Buyer loyalty development through seller education of service buyers

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Abstract

The present paper develops a model where service buyer loyalty can be achieved by seller education of the service buyer. Buyer education implies both offering services and development of the service buyer's capability to use the service. Service buyer education is facilitated by seller competence on the service offering and the buyer's context. The reason for this is that the more embedded the service seller is in the buyer's context, the better able are they to educate the service buyer. Antecedent to seller competence, at any given point of time, or level of relationship development, is the service buyer's current understanding of seller resources. The model is tested and confirmed on 255 small firms. The model identifies that education can align the service offering, buyer resources, and seller resources in buyer - seller relationships.

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Introduction

Despite the fact that studies have found that buyers and sellers exchange goods and services in long-lasting relationships (Anderson and Narus, 1990; Grönroos, 2000; Zeithaml, Berry and Parasuraman, 1988; Bitner, 1995; Ford, 1990; Kranton and Mineheart, 2000), there is relatively little understanding of how these relationships pro-actively can be managed. The importance of pro-active relationship management is illustrated by production strategies that include relationship management, such as market orientation (Slater and Narver 1998, Kyriakopolos and Moorman 2004), just-in-time (Frazier, Spekman and O'Neill 1988), Supply Chain management (Lakemond, Echtelt and Wynstra 2001), and Total Quality Management (Hackman and Wageman 1995). We develop the argument for buyer education in buyer-seller relationships by referring to market orientation. The goal of market orientation is the creation of superior long-term buyer value, and this is accomplished by developing firm internal capabilities for innovative and adaptive response to buyer needs (Hurley and Hult 1998, Slater and Narver 1995, 1998, Jaworski and Kohli 1993, Cano, Carrillat and Jaramillo 2004). Sellers enact market orientation from the interpretation of buyer feedback on seller behavior (Daneels 2003). However, to the best of the knowledge of these authors, there are no studies of how buyers perceive market orientation efforts. Based on the relational view, it seems logical to conclude that the market oriented firm should not only focus seller-internal capabilities, but also on how the firm can educate their buyers on how to utilize the seller’s resources. Education can be defined as ‘give intellectual and moral training to; provide schooling for; train’ (cf. Concise Oxford English Dictionary, 1982). Education is consequently defined as both the systematic training of a subject and the development of its capabilities. This definition implies a need for both training according to formalized schema, and also an individualized and context dependent development of the knowledge. Analogously, buyer education requires the seller to educate the buyer on the sellers service offering, and to make the buyer better able to use the seller firm’s resources (Darby and Karni, 1973). Buyer education is a way for the seller to pro-actively be market oriented. It also makes the buyer better able to utilize the seller’s resources in a buyer specific way, which is central to relationship development (Bensau and Anderson 1999). Consequently, it is important to study buyer education from the buyer’s perspective. The perspective of the buyer is an important one, since most studies of market orientation have focused the seller's internal capabilities for market orientation.

Relationships develop when actors exchange goods and service, and in this process make adaptations to each other. Relationship development is frequently an iterative process of reciprocal relationship specific investments between a buyer and a seller. In each iteration, the buyer and seller come to understand how to use each other's resources better. Provided that the relationship development process continues, it may result in the buyer and seller being interdependent, with considerable relationship specific resource sharing that cannot easily be redeployed elsewhere. However, there are examples of pro-active efforts from either the buyer or the seller, whereby, the seller can educate the buyer on how to use more or additional services through loyalty programs (Bolton, Kannan and Bramlett, 2000). While there may be many outcomes of buyer education, we consider buyer loyalty one of the most important ones. Relationships end because buyers are not loyal to a particular seller, which may depend on such factors as quality problems (Roos, 1998), or dissatisfaction between the buyers and/or sellers (Ganesh, Arnold and Reynolds, 2000). In consumer as well as business markets, the link between loyal and satisfied buyers is recognized (Jones and Sasser, 1995; Oliver, 1999), and buyer loyalty has been found to increase long-term financial performance and prevent buyers from being attracted by competitors (Anderson, Fornell and Lehman, 1994; Reichheld and Sasser, 1990; Bolton, Kannan and Bramlett, 2000; Bolton and Lemon, 1999; Jones and Sasser, 1995; Pritchard, Havitz and Howard, 1999; Reichheld 1996).

The seller's education of buyers may concern a service product, its use and the benefits this may offer to the buyers. Investments in buyer education are a signal of a desire for a relational continuity and a long-term commitment to a particular client. However, no studies have yet explicitly established how sellers can educate buyers so that they become more loyal. Also, in general, there is a gap in our understanding of how a seller firm can pro-actively educate buyers, especially when taking the perspective of the buyer.

The purpose of this paper is to fill this gap by presenting and testing a model for how seller education of service buyers increases buyer loyalty. We argue that the buyer's loyalty is increased with the seller's education of the buyer. However, for the education to be successful, the seller must be competent in the buyer's specific business area. We argue that the seller's competence is then conditioned by the buyer's level of understanding of the seller's service offering. In the current research on loyalty, little attention is given to how sellers can educate buyers to manage transactions with a particular selling firm. The hypothesized causal relations are then tested in a structural model on a sample of 253 small firm bank customers. The results and concluding discussion then follows.

Buyer-seller relationships: Theoretical Background.

Our arguments are based on the relational view of buyer-seller cooperation (Anderson and Narus, 1990; Dyer and Singh, 1998). In this view, which is closely related to the resource based theory (Barney, 1995), the interaction approach to marketing (Håkansson, 1982) and relationship marketing (Grönroos 2000), the competitive advantage of firms is based not only on their internal resources but also on their external exchange relationships. Relationships, for instance, include trust and commitment (Morgan and Hunt, 1994), cooperation (Anderson and Narus, 1990), social bonds (Han, Wilson and Dant, 1993), adaptations (Hallén, Johanson and Seyed-Mohamed, 1991), and a high degree of mutuality (Blankenburg-Holm, Eriksson and Johanson, 1999). The rationale for relationship development is often an application of the social exchange perspective, which sees a series of transactions as leading to adaptations that are uniquely configured for the actors in a relationship (Anderson and Narus, 1990). The relationship development is not automatic or effortless, since it requires the parties to engage in exchange activities that are resource consuming.

Relationships have been found profitable in both business (Kalwani and Narayandas 1995) and consumer markets (Storbacka 1995). The profitability results from mutual commitment to the development of the relationship. This relationship development is a process of gradually more specific investments, and made reciprocally by the parties. In the process, the buyer and seller come to understand and use each other's resources in unique ways (Anderson and Weitz, 1982; Hallén et al. 1991). The relationship development process is thus a learning process, where either of the buyer or the seller can make it more or less easy to understand and use the other’s resources. It has been found that a more competent seller leads to more relationship specific investments (Bensau and Anderson 1999). Since learning can also be achieved through pro-active education, there is reason to expect a corresponding positive effect on relationship specific investments from a seller that educates the buyer to better use the seller’s resources. Pro-active management of the relationship development process can thus be achieved by education.

Relationship specific investments may involve resource commitment in many ways, for instance adaptations in tangible and non-tangible assets such as technical skills and know-how as well as adjustment of routines and workflow integration (Hallén, Johanson and Seyed-Mohamed, 1991). A seller firm may, for example, design a specific delivery system to suit the needs of a particular client. In this process, buyers and sellers accumulate knowledge about one another's resources, expectations and requirements. They develop partner specific capabilities and resources. Capabilities in this context imply a firm's ability to accumulate, evaluate, assimilate, integrate, diffuse, deploy, and exploit resources. Capabilities infuse resources with value (Madhok, 1997). Capabilities are a complex set of skills that allow firms to offer innovative and superior services. In the remaining chapters of this paper the terms capabilities and competencies are used interchangeably. Developing partner specific capabilities is a gradual process, 'which could be more costly and less efficient relative to competitors who are already present and more experienced in this domain' (Madhok, 1997, p. 43). Exchange partners learn to use a specific counterpart in an efficient and 'optimal' manner.

Buyer-Seller Loyalty: A Model

Based on the relational view, we argue that buyer loyalty is achieved by a (i) partner specific resource investment between buyers and sellers resulting in a reciprocal relationship, and (ii) by understanding each other's capabilities and resources. We argue that selling firms with partner specific competencies are in a superior position to identify the latent needs and wants of the buyer and supply an appropriate solution to the buyer. Such an approach allows a sharing of propriety competencies and knowledge and relational resources investments between buyers and sellers.

In the previous decade, the volume of research on loyalty has increased. However, there is no single accepted definition of the term loyalty (for a review see Oliver, 1999). A dominant theme in this literature is that loyalty is a deeply held commitment to re-buy or recognize a preferred product/service consistently in the future. Loyalty is thus repeated purchase behaviour, and represents an attitude of foreclosing alternative exchange partners (Jacoby and Chestnut, 1978). Loyalty implies that the client voluntarily removes him- or herself from a competitive marketplace and into a domesticated market (Arndt, 1979). Loyal buyers stay in the relationship and foreclose alternative exchange partners for the sake of the ongoing relationship. Loyal buyers' willingness to forego alternative relationships does not imply that they commit resources to further develop the relationship. Loyalty is associated more with a resistance to change (Pritchard, Havitz and Howard, 1999).

Loyalty is usually defined in terms of the buyer comparing alternatives. However, this is also an ambiguous way of reasoning because comparison levels fluctuate at any given moment, meaning that comparison levels are best studied over long time periods (Fournier and Mick, 1999). Instead, as argued earlier, it may be fruitful to consider relationship development as an evolution towards a deeper relationship, and that this evolution may involve many, perhaps seemingly paradoxical shifts in preferences. The deeper a relationship becomes, the more the parties get to know about each other's capabilities and resources. Relationship development makes buyers loyal because they perceive more of the benefits in the relationship, and do not see more benefits in alternatives. Education of buyers increase the rate at which they perceive benefits because it makes seller resources more readily available for them.

Achieving Buyer Loyalty through seller education of buyers.

Buyer loyalty may be achieved in several ways. The reasons that buyers become loyal are that they consider the competitor's offerings less attractive. According to social exchange theory, buyers establish a comparison level of alternatives, which they use as a threshold for switching to the alternative (Thibaut and Kelly, 195). The comparison level for alternatives varies with the perceived benefits of the used alternative, which is why the comparison level for alternatives can be managed so that the counterpart in a relationship is less inclined to switch relationships. For instance, the seller that can turn a buyer complaint experience into a positive one may develop buyer's loyalty (Tax, Brown and Chandrashekahran, 1998). Fournier and Mick (1999) found that buyers' level of satisfaction changes as they learn how to use the service product better. Thus, one way for the seller to develop loyalty is to pro-actively educate the buyer in (i) detecting the services offered by the seller, and (ii) using the seller's services. For instance, the seller could educate the buyer to become more competent in using the seller's services by informing and demonstrating the services to the buyer. Staelin (1978) found that consumers can be educated on safer product use and better usage of purchase. He found that education is related to actual behaviour by buyers. The importance of educating buyers is even greater in services as they are characterized by intangibility, inseparability, and perishability. In a majority of service exchange relationships, service sellers possess better information about their offerings than the service buyers. In service encounters, buyers base their purchase decision on their current knowledge of sellers and their offerings. At the time of service purchase, the buyer may suffer from knowledge deficiency (Singh and Sideshmuckh, 2000), and may find it difficult to discriminate between different service sellers and their offerings. The differences in services quality between different sellers is not obvious to service buyers and 'persistent informational asymmetry does not appear conducive to stable and satisfying market exchange' (ibid, p.153). The above holds even more true for credential services, such as most financial services (Darby and Karni 1973). Buyer education is helpful in this respect as it may concern service quality, use and performance, and may increase the credibility of a particular service supplier. This may help a service supplier to convince the service buyer why s/he should pay a premium price for a service and that such an exchange/price is fair. One may even go so far as to say that a buyer is a part-time employee who is educated to take part in the production of the goods or services purchased (Lengnick-Hall, 1996). A pro-active seller can thus educate the buyer in his or her service offerings and how to use the service.

We argue that through buyer education sellers shape the mental models in the buyer firm, its buying decision-making process, its goals, solutions, and methodologies; in addition it may relate to knowledge, skills, attitudes, and behaviour. Thereby, managerial biases and reciprocal relational obligations are generated. Moreover, according to social exchange theory, actors engage in reciprocal behavior and reciprocate to those who provide benefits. This may influence need and want identification and future decision-making in service buying firms. Thus, as stated by Cyert and March (1963), 'when an organization discovers a solution to a problem by searching in a particular way, it is likely to search in that way in future problems of the same type' (p. 174). Also, a buyer's adaptive capacity is restricted and rigidities in the behaviour of buying firms develop. Buyers search for alternative sources of supply only when the performance of their current service supplier is repeatedly below expectations. In service marketing research, it has been shown that the best predictor of buyers' likelihood of continuing an exchange relationship with a seller is the quality of its relationship with the seller (Frazier, 1983; Weitz, 1981; Crosby, Evans and Cowles, 1990).

By educating the buyer, the seller can make the buyer see more of the potential value added from repeated purchases. Such buyers will understand more about the seller's unique resources, and is therefore more able to see the complementarity of resources and potential rewards from relationship specific investments. This increases the buyer's resistance to change, which, in turn, increases buyer loyalty. We can therefore hypothesize that buyer loyalty is increased by seller education of buyers.

Hypothesis 1. Buyer loyalty towards a seller is increased by buyer education.

The education of buyers is based on sellers' competencies, that is, a set of skills and knowledge possessed by the selling firms. Buyer education was defined as both the training according to formalized schema, and also an individualized and context dependent development of the seller. Analogously, a competent seller is defined as one who is perceived as being competent by the buyer concerning both the service offering and the buyer's context. In service firms, consumption and production is often simultaneous, making the link between seller production of service offering and the buyer's consumption in his/her context even stronger than in manufacturing firms. For instance, the selling firm's employees' turnover intentions has an influence on buyer satisfaction (Parkington and Schneider 1979). It has also been found that a higher degree of seller market orientation leads to lower customer's switching intentions (Jones, Busch and Dacin 2003). The service offering and the sellers context are also tied together because a seller that is embedded in the buyer's context offer situated services that are relevant to the buyer's specific business context.

In the preceding sections we argued that in firms, competencies infuse resources with value. This is exercised through organizational routines and processes that infuse resources with value. The same also facilitate the utilization of a firm's assets and co-ordinate actions of firms. For instance, higher sales growth has been found in service firms that have low employee quit rates, employee participation in decision making, high skills and human resource incentives (Batt 2002). These factors are indicative of the more elusive, firm-specific competencies that infuse service firms' resources with value. Much of this is tacit and soft (Leonard-Barton, 1995), or know-how (Kogut and Zander, 1993), which is difficult for a firm to gain and apply to facilitate relationship exchange in a market oriented manner (Kohli and Jaworski, 1990; Slater and Narver, 1998; Day, 1994; Kumar, Subramaniam, Yauger 1998). In order to be able to educate buyers, the seller thus has to gain competence concerning the seller, so that the seller can apply its resources to the buyer in a situated manner. This competence may be based on knowledge about buyers' business philosophy and vision, the market and clients, but also the day-to-day decision routines and processes. This, know-how is buyer specific, rare, valuable, causally ambiguous, and consequently difficult to imitate (Wernerfelt, 1984; Barney, 1996; Grant, 1991; Lilman and Rumelt, 1982) and has an advantage over competitors. This advantage, vis-à-vis its competitors, is eroded as the sellers' competence base becomes easy to imitate. For example, the more evident the cause-effect relationship is to outsiders, the easier imitation becomes. On the other hand, the less imitable the competence and knowledge are, the more monopolistic the advantage enjoyed by firms will be. This firm specific advantage may reduce the cost of doing business and increase benefits. By educating buyers, sellers may pursue a value adding strategy towards a buyer and achieve a competitive advantage in costs as well quality (Day, 2000). A Seller that is competent in buyer business makes relationship specific insights about client specific needs and wants and how to educate the buyer. For example, a demonstration of how a service may solve a business problem that is unique to the buyer is far more effective than a standard service problem solution. This is similar to the handling of national accounts needing to be sensitive to local market conditions (Dishman and Nitse, 1998; Yip and Madsen, 1996; Boles, Johnston and Gardner, 1999), and international firms needing to be able to adapt to local markets (Barkema and Vermeulen, 1998).

Hypothesis 2. Buyer education is increased by seller competence.

Accumulating client specific knowledge may have consequences for the seller's competence, because there may be inertia in the buyer's perception of the seller's competence (Levinthal and Fichman 1988). There is thus reason to consider the buyer’s current level of understanding of the seller's service offering and resources as antecedent to seller competence. Support for this presumption is given by that in any buyer-seller exchange asymmetry between the partners may develop as the seller firm is better knowledgeable about resources and routines in the buying firm than potential competitors. As the buyer and seller continue exchange and develop their relationship, they also develop relationship specific assets. Relationship specific assets that have been accumulated between the buyer and seller represents a sunk cost that has little or no value outside of the relationship. The buyer's perception of the relationship specific assets condition their commitment to the seller (Anderson and Weitz 1992). This supports our presumption that buyer understanding of seller's service offering and resources determines the buyer's perception of the seller's competence.

There is other support for that buyer understanding is antecedent to seller competence. For instance, service buyers are exposed to a considerable amount of uncertainty. Uncertainty implies chances of service failure and negative consequences for the service-buying firm, and this can be mitigated by more relationship co-operation (Eriksson and Sharma, 2003). Moreover, as stated by Barney (1996), firms with knowledge that is socially complex and partner specific enjoy a competitive advantage. Also, current relationships supply future co-operation opportunities (Gulati, 1995), and long-term cooperation breeds trust (Zaheer and Venkatraman 1995). There is thus strong support for that current exchange partners enjoy an advantage over their competitors, and that this advantage allow them better ways of meeting the needs of their exchange partners. This is also evidenced in decreasing mortality rates for older relationships (Levinthal and Fichman 1988). Research in services marketing (Crosby, Evans and Cowles, 1990) as well as industrial markets (Dwyer, Schurr and Oh, 1987), show that trust in the counterpart is important for relationship continuity. Trust is particularly important in those service buying situations in which buyer’s are exposed to high levels of uncertainty. To summarize, there are a multitude of factors that serve to promote continuity and development of relationship specific assets in relationships between buyers and sellers.

Considering the inertia and specificity of assets in relationship development, there is reason to consider the buyer's perception of the seller's competence to be a result of the buyer's understanding of the seller's service offering and resources. The buyer needs to have an understanding of the seller’s services, what is offered, how to use a service, and the importance of the products/services for the buying firm. The buyer’s understanding of the seller’s service is largely determined by his/her involvement with and knowledge of the selling firm (Goodman, Fichman, Lerch and Snyder, 1995). At any given time, or level of relationship development, the buyer's understanding of the seller will affect the buyer’s perception of the seller’s competence. We hypothesize that seller competence is increased by buyer understanding.

Hypothesis 3. Seller competence is increased by buyer understanding.

Hypothesized causal model

This paper sets out to demonstrate that the relationship development process can be pro-actively managed. This is done by showing how buyers can be made more loyal by educating them on the unique resources of the seller. However, buyer education is better achieved if the seller is competent within the buyer's business area, thereby being better able to understand how the seller's services can solve business problems that are unique to the buyer. Finally, the seller's competence in the buyer's area is more easily achieved if the buyer understands the service offered by the seller. While the relationship development process can be managed in several ways, this is one way of showing how pro-active management can be achieved.

Insert Figure 1 here

Data and Method

We collected data from buyers of a service. In this case, we chose Bank services. Data was gathered by means of a questionnaire dispatched to all small Swedish firms in the Stockholm area, Sweden; an urban region with a population of 2 million. The total study concerned firms in the Stockholm area with the number of employees ranging from 10-50, corresponding to the EU definition of small firms. The total number of dispatched questionnaires was 569, and the number of replies was 265. 10 respondents, however, did not complete the questionnaire, leaving 255 usable responses. The ratio of mailed questionnaires to usable responses is 44%. Due to non-response of certain groups, bias was checked for by comparing non-respondents to respondents using key statistics such as size and age. No such bias could be detected. The questionnaire was addressed to the person responsible for bank relationships. This often meant that the executive completed the questionnaire and in some cases the chief financial officer.

The statistical method used is LISREL (Jöreskog and Sörbom, 1993), which is a structural equations modeling technique (Bollen, 1988; Hayduk, 1987; Jöreskog and Sörbom, 1993; Jaccard and Wan, 1996). Structural relations are derived in two steps (Anderson and Gerbing, 1988). The validity of a structural model is assessed in a two-step procedure. First, a measurement model of constructs without causal relations between constructs is tested for three key validity dimensions. These dimensions are: convergent validity, which refers to the homogeneity of constructs; discriminant validity, which refers to the extent of separation between constructs; and finally, nomological validity, which refers to the validity of the entire model. When the validity of the measurement model has been assessed, the procedure is then repeated for the structural model with causal relations between latent variables.

The designers of LISREL suggest a number of key statistical values to be used in validity assessment. Since this is a total study, we test how data fit the model, and do not suggest generalizability to a wider sample. To assess convergent and discriminant validity, they suggest the use of factor loadings, t-values and R2 values (Jöreskog and Sörbom, 1993, pp. 5,9,121). Each relation's values are investigated, and they all appear to support convergent validity and discriminant validity. The validity of the constructs used in a structural model can be investigated further by making a measurement model with no causal relations (Jöreskog & Sörbom, 1993 pp. 15-19). A basic requirement is that the correlation between latent variables should be significant, and also that the correlation should not be equal to 1. Unity of correlation can be tested for by forming an approximate confidence interval with the standard error of the correlation between constructs (Jöreskog and Sörbom 1993 p. 19; Bollen, 1988 pp. 190-194). The present study incorporates constructs with two indicators, and the indicators fulfil the conditions of the 'two-indicator rule' for identification of structural equation models (Bollen 1988, p. 244).

Nomological validity is investigated by χ^2 and degree of freedom, which measures distance between data and model, and a probability value, which is a test of a non-significant distance between data and model (Jöreskog and Sörbom, 1993: 120-128). The question of what measures should be chosen for assessment of nomological validity is still being discussed (Bollen and Long, 1993), but as Jöreskog and Sörbom (1993, pp. 121-122) point out, all the other measures suggested are also functions of χ^2. Three frequently mentioned measures are: 1) the GFI, which checks for sample size effects, and should be above 0.90; 2) the RMSEA, which measures population discrepancy per degree of freedom, and should be below 0.08; 3) the CFI, checking for non-normal distributions, and should exceed 0.90 (Murtha, Lenway and Bagozzi, 1998; Bollen, 1988).

Construct Validity

The constructs used as building blocks in the structural model are all discriminately, convergently, and nomologically valid in a measurement model. The correlation matrix and descriptive statistics can be found in the appendix. For the sake of clarity, the construct validity discussion below uses the figures from the structural model in Figure 2. The interested reader can have a look at the structural model from the appendix.

Loyalty is defined above as repeated purchase behaviour and represents an attitude of foreclosing alternative exchange partners. Two indicators are used to make sure that respondents' usage of the term 'loyal' corresponds to our theoretical definition. The first asks the buyer explicitly if (s)he becomes more loyal as a result of the value added by the bank. The expression 'loyalty' is used in ordinary language, and is defined as the quality of a state or an instance of being loyal (Encyclopedia Britannica dictionary). The word 'loyal' is defined as: 1)unswerving in allegiance, faithful in allegiance to, and faithful to a counterpart to whom fidelity is due. These definitions would indicate that the respondent who considers him- or herself loyal to the bank also considers him- or herself faithful to that bank. This means that the wording of the question on loyalty implies repeat purchases, and the foreclosing of alternatives. The second indicator asks if the buyer benefits the seller's bank before others due to the value added by the bank. The indicators complement each other since the first contains the respondent's usage of the word 'loyal', and the other corresponds to the foreclosing of alternatives. The foreclosing of alternatives represents the comparison level of alternatives, as suggested by the social exchange theory based definition of loyalty. The indicators are valid to the buyer loyalty construct, since the factor loadings are high (0.86 and 0.89), the t-value for the non-standardised indicator is 8.05, and the R2-values are 0.75 and 0.78. To further test the validity of the construct, it was checked that modification indices did not add significant model improvement if constructs loaded on other than the designated indicators. This was checked for both the measurement and the structural model with causal effects between variables. Finally, in the measurement model, an approximate confidence interval around the construct correlation estimates was formed with the standard error, and since this interval did not include 1, unity of correlation could be excluded. See Appendix.

Insert Table 1 here

The buyer education construct captures the buyers' perception of how pro-actively and innovatively the bank educates or entices them to learn more about how to use their services. The indicators concern the banks' introduction of new services or other possibilities, referring to the way banks extend their service offering. The second indicator concerns whether the bank helps the buyers become more competent service buyers, which emphasises the banks' education of the buyers to become better at utilizing the bank as a resource. Together, these two indicators are summed up by a construct that can be interpreted as the bank's active education of the buyer to become more competent at utilizing the banks resources. This does not necessarily restrict itself to the service offering, but may concern knowing what buyer needs the bank can solve through non-routine advisory services. The indicators are valid to the buyer education construct, since the factor loadings are high (0.68 and 0.77), the t-value for the non-standardised indicator is 10.14, and the R2-values are 0.46 and 0.59. To further test the validity of the construct, it was checked that modification indices did not add significant model improvement if the construct loaded on other than the designated indicators. This was checked for both the measurement and the structural model with causal effects between variables. Finally, in the measurement model, an approximate confidence interval around the correlation estimate was formed with the standard error, and since this interval did not include 1, unity of correlation could be excluded.

The seller competence construct captures the buyer's perception of the seller's competence through their ability to make good business propositions that solve a need for the firm. The indicators concern the buyer's perception of the seller's competence for making business proposals, and the seller's understanding of buyer business with customers. The indicators thus reflect both how the buyer assesses the seller's competence on a more general basis, and how the seller understands the buyer's business context. Seller awareness of buyer context is an indicator of the seller's ability to understand the value added by his or her own services in the buyer's context. The indicators are valid to the seller competence construct, since the factor loadings are high (0.90 and 0.84), the t-value for the non-standardised indicator is 20.93, and the R2-values are 0.80 and 0.71. Further validity tests checked that modification indices did not add significant model improvement if constructs loaded on other than the designated indicators. This was checked for both the measurement and the structural model with causal effects between variables. Approximate confidence intervals around the construct correlation estimates were formed with the standard error, and since this interval did not include 1, unity of correlation could be excluded.

Buyer understanding concerns the buyer's ease of use and understanding of the seller's services. The indicators concern the buyer's ease of use and understanding of bank services. The second indicator concerns the buyer's understanding of what the bank can offer the firm. Together, these indicators concern not only the user friendliness of the service offering, but also the resources that the seller can offer. The indicators are valid to the buyer understanding construct, since the factor loadings are high (0.80 and 0.73), the t-value for the indicators are 18.71 and 5.95, and the R2-values are 0.64 and 0.53. To further test the validity of the construct, it was checked that modification indices did not add significant model improvement when constructs loaded on other than their designated indicators. This was checked for both the measurement and the structural model with causal effects between variables. Finally, in the measurement model, an approximate confidence interval around the correlation estimate was formed with the standard error, and since this interval did not include 1, unity of correlation could be excluded.

Results

The hypothesized relations stipulate a buyer learning chain, where buyer loyalty is achieved if the buyer is educated by competent sellers on easily understandable services. The model is nomologically valid since the model statistics are good. Model χ^2 is 21 with 17 degrees of freedom and has a probability estimate of 0.22. The other measures of model fit are also good since the RMSEA is 0.031, the GFI is 0.99, and the CFI is 1.00.

Insert Figure 2 here

The results in Figure 2 show that buyer loyalty is increased by seller education of buyer (coefficient is 0.47, with t-value 5.11), which confirms hypothesis 1. This means that buyers become more loyal if the seller educates them to become more competent buyers.

Buyer education is increased by seller competence (0.87, 10.10), which supports hypothesis 2. Apparently, sellers that are more competent can more easily educate buyers. Seller competence can be improved through the understanding of the buyer’s customers. H3 is thus supported.

Seller competence is facilitated through the buyer’s understanding of the service offering (0.84, 15.18). The ease with which the buyer comprehends the service offering provides a base for subsequent buyer loyalty development.

There is a way of estimating the indirect effect that the independent construct has on those dependent constructs that are not directly effected by the independent construct. Such an indirect effect of buyer understanding on loyalty is 0.34(t-value is 4.97), which means that buyer understanding facilitates the changes leading to buyer loyalty. In a similar way, seller competence indirectly leads to buyer loyalty at the factor coefficient of 0.41(5.24). Finally, buyer understanding has an indirect effect of 0.73 (8.78) on buyer education. All these indirect effects support a causal chain by which buyers become more loyal the more they are educated on the seller's offering and capabilities. The more competent the seller is on offering services that are relevant for the buyer's business, the more educated the buyer becomes on the seller's offering and capabilities. As the starting point for this causal chain, the easy use and understanding of the seller's services determines the way in which the seller can offer services relevant for the buyer's business.

Discussion

In this paper, we have presented a model for pro-actively developing loyalty in buyer-seller relationships. There may be many ways to achieve this, and the present model shows that buyers can be educated to become more loyal. We developed and tested three hypotheses. All the three hypotheses were supported. The model shows how buyer loyalty can be induced by the seller’s educating the buyer. The education focuses application of seller service to increase value in the buyer’s specific context. Such context specific buyer education is better achieved by sellers that are more competent and knowledgeable about the unique buyer context.

Finally, the seller’s competence is easier to improve the better the buyer understands the seller’s service offering.

The chain of events leading up to the buyer becoming more loyal demonstrates one way of pro-actively managing relationship development. As such, it supports that the seller’s market orientation is likely to have the anticipated effect on the buyer. The outcome of the education is increased loyalty service exchange relationship. However, it seems very likely that the same kind of buyer education would change buyer behaviour in many other areas. Such areas may include buyer satisfaction, repeat purchase, long-term orientation, increased purchase, and commitment, among others. The effectiveness of buyer education in changing a certain buyer’s attitude or behaviour may be different and needs to be studied further. The fundamental principle of buyer education is that the seller can teach the buyer more effectively, the more the buyer can convert the offering into a value increase for the buyer in his/her context.

The results presented in this paper serve as an illustration of one way to concretely manage relationships. Needless to say, it is a reductionist approach. Relationship development is a reciprocal process that includes many dimensions, one way to maintain or enhance this process, however, is to focus on one single causal chain as illustrated by this paper. Presumably the education of buyers will activate other dimensions of relationship exchange. Further research could investigate these new dimensions. It may be reasonable to consider how buyers can contribute to the exchange in other ways. According to Lengnick-Hall (1996), the buyer may take on the roles of: resource, co-producer, buyer, user and product. Future research could study how the buyer’s different roles change with their level of education on the seller firm's ability to add value. For instance, if the buyer provides resources in the form of information and assets, then the buyer could be educated on the value provided by the seller in refining these resources. By better knowing what value the seller adds, the buyer is more likely to try to deepen the relationship with the seller. The co-production with buyers is dependent on their ability to understand how to use the seller's resources as effectively as possible. If buyers and sellers are effective partners in co-production, then they probably add value to each other and their respective other business partners. The buyer as a user of the product will be more satisfied, the more he is educated on how to use the seller's offering. The buyer adapts his expectations and experiences of the product to the perceived quality of the seller’s production and delivery of the same. Perhaps this user perspective is most likely to call for a pro-active management of the buyer's comparison level of products. According to social exchange theory, these comparison levels determine how the buyer chooses to engage in exchange relationships. When the exchange that takes place in cooperation, it alters both the buyer’s and the seller’s perceptions of each other; the buyer him- or herself becomes a product. The perspective of the buyer as a product concerns the way in which the buyer education changes the buyer's knowledge of how to use the seller in the future. Presumably, this involves extension of business to other areas than those in which business is currently done. Presumably, each of the roles assumed by the customer, as discussed above, has certain implications for how the buyer can be educated. Further research should be conducted to develop this aspect.

An ongoing debate in the strategy literature concerns whether deeper relationships limits a firms strategic vision, and makes it more difficult for the firm to re-focus on more innovative buyer needs (Daneels 2003, Kyriakopoulos and Moorman 2004). This is an issue that needs further investigation in light of the findings in this paper. The seller that educates their buyers will need to develop a competence on the sellers context. To be able to give situated sales is central to being perceived as a competent seller by the buyer. The seller that understands the buyers business is also likely to detect new business opportunities, and to the extent that the selling firm can capitalize on these new business opportunities, the seller may become innovative. However, more research is needed to understand how relationship development and managerial scope relate to each other. Does deep relationships lead to innovation, or do they narrow the scope of strategic management?

Another improvement that could be made in the future is to measure behavioural data and attitudes. Even though there is a strong argument for attitudes reflecting behaviour (Ajzen and Fishbein, 1980), there is still a need to get a firmer grasp of the detailed links between behaviour and attitudes. It would also be good to build on the present findings to include dyads of sellers and buyers, in order to more clearly link the selling firm's capabilities to the buyers'. Adaptations are resource consuming and relationship development has probably got some cost effectiveness to it, but this is at present not well known (Storbacka, 1995).

Our model does not contradict other models of buyer loyalty. Past research shows that a number of factors lead to buyer loyalty. We contribute to this growing and important field of research. The discussion shows that loyalty is a complex phenomena, and that no single factor can explain buyer’s loyalty to sellers. A fruitful approach would be to employ a contingency approach. Also, most of the published research on loyalty is statistical and quantitative. However, there is reason to believe that loyalty development is a dynamic and reciprocal process. To uncover the dynamic aspects of loyalty development, a qualitative approach is suggested.

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Appendix. Correlation Matrix and descriptive statistics.

Variable	Mean	Std. deviation	Polychorich Correlation							
BUYER LOYALTY	3.4	1.6	1.000							
BUYER PREFERENCE	3.2	1.7	0.723	1.000						
BUYER PROPOSAL	3.8	1.7	0.205	0.247	1.000					
BUYER COMPETENCE	4.1	1.5	0.238	0.271	0.544	1.000				
SELLER COMPETENCE	3.8	1.7	0.307	0.317	0.500	0.537	1.000			
SELLER UNDERSTANDING	3.7	1.7	0.325	0.247	0.385	0.488	0.723	1.000		
BUYER USE	3.3	1.5	0.222	0.247	0.369	0.381	0.571	0.525	1.000	
BUYER UNDERSTANDING	3.2	1.6	0.251	0.280	0.399	0.432	0.458	0.426	0.531	1.000

Correlation Matrix of constructs (with standard error and t-values in parenthesis).

Construct	Correlation			
Buyer loyalty	1.000			
Buyer education	0.39 (0.09; 4.43)	1.000		
Seller competence	0.41 (0.08; 5.25)	0.77 (0.06; 12.92)	1.000	
Buyer understanding	0.40 (0.09; 4.43)	0.71 (0.10; 7.50)	0.80 (0.06; 13.97)	1.000

Figure 1. Structural Model of Buyer education.

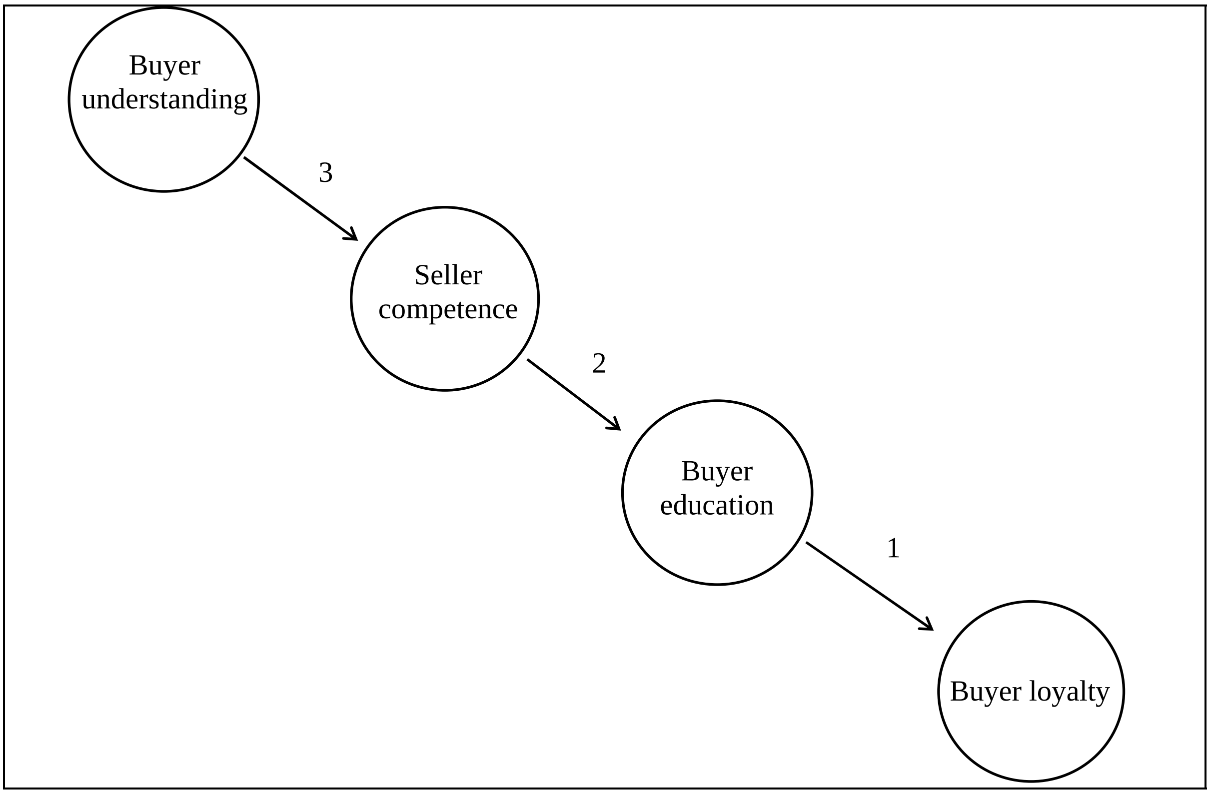
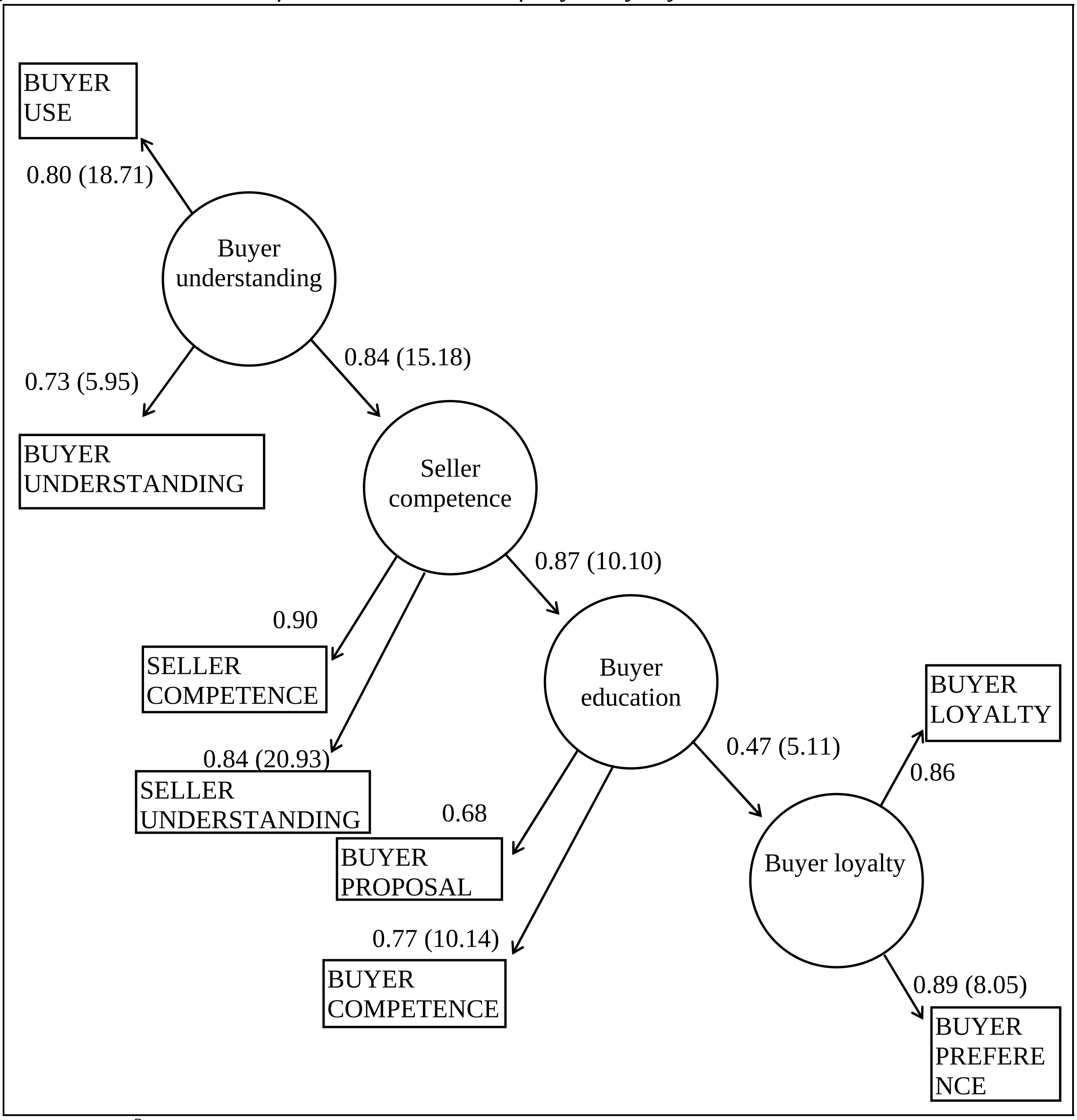


Table 1. The Indicators for Constructs.

Indicator (wording is the same as in questionnaire)	Abbreviation in Figure 2	Factor Loading	T-value	R^2-value
Buyer loyalty				
I become more loyal from the value added by the bank. <7-point scale ranging from fully disagree to fully agree>	BUYER LOYALTY	0.86	-	0.75
I benefit my Bank before others because of the value added to me by the Bank. <7-point scale ranging from fully disagree to fully agree>	BUYER PREFERENCE	0.89	8.05	0.78
Buyer education				
The business relationship with the Bank is characterized by the Bank suggesting new services or other opportunities. <7-point scale ranging from fully disagree to fully agree>	BUYER PROPOSAL	0.68	-	0.46
The business relationship with the Bank is characterized by the Bank helping us to become more competent service buyers. <7-point scale ranging from fully disagree to fully agree>	BUYER COMPETENCE	0.77	10.14	0.59
Seller competence				
The business relationship with the Bank is characterized by the Bank representative having the relevant competence to make business proposals. <7-point scale ranging from fully disagree to fully agree>	SELLER COMPETENCE	0.90	-	0.80
The business relationship with the Bank is characterized by the Bank understanding our business with our customers. <7-point scale ranging from fully disagree to fully agree>	SELLER UNDERSTAND ING	0.84	20.93	0.71
Buyer understanding				
The business relationship with the Bank is characterized by us finding it easy to understand and use Bank services. <7-point scale ranging from fully disagree to fully agree>	BUYER USE	0.80	18.71	0.64
The business relationship with the Bank is characterized by us understanding what the Bank can give our Firm. <7-point scale ranging from fully disagree to fully agree>	BUYER UNDERSTAND ING	0.73	5.95	0.53

Figure 2. Structural model for seller education of buyer loyalty.



Note: Model χ^2 is 21 with 17 degrees of freedom and has a probability rate of 0.22. RMSEA is 0.031, GFI is 0.99, CFI is 1.00. The figures are factor loadings with t-values in parenthesis.