How managers can predict customer retention rates through psychological profiling

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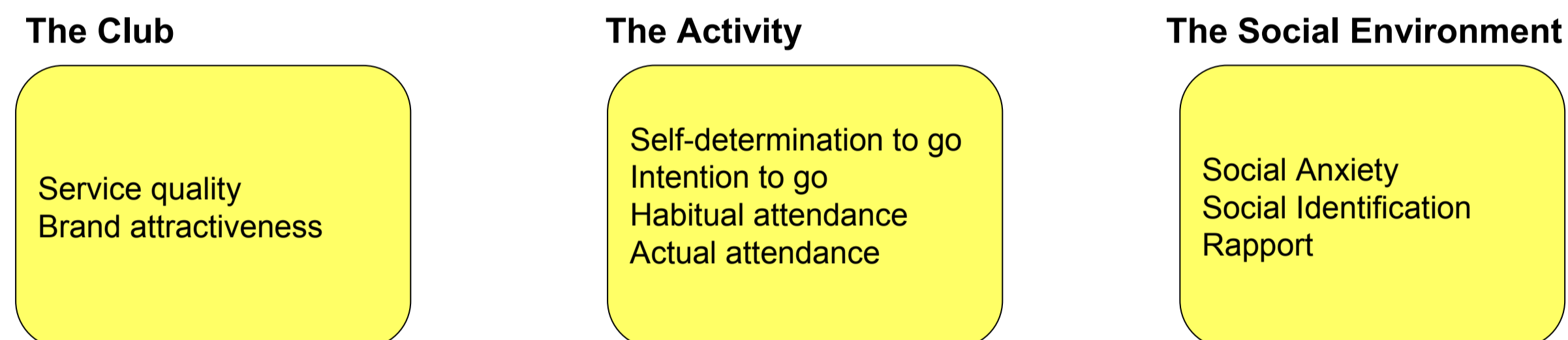Dr Derek Peters
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Introduction

Managers have become increasingly concerned with the retention of their customers and how they improve their retention rates. This concern is largely due to membership retention rates accounting for 76% of club revenue. Whilst there has been a growth in the popularity of fitness club membership (from 9.1% of the adult population to 11% in 2007), the average retention rate in private clubs is approximately only 60% (Fitness Industry Association (FIA), 2002; Mintel, 2005). Customer Relationship Management (CRM) processes have been trialled in fitness clubs to allow managers to profile their customers in terms of their 'value' and risk of defection. This profiling then allows managers to identify 'high risk' or 'high value' groups of members and to then attempt to build stronger relationships with these groups. However, customer profiling is often based solely on customers' 'product characteristics' (e.g. type of club membership), 'product consumption' (attending the fitness club), or demographic characteristics (e.g. age, gender, length of club membership). Whilst there is research supporting the importance of these product and demographic characteristics (FIA, 2002) there is little empirical research into the psychological factors underlying member attrition i.e. what drives members to cancel their membership?

Based on a previous literature review and qualitative study, a selection of potential psychological antecedents were identified. These have been represented by three clusters which indicate *how* the antecedents potentially relate to membership retention; via the club, via the activity or via the social environment (Fig 1.) Various scales were either modified or created in order to fully measure these antecedents.

Fig 1. Clusters of antecedents

The Club

Service quality
Brand attractiveness

The Activity

Self-determination to go
Intention to go
Habitual attendance
Actual attendance

The Social Environment

Social Anxiety
Social Identification
Rapport

In addition to these antecedents, other potential mediating variables were included; satisfaction, commitment, attitude towards retention. However, the main outcome variable; intention to retain membership was measured and used as a proxy for retention behaviour (Fig 2.).

Fig 2. Outcome variable

➢ Intention to retain
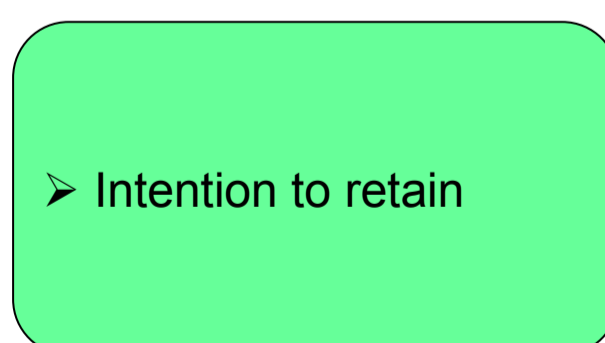
Method

A questionnaire was designed (MRQ) and distributed to members of one large, premier fitness club (undisclosed) who were invited to complete either an on-line or postal version of the questionnaire. A 68% response rate was achieved (n=716). Sampling took place over 21 days in August 2008, on varying days and varying times in order to capture members with different attendance patterns. Missing values were replaced for the service quality subscales, due to the 'not applicable' choice in the response scale.

Results

Respondents were categorised into 'high' or 'low' intention to cancel. Logistic regression analyses were then carried out for each individual antecedent to see how much the antecedents could increase the odds of a member being categorised as having 'high' intention to retain their membership. Table 1 below shows the amount that these odds increase for each antecedent (exp(b)) which were significant (at most $p<.05$) and that were at least 1.5; the odds of categorisation increase by 50% with every unit change in the antecedent.

Table 1. Odds increases of being categorised as 'high intention to retain' due to an increase in the antecedent

Antecedent	Exp (b)
The Club	
Service quality:	
·Gym	2.202
·Facility	2.176
·Staff	1.916
·Changing rooms	1.656
·Pool/spa	1.631
·Classes	1.551

Antecedent	Exp (b)
The Activity	
Self-determination:	
·Intrinsic motivation	1.813
Intention to go	1.541
Habitual attendance	1.526
The Social Environment	
Self-determination:	
·Extrinsic motivation*	1.757
Potential mediators*	
Satisfaction	3.037
Attitude to cancel*	2.961

*Odds change relating to intention to *cancel* not to retain

** The dataset is currently undergoing further analysis to test the role of the potential mediators

Summary/ Conclusions

Of particular interest is the difference in how predictive the various service quality attributes are; an increase in perceived quality of the gym environment makes the odds for being categorised as 'high' intention twice as high. Whereas all of the service quality factors increase the odds by at least 50% (1.5), different attributes yield higher changes in the odds. This can help managers direct their service quality expenditure.

Also, how self-determined the member is in attending the club impacts on the odds changes. Those who are intrinsically motivated to go are nearly twice as likely to intend to retain whereas those who are extrinsically motivated are nearly twice as likely to intend to cancel! This has implications for the way in which managers motivate their members, possibly during their induction process when they join the club.

When satisfaction ratings increase, the member is three times as likely to intend to retain. Also, when there is an increase in attitude to cancellation, the odds of intending to cancel are nearly three times as high. However, these possibly mediate the effects of other antecedents, yielding a need for path analyses to ascertain which antecedents have efficacy in predicting satisfaction and attitudes to cancellation. This will help to add psychological explanation as to why certain antecedents have efficacy in predicting intention to retain membership.

The managerial implications of these findings suggest that profiling members using the MRQ can help to improve the assessment of 'high risk' members and implement effective interventions.

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