

# A Call for Customer Loyalty in Indian Telecom Market

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## Abstract:

This paper aims to study and identify the determinants of customer loyalty in the dynamically changing telecom market in India. In the present cellular market structure the cellular service providers are facing a big problem of churning the mobile phone subscribers. As mobile number portability facilitates the users to change the operator without changing the number. This study based on the various happenings in the Indian telecom market. The data is also collected by discussion with the experts in the field of telecom and the secondary data played a major role in attaining the objectives of the study. The telecom industry is shifting its strategic focus on retaining existing customers than attracting new ones. This paper investigates the relationship between customer satisfaction & loyalty, the various dimensions of customer loyalty through its types like behavioural loyalty & attitudinal loyalty and degree of loyalty.

**Keywords:** Mobile; Customer loyalty; Customer satisfaction; MNP, Telecommunication

## Introduction

This seminar paper aims to study and identify the scope of customer loyalty in the telecom market in India.

The telecom market of India has changed drastically since mid 1990s. In the later time globalization of competition and saturation of telecom market have improved customer awareness and brought a situation where enduring success is no longer achieved through optimised price and qualities. From the previous studies, it can cost as much as six times more to win a new customer than it does to keep an existing one. Thus, the main emphasis in marketing has shifted from attracting new customers to the retention of existing ones.

## Objectives

To study the various levels of customer loyalty in telecom market

To study the factors affecting the customer loyalty

To study the relationship between customer satisfaction & loyalty

### ***The telecom market in India***

Since the late 1990s, wireless technologies and liberalization of telecommunications market caused tremendous growth of information and communication technology (ICT). In later time cellular telephony has changed from simple voice and text services to innovative applications and wireless broadband Internet.

The Indian telecom industry accelerated in 1881 when the telephone services offered to the general public. The first telephone exchange was established connecting Kolkata, Ahmadabad, Mumbai and Chennai. In 1948, the tele-density was just about 0.02 as only 0.1 million telephone connections were established in India. At the end of July 2012, the total telecom subscriber base including wire line and wireless phones stood at 944.81 million with a tele-density of 77.79.

The total wireless subscriber base in the metros and 'A' circle at the end of July 2012 stood at 425.36 million, while the total subscriber base in the 'B' and 'C' category circles stood at 363.12 million and 124.99 million respectively. The wireless tele-density in the country at the end of July 2012 was 75.21. The urban wireless tele-density increased to 157.11, while the rural wireless tele-density at the end of July 2012 increased to 39.54.

### ***Growth of Telecom Sector***

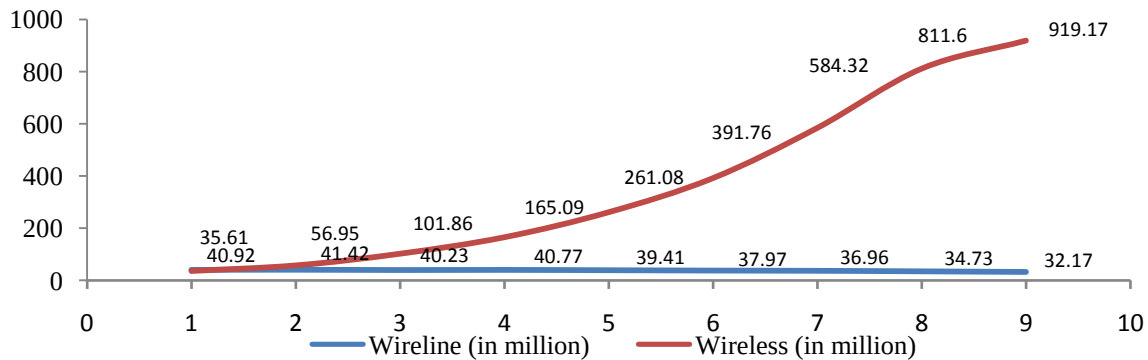
The opening of the sector has not only led to rapid growth but also benefited the consumers through low tariffs as a result of intense competition. Telecom sector has witnessed a continuous rising trend in the total number of telephone subscribers. From a mere 22.81 million telephone subscribers in 1999, the number increased to 944.79 million at the end of July, 2012. This is shown in Table-1,

**Table-1 Growth in telephone subscribers (in million)**

| Year     | Mar.04 | Mar.05 | Mar.06 | Mar.07 | Mar.08 | Mar.09 | Mar.10 | Mar.11 | Mar.12 |
|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Wireline | 40.92  | 41.42  | 40.23  | 40.77  | 39.41  | 37.97  | 36.96  | 34.73  | 32.17  |

|                 |       |       |        |        |        |        |        |        |        |
|-----------------|-------|-------|--------|--------|--------|--------|--------|--------|--------|
| <b>Wireless</b> | 35.61 | 56.95 | 101.86 | 165.09 | 261.08 | 391.76 | 584.32 | 811.60 | 919.17 |
| <b>Total</b>    | 76.53 | 98.37 | 142.09 | 205.87 | 300.49 | 429.73 | 621.28 | 846.33 | 951.34 |

(Source: Annual Report, Dept. of Telecom, Government of India 2010-11, 2011-12 & TRAI Press Release No. 179/2012, 7<sup>th</sup> Sept. 2012)



## What is Customer Loyalty?

Previous studies on customer loyalty mainly Jones and Sasser (1995) focus on behavioural definitions of loyalty like repurchase intention or switching intention and formulate no difference between customer retention and customer loyalty. In the telecom setting the customer retention is defined as the intention to stay with the current network provider whereas customer loyalty is defined as the intention to maintain the business relationship with the current network operator and this behavioural intention is accompanied by a positive attitude towards the operator manifested as the intention to recommend the operator to others.

As stated by Kandampully and Suhartanto (2000) practitioners and researchers have not clearly identified a theoretical framework, identifying factors that could lead to the development of customer loyalty. The lack of theoretical models together with the facts, that customer loyalty still has a large scope for research. Reichheld and Sasser (1990), focused that there is a lack of consistency in how loyalty should be defined and measured because of its complexity. Under the behavioural approach stated by Hallowell (1996), customer loyalty is defined in terms of obvious behaviour like frequency or proportion of purchase.

## **Customer Loyalty in Indian Telecom Market**

In the telecom market, churn is used as the major indicator of customer loyalty by network operators. The Churn refers to the rate at which cellular operators lose their customers over a given period of time, usually expressed as a monthly percentage. It is measured as the number of subscribers lost in a certain period divided by the base number of subscribers. Churn can be involuntary or voluntary. The involuntary churn occurs when the network operator initiates the termination of a customer, usually due to fraud or bad debt while as the voluntary churn, on the other hand, is initiated by the customers.

### ***Mobile Number Portability (MNP)***

In January 2011 Indian telecom sector experienced the facility of number portability through the mobile phone users. Mobile number portability enables the subscribers to retain their phone number when switching from one cellular operator to another and thereby removing operator dependence. It is generally believed that mobile number portability can enhance competition by removing major switching barriers and bring economic benefits to the mobile users. The introduction of Mobile Number Portability (MNP) in India has made the Indian Telecom market more competitive in terms of service offerings and quality. The mobile number portability figures as on August 2011 were 180.59 lakh requests and those increased to 206.29 lakh subscribers at the end of September 2011. The MNP impacts on loyalty of the subscribers and gear-up the competition.

## **Customer loyalty - a two-fold concept**

The concept of loyalty can be defined as the tendency for an individual to continue over time to exhibit similar attitude in situations similar to those he/she has previously encountered.

There are two types of loyalty i.e. behavioural & attitudinal loyalty. Behavioural loyalty is important for a cellular operator in order to generate profitability and attitudinal loyalty is important for a cellular operator in order to build up exit barriers for the mobile phone subscribers.

Jacoby and Kyner, (1973) focuses Customer loyalty can be viewed in two distinct ways. The first views loyalty as an *attitudinal*. The mobile phone user's overall attachment to a cell service or cellular operator defines its degree of loyalty. The second view of loyalty is *behavioural*. Thus, as per Julander *et al.*, (1997) there are two dimensions to customer loyalty i.e. behavioural and attitudinal. The behavioural

dimension refers to a customer's behaviour on repurchases, indicating a preference for a brand or a service over time. Attitudinal dimensions refer to a customer's intention to repurchase and recommend.

| Constraints                 | Observed Performance                                                           |
|-----------------------------|--------------------------------------------------------------------------------|
| <i>Extension</i>            | How long you have been a customer?                                             |
| <i>Frequency</i>            | How often you shop from the cellular service provider?                         |
| <i>Depth</i>                | Does the customer buy several different services from the same operator?       |
| <i>Share</i>                | How much of the customers total behaviour benefit the same operator?           |
| <i>Retention rate</i>       | The share of customers that is loyal to a operator during a given time period. |
| <i>Non-buying behaviour</i> | Positive word of mouth about the cellular operator.                            |

The emotional loyalty can be described as feelings customers have towards the operator that make them, of free will, want to return to the store.

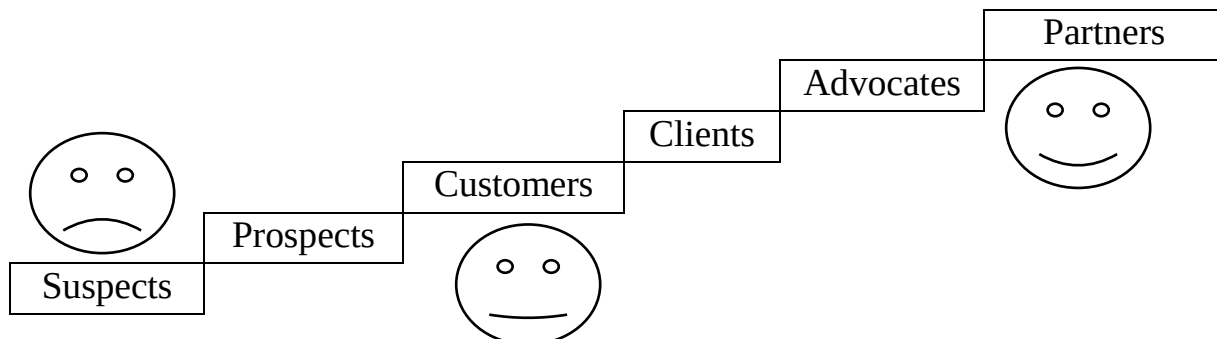
| Constraints | Observed Performance                                             |
|-------------|------------------------------------------------------------------|
| Intention   | To repeat & repurchases the products in the future               |
| Attitude    | To exert favourable attitude towards the cellular operator       |
| Preferences | To give preferences to the various products of the same operator |
| Effort      | To make efforts to continue being a customer                     |

## Levels of Loyalty

A customer loyalty reflects when he/she;

- makes regular purchases
- purchases across product and service lines
- refers others to purchase
- resist to the pull of the competition.

*The degree of customer loyalty can be seen as follows:*



**Suspects:** Includes all the buyers of the products/service category in the marketplace. Suspects are either unaware of your product offering or have no inclination to purchase it. In the telecom market all the cell phone users & non users can be considered as suspects.

**Prospects:** Potential customers who have some attraction towards your organization but have not taken the step of doing business with you. In the prospects the cell phone users having knowledge about the available cellular operator and their services are considered as prospects.

**Customers:** One-off purchasers of your product (also include some repeat buyers) who have no real feelings of affinity towards your organization. The single SIM purchased by the customer at once can be called as customer, use of service is also at the base level.

**Clients:** Repeat customers who have positive feeling of attachment towards your organization but whose support is passive rather than active, apart from making purchase. This type of cell phone users are purchasing the various services of the cellular operator and not are passive.

**Advocates:** These are the clients who actively support the organization by recommending it to others. These types of cellular subscribers not only use the products but also motivate others to purchase the same.

**Partners:** The strongest form of customer – supplier relationship which is sustained because both parties see partnership as mutually beneficial. This type of customers are strongly related to the cellular operator and get benefited mutually i.e. some corporate customers can have tie ups to the operators.

## **Customer Satisfaction increases Loyalty**

After interviewing the representatives of the cellular operators and searching the available secondary data, most of the researchers found that customer satisfaction is the predictor of customer loyalty (Leverin and Liljander, 2006). There is a strong positive correlation between customer satisfaction and customer loyalty (Donio *et al.*, 2006). Customer loyalty can be operationalised as the readiness to reselect the same cellular operator and the readiness to recommend the operator to others. Customer

satisfaction was measured as mobile users' evaluative perceptions on key value drivers, like network quality, price and customer care etc. The correlation between customer satisfaction and loyalty was moderately high.

In the present settings of mobile number portability, that enables mobile telephone users to retain their mobile telephone numbers when changing from one network operator to another. Thus customer loyalty gets highly affected. The current Indian telecom market the competition is at cut throat level, the customers who are less sensitive to price variation are more likely to stay with their current operator and the same is true for the customers who perceive that the price they are paying for service is fair and reasonable.

### ***Economic benefits of customer loyalty***

A loyal customer base also contributes to an improvement in a company's profitability through the reduction in total acquisition costs. With a loyal customer base, there is less need to replace defecting customers. As a result, the acquisition costs such as costs of advertising, sales and marketing to entice new customers as well as the administrative costs incurred in setting up new accounts will be reduced. The loyal customers are less costly to serve. Compared to newly acquired customers, long-time customers need less administrative and technical support as they are more familiar with the company's operation.

### **Factors affecting customer loyalty**

There are a number of factors which affects customer loyalty. In the present time the telecom sector is facing immense competition with introduction of new cellular operators, enhance communication technology and the supporting services like mobile handsets etc. The collective result of all this is the falling in customer loyalty. When going for finding the customer loyalty, it can be understood that the following factors are keeping major hold on customer loyalty specifically in the service sector like mobile phone services,

**Trust on the service provider:** The mobile phone users if having trust in their present cellular operator can be more loyal in using the services.

**Demographic characteristics of users:** This is the most influencing factor for customer loyalty as the age group of the user shows that the customer loyalty is directly proportional to the age of the user,

similarly the income group also affects the loyalty as the lower income group cell phone users are less loyal than the higher income group, higher the education less incidents of switching the cellular operator.

**Tolerance of dissatisfaction:** The users having high level of tolerance towards the dissatisfaction caused by service of the cellular operator is also impact on the customer loyalty, as the lower level of tolerance causes the switching of cellular operator.

**Price:** the price is also affects the loyalty as higher the price of the service lower is the loyalty.

**Social Class:** This is the external environment of the cell phone service users in which they operates. Bigger the social class higher is the customer loyalty.

**Promotions in the market:** The customer loyalty affects by the promotional activities by the competitors. Higher the promotional activities of others lower the loyalty.

**Place:** Place also impact on the loyalty as the cellular signals vary with the places and hence it affects loyalty.

**Competitors:** The number of competitors in the present environment affects the customer loyalty.

## Conclusion

The main objective of the current study is to uncover the various dimensions of customer loyalty in the present dynamically changing telecom sector in India. The study of customer loyalty shows the immense importance of customer loyalty after the introduction of mobile number portability, as the customer can change the cellular operator without missing his identity i.e. mobile phone number. It is found that the customer retention is different than the loyalty as in retention the importance is given to stay with the present service provider where as in loyalty the customer intentions are for maintaining the business relations as well as to recommend the supplier to the others. The study sought to identify the types of customer loyalty. Some times the mobile phone customers remain loyal through behavioural loyalty and some times attitudinal loyalty. The study reveals the degree of loyalty which starts from the 'suspect' and ends with the 'partner' for the service provider.

This study also emphasis on the positive correlation between the customer satisfaction and loyalty. The economic benefits can be also achieved through customer loyalty as to maintain the present customer is cheaper than to get new ones. In the last the customer loyalty is also affected by various factor like

demographic characteristics, price and place, tolerance to dissatisfaction, trust in service provider etc. are the related factors for mobile user and the operator.

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