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INFLUENCE OF SERVITIZATION ON CUSTOMER RETENTION: A STUDY OF SELECTED LIFE INSURANCE FIRMS IN WESTERN KENYA

Oluoch Luke
Department of Business and Economics, Kisii University, P.O Box 408-40200, Kisii, Kenya
oluochluke@gmail.com

Yussuf Motari Okari, PhD
Department of Business and Economics, Kisii University, P.O Box 408-40200, Kisii, Kenya
ymotari@kisiiuniversity.ac.ke

Caleb Akuku, PhD
Department of Business and Economics, Kisii University, P.O Box 408-40200, Kisii, Kenya
cakuku@kisiiuniversity.ac.ke

Abstract

The study examined the influence of servitization on insurance client retention in Western Kenya, focusing specifically on selected life insurance firms. The Identify, Differentiate, Interact, and Customise (IDIC) Model was employed to guide the research. A descriptive research design was adopted, and 305 insurance firm managers were sampled from a target population of 1,290 using simple random sampling. Data were collected through a structured, self-administered questionnaire and analysed using simple linear regression. The study found a significant relationship between servitization and customer retention. Based on these findings, the study recommends that insurance firms invest in tailored service offerings and actively address digital literacy challenges among policyholders. The study recommends cross-sector comparisons to gain insights into best practices for improving customer retention through servitization.

Keywords: Servitization, Customer, Retention, insurance services, Insurance products

INTRODUCTION

Servitization denotes the integration of services into traditional product offerings. This concept is especially common among businesses whose primary outputs are physical goods. It often manifests through offerings such as financing, training, and after-sales support, which help build trust and foster long-term customer relationships. Servitization is designed to address concerns around reliability and access to service, thereby enhancing customer attractiveness and retention (Baines et al., 2009; Gebauer et al., 2010).

Models of Servitization include access-based approaches like pay-per-use or leasing of products. These models are particularly effective in Africa, where income variability and limited capital are prevalent. Companies such as Hello Tractor and M-KOPA exemplify how bundled service offerings, ranging from solar energy systems to agricultural machinery, can improve accessibility and encourage sustained customer engagement (Bateman et al., 2021). These models help reduce financial barriers while enhancing customer satisfaction and retention.

In the insurance sector, servitization is reshaping traditional business models by shifting the focus from one-time policy sales to ongoing, value-added service relationships. Insurers now deploy digital platforms for real-time risk monitoring, offer personalized wellness programs, and provide proactive support services such as roadside assistance and health coaching, Swiss Re Institute. (2023). These service-oriented models improve the customer experience and foster a sense of continuous engagement, which is vital for retention. By positioning themselves as long-term partners in risk management rather than mere policy providers, insurers can build stronger trust and loyalty, especially in markets where customer churn is high and competition is intensifying (Porter & Heppelmann, 2015; Reis et al., 2018).

Theoretical frameworks such as the Identify, Differentiate, Interact, and Customize (IDIC) model by Peppers and Rogers (2001) provide valuable guidance for implementing servitization strategies. This model emphasizes the use of customer data to offer personalized and interactive services, which are critical for building strong, lasting customer relationships. As Siddiqi (2002) suggests, such relationship-based approaches enhance customer satisfaction and retention by addressing individual preferences and fostering continuous engagement. By adopting servitization in line with IDIC principles, insurance firms in Kenya’s Western and Nyanza regions can potentially improve customer loyalty, reduce churn, and create long-term value in a competitive and service-driven marketplace.

EMPIRICAL LITERATURE

Empirical studies have employed a range of methodologies, including experiments (Tosun & Tosun, 2024), case studies (Chiu et al., 2023), and structural equation modelling (Behl et al., 2023) to investigate the effects of servitization across sectors such as fashion, manufacturing, and mobile commerce. For example, Tosun and Tosun (2024) used experimental methods in the fashion industry to show that value-added services like repair and maintenance enhance perceived quality and customer intentions, particularly among frugal consumers. In the manufacturing sector, Behl et al. (2023) applied structural modeling to reveal that digitalization and customer co-creation significantly strengthen the link between servitization and innovation performance. Similarly, Huang (2024) demonstrated through survey-based analysis that digital servitization in mobile commerce positively influences customer engagement and loyalty, with mediators such as product involvement, perceived value, and self-consistency playing key roles. Despite these insights, existing research still lacks longitudinal designs and cross-cultural comparisons, limiting a broader understanding of the long-term and global applicability of servitization strategies.

Empirical studies across various sectors in Kenya have explored the relationship between servitization strategies and customer retention, employing diverse methodologies and focusing on different service quality dimensions. In the banking sector, Langat et al. (2021) utilized an explanatory research design with multistage sampling to collect data from 400 university staff in Nairobi, analyzing the effects of mobile banking service quality on customer retention. Their findings indicated that both service quality ($\beta = 0.565$, $p < 0.001$) and perceived customer value ($\beta = 0.363$, $p < 0.001$) significantly influence customer retention, with perceived value mediating the relationship between service quality and retention. Similarly, in the hospitality industry, Achieng and Pepela (2023) conducted a descriptive study targeting customers of 15 classified hotels in Mombasa County, revealing a significant positive relationship between service integrity and customer retention

In the automotive sector, Muchiri et al. (2023) conducted an explanatory study involving a census of 400 top management team members from 63 automotive companies in Kenya. Using multiple linear regression analyses, they found a moderate correlation ($r = 0.556$) between aftersales service strategies and competitive advantage, with 30.9% of the variance in competitive advantage explained by these strategies. Additionally, Lagat (2021) employed a descriptive research design to assess the impact of service quality on customer loyalty in Kenya's automotive industry, finding that dimensions such as tangibles, reliability, responsiveness, assurance, and empathy positively influence customer loyalty.

While these studies collectively underscore the importance of servitization strategies in enhancing customer retention, they also exhibit methodological differences and sector-specific focuses. For instance, banking sector studies emphasize the mediating role of perceived value and corporate image, whereas the automotive sector research highlights the direct impact of aftersales services on competitive advantage and customer loyalty. A notable gap across these studies is the limited exploration of the long-term effects of servitization strategies on customer retention and the lack of cross-sectoral comparative analyses. Future research could address these gaps by employing longitudinal designs and comparative frameworks to better understand the dynamics of servitization and customer retention across different industries in Kenya

METHODOLOGY

Research Design and Sampling

The study adopted a descriptive research design, which enabled the researchers to establish the relationship between servitization and customer retention. It was conducted among insurance firms located in the western region of Kenya, targeting 1,290 respondents from 20 companies, specifically unit managers (878) and agency managers (412). A sample size of 338 was determined using Yamane's (1969) formula and selected through simple random sampling.

Data Collection

The data was collected using a structured questionnaire based on a five-point Likert scale. Before data collection, approval was obtained from NACOSTI, and the instrument was self-administered. Both validity and reliability thresholds were met.

Data Analysis and Presentation

The data was analysed using SPSS version 25. Descriptive statistics (means, frequencies, percentages) and inferential statistics (Pearson correlation and regression analysis) were applied. Regression analysis was used to test the hypothesis. Results were presented in tables and figures. The study was conducted in December 2024, yielding a response rate of 305 (91%), which was considered appropriate, sufficient, and adequate for analysis. This high response rate aligns with Mugenda and Mugenda (2013), who assert that a response rate of 60% and above is very good for analysis.

FINDINGS

Simple linear regression was conducted to examine the relationship between servitization and customer retention, with the model summary presented in Table 1.

Table 1 Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.641	0.411	0.349	1.48431

Results show that servitization moderately relates with customer retention as shown by R value of 0.641. The coefficient of determination represented by R square value was 0.411 implying that 41.1% of variation in customer retention amongst the insurance firms can be accounted by servitization. Furthermore, the model fit was tested in Table 2.

Table 2 ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	139.101	1	2.8118	10.7198	0.006
Residual	49.471	303	0.2623		
Total	188.572	304			

Results show that the significance value was 0.006. The value was less than 0.05 implying that the model linking servitization with the customer retention was statistically significant thus a good fit for the study. Finally, the significance was tested as shown in Table 3.

Table 3 Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	0.612	0.139		4.4029	0.000
Servitization	0.346	0.168	0.294	2.0595	0.012

Results show that servitization bears a positive and significant effect on customer retention among life insurance firms in Western and Nyanza regions. This is depicted by a beta value of 0.346 and a significant value of 0.012<0.05. The results bear the implications that increasing servitization practices with one unit results in an increase of 0.346 units in the levels of customer retention among life insurance firms in Western and Nyanza regions. The results tally with findings from Osei and Nketsia (2019), who established a positive relationship between servitization practices and customer retention. The findings suggested that customers who received personalized services were more inclined to maintain long-term relationships.

These findings are consistent with broader empirical evidence, which reinforces the role of servitization in enhancing customer retention across sectors. Similar to studies in Kenya's banking and automotive sectors, where some of the servitization strategies such as aftersales services were found to significantly affect customer retention (Langat et al., 2021; Muchiri et al., 2023), the insurance sector is also likely to benefit from tailored service offerings that enhance client satisfaction and trust. Globally, studies such as those by Tosun and Tosun (2024) and Huang (2024) demonstrate that servitization improves perceived quality and customer retention, further supporting the hypothesis that service-based innovations can drive retention. However, unlike experimental or technology-driven global studies which often focus on digital platforms or product-based industries, the insurance context in Western Kenya may face unique challenges such as low digital literacy or infrastructure gaps, which could influence how servitization strategies are received and implemented. This highlights the need for context-specific research that considers regional service expectations and delivery capacities.

CONCLUSION

This study confirms a moderate yet statistically significant relationship between servitization and customer retention in life insurance firms within Kenya's Western and Nyanza regions. The results show that 41.1% of the variance in customer retention can be explained by servitization, with a positive and meaningful impact on loyalty. The findings align with other studies in the banking and automotive sectors that reinforce the broader applicability of servitization in enhancing customer retention. Nevertheless, challenges such as low digital literacy and infrastructure gaps in the region may limit the effectiveness of these strategies.

RECOMMENDATIONS

Based on the findings, insurance firms are expected to tailor service-based offerings to local needs, emphasizing mobile-friendly platforms to reach clients with varying levels of digital literacy. The study also recommends that investing in customer education and simplified communication can bridge the established knowledge gaps, while strengthening after-sales support and using customer data to personalize services will foster greater loyalty.

On the policy front, government efforts should focus on improving ICT infrastructure and supporting digital literacy programs to create an enabling environment for service innovation. Additionally, regulatory incentives for firms that adopt inclusive servitization models, alongside public-private partnerships and regular evaluation of service innovations, will further support sustainable customer retention strategies across the insurance sector. Furthermore, the study recommends further research based on cross-sector comparisons that can provide valuable insights into best practices for enhancing customer retention through servitization.

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