interaction was significant ($F(1, 152) = 14.52; p < .001$), revealing that the effect of regret (versus no regret) on dissatisfied subjects ($X_{\text{disat, regret}} = 3.9$ vs. $X_{\text{disat,}}$
control = 2.3) was greater than on subjects in the satisfaction conditions (X_{sat, regret} = 6.10 vs. X_{sat, control} = 6.05). Additional analysis revealed that the simple effect of regret was significant within the dissatisfied conditions (i.e., dissatisfied with regret prime vs. dissatisfied without regret prime) (t(152) = 5.67, p < .0001). However, thinking about regret did not significantly alter satisfied subjects’ responses (versus the control group) (t (152), p > .5).

Finally, in hypothesis 5b, we predicted that the differential effect of regret on dissatisfied relative to satisfied consumers (i.e., the interaction predicted in H5a) would be even greater for consumers in on-going relative to transaction-based services. Though the means are in the predicted direction, we did not find a significant three-way interaction between regret, satisfaction and service type (F (1, 152) = .14; p > .5). In other words, the type of service in question did not further moderate the interactive effects of regret and satisfaction.

**Study Two Discussion**

The results of this study show support for the predicted influence of anticipated regret, a second future-oriented consideration, on the consumer’s keep/drop decision. Overall, we find that, when primed merely to consider the regret they might experience from dropping (or discontinuing) a given service in error, consumers are more likely to continue consuming (or re-patronizing) the service. As expected, the level of satisfaction in question moderated the main effect for anticipated regret. However, our simple effects analysis revealed that the effect of regret was limited to those consumers who were dissatisfied (supporting H5a). While we expected a relatively smaller effect of regret on those who were satisfied, our results show, interestingly, no effect of anticipated regret on these consumers. The marketing implications of these results are discussed in the subsequent section.

The results also suggest that the amount of regret consumers expect to feel over a given keep/drop decision is significantly influenced by the type of service relationship in question; consumers anticipated feeling more regret over dropping on-going versus transaction-based service
relationships. As a result, those consumers in on-going services, for whom dropping the service required a deviation from the default, were even more hesitant to actually drop the relationship than those who were deciding whether to re-purchase or re-use the more transaction-based service even when these consumers were dissatisfied. These results provide support for the conceptual distinction drawn between the two service types.

We did not find that the predicted relationship between regret and satisfaction was further moderated by the nature of the service in question. In other words, we did not find, as we predicted in Hypothesis 5b above, that dissatisfied consumers asked to consider anticipated regret would be more likely to remain in the on-going than the transaction-based relationship. Though we failed to find statistically significant differences, the results indicate that the trend in means is as predicted.

**GENERAL DISCUSSION**

Taken together, the findings support our assertion that consumers are forward-looking with respect to the decision to remain in or leave service relationships. This forward-looking aspect of consumer decision-making has several implications for marketing theory and practice.

**Theoretical Implications**

First, our framework motivates the inclusion of forward-looking aspects into models predicting customer retention. This inclusion is validated not only by our findings regarding the impact of regret on satisfaction, but also by the demonstrated effect of expected future usage considerations on the keep/drop decision. Specifically, the paper contributes to the literature on customer retention in that it investigates the relatively understudied impact of future usage considerations on the customer’s decision to remain in or leave the service relationship. We provide empirical and causal evidence to show that customers’ future expectations of usage of and benefits from a service relationship do, in fact, have a significant influence on customer retention. Although
not specifically tested here, we believe that these results extend to many customer-product relationships as well (consider consumers who take vitamin supplements, for example).\textsuperscript{11}

Second, the results provide new insights into the antecedents of customers’ perceptions of expected future usage as well. We find support for our hypotheses that customers update their expectations of future use following an adaptive expectations approach, incorporating recent usage experiences into their next period expectations. Taken together with the finding that expected future use is a key element in the customer keep/drop decision, these findings provide additional understanding into this key construct.

Third, our finding that the influence of regret on the consumer’s decision is stronger for on-going services than transaction-based services provides additional insight into the customer retention decision. In particular, by using norm theory to conceptually distinguish on-going from transaction-based service types, we introduce one theoretical basis upon which predictions and managerial insights regarding these disparate service types might be based. Our research also highlights yet another marketing domain, consumers’ keep/drop decisions, in which the extant literature on anticipated regret seems particularly instructive. Like Simonson (1992), our data show that anticipated future regret can increase status quo-oriented behavior in this domain. Additionally, our investigations allow us to test the relative strength of this status quo effect by demonstrating its persistence in situations in which consumers are clearly dissatisfied with the current course of action.

Finally, this paper contributes to the customer retention literature by testing a model in which customer retention is measured as actual customer behavior, rather than as “intention to repurchase” the service. Many prior studies (Boulding et al. 1993, Anderson and Sullivan 1993, Zeithaml \textit{et al.} 1996) find a strong link between customer satisfaction, perceived service quality and \textit{intent} to repurchase, but they have not observed the customer’s actions directly (i.e., whether the customer

\textsuperscript{11} We thank an anonymous reviewer for this suggestion.
actually remained in or severed the relationship). In light of research by Morwitz and Schmittlein (1992) that suggests that simply measuring intent to purchase or repurchase may impact actual behavior, directly observing customer actions can reveal greater insights into this relationship.

It is useful to contrast our model with an updating approach to consumer decision-making (e.g., Boulding et al. 1993, or Rust et al. 1999). In an updating framework, consumers incorporate new experiences of a product or service by updating their existing perceptions of the product or service (e.g., overall satisfaction) based upon the new experience. This new, updated perception would then be utilized as the basis for the decision to continue or discontinue the service relationship. In contrast, our results suggest that it is important to consider the process by which and the extent to which consumers evaluations of the future benefits (or losses) they expect to receive from the service influence their current decisions. As such, we provide a deeper understanding of the differential effects of these future states (EFU and anticipated regret) on the consumer keep/drop decision, over and above the traditional service quality and satisfaction updating mechanism described above.

**Implications for Marketing Practice**

The forward-looking model of the consumer keep/drop decision provides significant insights for marketing managers. We have moved from a world in which a static understanding of our customers (e.g., demographics, psychographics, current satisfaction, current purchase patterns) was sufficient. We now need to understand our customers in a dynamic, changing environment. We must engage in dynamic customer relationship management – understanding that consumers take into account aspects of the past, present and future—including future expectations (of themselves and of the firm)—when determining whether to continue to do business with a firm. If firms fail to take into account this idea that consumers are involved planners and forecasters, as well as “evaluators” of their services, they will miss a key opportunity to manage the customer relationship.
If a firm wants to retain current customers, customer expectations of future benefits should be a primary focus. We have shown that customers’ expectations of their own behavior are key in the decision to keep or drop a service. Marketing managers need to consider how such expectations can be managed. In addition to customer satisfaction, firms should measure customer’s expected future benefits (e.g., anticipated usage, anticipated future changes) and customer’s current usage levels.

Marketing strategies, for both new and existing customers, should take customer future expectations into account, considering how each element of the marketing mix (e.g., changes in the service, marketing communications, pricing strategy) may impact customers’ current usage levels and expectations of future use. For example, will a new service attribute encourage customers to utilize the service more (or to expect to use the service more)? Marketing actions that either (1) increase customer expectations of future use or (2) increase actual usage should provide a significant increase in the likelihood that the customer continues the relationship.

In addition, the finding that anticipated future regret significantly influences the customer’s decision to keep or drop the service presents an exciting marketing opportunity. Marketing managers, especially in on-going services, may find it useful to integrate anticipated regret into marketing communications, retention-based marketing and other interactions with the customer. By making this potential regret salient to customers prior to the keep/drop decision, firms may be able to reduce churn rates and may get a “second chance”—to turn a dissatisfied customer into a satisfied customer, or to regain the trust of a customer who would have otherwise not been retained. Marketing strategies, especially those designed to maintain or enhance relationships with existing customers, should be designed with these ideas in mind. In particular, firms should consider how other aspects of the strategy (communications placement and content, service enhancement announcements, Internet strategy, etc.) might serve to “prime” anticipated regret in current customers, and the effect of this potential regret on the customer’s relationship with the firm.
Taken together, the results presented here suggest that firms who consider satisfaction to be the primary tool to manage customer retention are missing significant opportunities. Our findings suggest that consumers are significantly forward-looking when they make the decision to continue (or discontinue) a service relationship. Failure to consider these components may lead firms to underestimate the likelihood that satisfied customers may defect, and overestimate defection rates for dissatisfied customers, thereby potentially misallocating resources to customer retention efforts.

It is important to note the limitations of this research. First, we have only begun to examine the influence of consumers' forward-looking considerations on the retention decision. Future research should examine aspects such as expectations of future satisfaction, and a broader view of expectations of future benefits to be derived from the relationship. Second, our second study entails a laboratory experiment in which hypothetical scenarios were used. There are strengths, but also inherent drawbacks associated with this approach. Future research should examine the anticipated regret in an actual (i.e., not imagined) purchase or re-purchase setting. Third, our findings are limited to the effects of these future considerations in only two industries, entertainment and grocery delivery. Future studies should test these hypotheses in other industries. Finally, the model does not take into account non-economic costs of discontinuing service (e.g., opportunity costs, psychological costs). More importantly, in future research, we hope to examine more fully the interactions of past-focused measures (other than satisfaction), situational variables (such as amount of time the customer has available) and these future-focused aspects of the decision.

In summary, firms must recognize that consumers are active forecasters, taking future considerations into account in their current decision making efforts. As a result, firms must begin to develop dynamic customer relationship management strategies. These strategies should take into account not only the actions the firm takes to build and manage the relationship, but, insofar as is possible, the future projections of customers as well.
Figure 1. The Forward-Looking Model of the Keep/Drop Decision
### Table 1. Study 1: Variable/Construct Description

<table>
<thead>
<tr>
<th>Variables</th>
<th>Study 1 Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keep / Drop&lt;sub&gt;T&lt;/sub&gt;</td>
<td>Coded as 1 (keep) or 0(drop) based on account status on June 30, 1994 (measured at point t+1).</td>
</tr>
<tr>
<td>Expected Future Use&lt;sub&gt;t&lt;/sub&gt;</td>
<td>How often do you expect to play XXX in the next three months? Number of days per week (measured at point t)</td>
</tr>
<tr>
<td>Overall Satisfaction&lt;sub&gt;t&lt;/sub&gt;</td>
<td>How satisfied are you with XXX overall? Extremely dis/satisfied (measured on a seven point scale, at point t).</td>
</tr>
<tr>
<td>Current Usage&lt;sub&gt;t&lt;/sub&gt;</td>
<td>Please indicate how often you play XXX? Number of days/week (measured at point t).</td>
</tr>
</tbody>
</table>

### Table 2. Study 1: Consumer Keep/Drop Decision Equation Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1 Expected Future Use &amp; Satisfaction (Standard Error)</th>
<th>Model 2 Satisfaction Only (Standard Error)</th>
<th>Model 3 Expected Future Use Only (Standard Error)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-1.332&lt;sup&gt;**&lt;/sup&gt; (0.654)</td>
<td>-1.176&lt;sup&gt;**&lt;/sup&gt; (0.580)</td>
<td>-0.534&lt;sup&gt;**&lt;/sup&gt; (0.278)</td>
</tr>
<tr>
<td>Overall Satisfaction</td>
<td>0.188 (0.137)</td>
<td>0.473&lt;sup&gt;***&lt;/sup&gt; (0.118)</td>
<td>N/A</td>
</tr>
<tr>
<td>Expected Future Use</td>
<td>0.597&lt;sup&gt;***&lt;/sup&gt; (0.110)</td>
<td>N/A</td>
<td>0.641&lt;sup&gt;**&lt;/sup&gt; (0.101)</td>
</tr>
<tr>
<td>-2LL</td>
<td>153.265</td>
<td>195.730</td>
<td>155.181</td>
</tr>
<tr>
<td>AIC</td>
<td>159.265</td>
<td>199.730</td>
<td>159.181</td>
</tr>
<tr>
<td>SBC</td>
<td>169.022</td>
<td>206.234</td>
<td>165.686</td>
</tr>
<tr>
<td>$\chi^2$</td>
<td>59.883&lt;sup&gt;***&lt;/sup&gt;</td>
<td>17.418&lt;sup&gt;***&lt;/sup&gt;</td>
<td>57.97&lt;sup&gt;***&lt;/sup&gt;</td>
</tr>
<tr>
<td>Number of Obs.</td>
<td>191</td>
<td>191</td>
<td>191</td>
</tr>
</tbody>
</table>

<sup>***</sup> Results Significant at $p \leq 0.01$
<sup>**</sup> Results Significant at $p \leq 0.05$
Table 3. Expected Future Use Equation Results

<table>
<thead>
<tr>
<th>Variables</th>
<th>( EFU_t ) (restricted)</th>
<th>( EFU_t ) (unrestricted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-0.922* (0.459)</td>
<td>-0.795 (0.483)</td>
</tr>
<tr>
<td>( EFU_{t-1} )</td>
<td>0.267*** (0.054)</td>
<td>0.231*** (0.068)</td>
</tr>
<tr>
<td>Use_t</td>
<td>0.733** (0.054)</td>
<td>0.708*** (0.062)</td>
</tr>
<tr>
<td>DirectMkt_{t-1}</td>
<td>0.004 (0.043)</td>
<td>0.020 (0.046)</td>
</tr>
<tr>
<td>MassMkt_{t-1}</td>
<td>0.132 (0.129)</td>
<td>0.134 (0.129)</td>
</tr>
<tr>
<td>Restriction</td>
<td>-30.656 (35.999)</td>
<td>N/A</td>
</tr>
<tr>
<td>Adj. ( R^2 )</td>
<td>0.59</td>
<td>0.59</td>
</tr>
<tr>
<td>Number of Obs.</td>
<td>182(^{a})</td>
<td>182(^{a})</td>
</tr>
</tbody>
</table>

*** Results Significant at \( p < 0.001 \)
** Results Significant at \( p < 0.01 \)
* Results Significant at \( p \leq 0.05 \)
\(^{a}\) Observations were deleted due to missing observations for the independent and/or dependent variables.
Table 4. Full Model ANOVA and Cell Means – Study Two

DV: Keep Likelihood

<table>
<thead>
<tr>
<th>Effect</th>
<th>F Value</th>
<th>Pr &gt; F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction</td>
<td>246.75</td>
<td>.0001</td>
</tr>
<tr>
<td>Regret Condition</td>
<td>17.58</td>
<td>.0005</td>
</tr>
<tr>
<td>Satisfaction* Regret</td>
<td>1.71</td>
<td>.1932</td>
</tr>
<tr>
<td>Service Type</td>
<td>14.52</td>
<td>.0002</td>
</tr>
<tr>
<td>Service Type * Satisfaction</td>
<td>6.79</td>
<td>.01</td>
</tr>
<tr>
<td>Service Type * Regret</td>
<td>4.77</td>
<td>.03</td>
</tr>
<tr>
<td>Service Type * Satisfaction* Regret</td>
<td>.76</td>
<td>.38</td>
</tr>
</tbody>
</table>

Cell Means Across Experimental Conditions

DV: Keep Likelihood (Higher numbers are associated with a greater reported likelihood of keeping (continuing) the service in question)

<table>
<thead>
<tr>
<th></th>
<th>Satisfaction</th>
<th>Dissatisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regret Primed</td>
<td>No Regret Primed</td>
</tr>
<tr>
<td>DV</td>
<td>On-going Service</td>
<td>On-going Service</td>
</tr>
<tr>
<td></td>
<td>Transaction-Based Service</td>
<td>Transaction-Based Service</td>
</tr>
<tr>
<td>Regret Primed</td>
<td>6.1&lt;sup&gt;a&lt;/sup&gt;</td>
<td>6.1&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>No Regret Primed</td>
<td>6.1&lt;sup&gt;a&lt;/sup&gt;</td>
<td>6.1&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>On-going Service</td>
<td>6.3&lt;sup&gt;a&lt;/sup&gt;</td>
<td>5.6&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Transaction-Based Service</td>
<td>5.3&lt;sup&gt;b&lt;/sup&gt;</td>
<td>5.6&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Dissatisfaction</td>
<td>3.1&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2.4&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

<sup>a,b,c,d,e</sup> Column means with a different letter are significantly different at p < .05
REFERENCES


