



# Customer Retention in Mobile Telecom Service Market in India: Opportunities and Challenges

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## Abstract

Customer retention is the key element in the success of every organization. Retaining customers becomes a tough job in heavily saturated market environment. The cut throat competition among mobile telecom service providers further adds fuel to customer attrition. During 1990's the prime focus of marketing activities was customer acquisition. But current trend is to retain the existing customers especially in those sectors where market environment is heavily saturated. The very basic requirement for Customer retention is the positive relationship between the company and the customers. Through customer retention both the customers and the company are benefitted. The mobile telecom market in India is almost saturated. Around thirteen mobile telecom service providers currently operate in India. The wireless telecom density in India as on 30.06.2012 is 76.99%. The mobile telecom customers are now well informed about the various aspects of telecom services because of the widespread use of internet and they may not be accepting the first offer. The implementation of Mobile Number Portability (MNP) in India is another big blow to the

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customer retention efforts of Mobile Telecom Service Providers in India. The churn rate has increased reasonably with the introduction of Mobile Number Portability. This paper is a comprehensive study which analyses the customer retention in Indian Mobile Telecom Market and also the opportunities and challenges with reference to the customer retention in Mobile Telecom Service Market in India.

**Keywords:** Customer retention, Attrition, MNP, Mobile telecom service, Telecom density, Service quality, Trust, Switching barriers

## Introduction

The mobile telecom service providers face cut throat competition in India. Globalisation paved the way for mushrooming of mobile telecom service providers in Indian peninsula. Mobile telecom service started in India in the year 1995 and it was only in the private sector. Later BSNL and MTNL, the Telcos in the government sector also started their operation in the mobile telecom sector. The last decade witnessed the entry of a large number of mobile telecom service providers in the country and it reached fourteen in number at present. The total number of wireless customers in the country as on 30<sup>th</sup> June,2012 is 934.09 million with a wireless customer density of 76.99. Out of this 336.51 Million (36.02%) customers belong to Rural and 597.59 Million (63.98%) customers belong to urban. The mobile telecom market in India is now almost saturated.

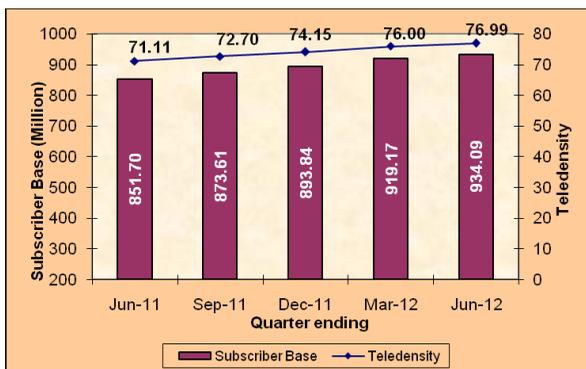


Fig. 1 Wireless Subscriber Base and Tele density in India

Table 1. The mobile service providers in India and their area of operation

SL No	Mobile Telecom Service Provider	Area of Operation
1	Bharti	All India
2	Aircel Group	All India
3	Reliance Communications	All India (except Assam & NE)
4	Reliance Telecom	Kolkata, MP, WB, HP, Bihar, OR, Assam & NE
5	Vodafone	All India
6	Tata Teleservices	All India
7	IDEA (Including Spice)	All India
8	Sistema Shyam Telelink	All India
9	BSNL	All India (except Delhi & Mumbai)
10	MTNL	Delhi & Mumbai
11	Loop Mobile (India) Ltd	Mumbai
12	Quadrant (HFCL)	Punjab
13	Unitech Group	All India except Delhi
14	Videcon Telecommunications Ltd	All India except Punjab, Delhi, Assam, North-East and Jammu & Kashmir)

### Customer Retention: A synonym to Company Retention

During 1990s the customer acquisition was the main focus of most of the organizations. But now the scenario has been totally changed. Retaining the existing customers has become the secret behind the success of any organization. It is not possible and was not possible to be successful in the long run without the customer retention. Researches reveal that the cost of customer retention is very less than that of customer acquisition. Through the wide usage of internet the customers are more informed regarding the products/services. Customers expect to be treated on a more personal basis. The inability to meet the customer expectations may lead to the closure of relationships. In saturated markets the customer retention initiatives are very important than the customer acquisition initiatives. The mobile telecom service market in India, which is almost saturated, need to maintain more attention in retention of customers. "If you want to retain your company, you need to retain your customers" - be the manthra of success of any organization.

## **Mobile Number Portability- A threat to Customer Retention**

Mobile Number Portability is the facility which allows a mobile telephone subscriber to retain his mobile telephone number when he moves from one mobile telephone service provider to another. It can be a change from one technology to another under the same service provider or it can be change in service provider but under the same technology. MNP also allows the simultaneous change of both the technology and the service provider.

Telecom Regulatory Authority of India (TRAI) issued consultation paper on MNP on 22 June 2005. On 8 March 2006 TRAI submitted its recommendation on MNP to the Department of Telecom (DOT). DOT accepted TRAI recommendations on 10 December 2007. Steering committee constituted to deliberate on issue of implementation. MNP services were to be provided through MNP Clearing House Agency (MCHA) owned by MNP licensee. DoT issued tender for MNP licensee on 22 January 2008. For MNP licensing the country is divided into two zones and MNP licenses were granted to two licensees, one for each zone. MNP license agreement signed on 17 April 2009 with effective date as 20 March 2009. MNP license is valid for 10 years with an exclusive right for 5 years in its zone. The entry fee is fixed as ₹ 1.0 crore. Annual license fee is finalized as 1% of Average Gross Revenue (AGR) after two years from effective date of license. In India MNP has been launched in Haryana Licensed Service Area from 26 November 2010. MNP has been launched all over India launched from 20 January 2011. As per TRAI Press Release No. 179/2012, Mobile Number Portability requests increased from 54.33 million subscribers at the end of June 2012 to 59.31 million at the end of July 2012. In the month of July 2012 alone, 4.98 million requests have been made for MNP. In India Currently MNP is allowed within a Licensed Service Area.

## **Objectives of the study**

The main objectives behind this study are

1. To identify the main factors which decide the customer retention in mobile telecom market in India.

2. To check whether Mobile Number Portability (MNP) is a blow to the Mobile Telecom Service Providers in customer retention (CR) initiatives.
3. To propose a suitable model for Customer Retention in mobile telecom market in India.

### **Need for the study**

There are only a few studies in customer retention in mobile telecom market in India. The studies on impact of customer satisfaction, switching barriers and mobile number portability on customer retention are also a few. The various antecedents on customer satisfaction are to be analysed. The propositions of suitable models for customer retention in mobile telecom market are also very limited. The primary focus of this study is to fill those gaps.

### **Literature Review**

Rizal Ahmad and Francis Buttle (2002) propose that customer retention is increasingly being seen as an important managerial issue especially in the context of saturated market or lower growth of the number of new customers. According to Muhammad Alshurideh, Ra'ed Masa'deh and Barween Alkurdi (2012) customer satisfaction directly affects customer retention and leads customers to go for repurchases. Muhammad Alshurideh et al (2012) also state that customer-supplier relationship duration has a direct effect on customer satisfaction. Hence as long as customer satisfaction is ensured customer retention also can be ensured. Customers with greater satisfaction and involvement will maintain their relationship with the service providers for a long time. Since customer satisfaction is the major driving force for customer retention, providing customer services at the right time, at right place and at right price have become highly important. This is exceptionally important in the mobile telecom scenario in India where there exists a cut throat competition in adding new services and enhancing service quality level as part of increasing customer satisfaction.

Researches show that maintenance of existing customers is less cost intensive than the acquisition of new customers. Beatrix Gruber (2012) proposes that there are lots of benefits to the organisation from customer retention. The benefits include repurchasing, cross selling, profitability and many more. Many studies prove that value of a customer increases with time. Beatrix Gruber (2012) adds that retained customers are known to be less price/cost sensitive because the more loyal the customer the more he is ready to accept the price than a customer without loyalty. Researches show that the cost of customer acquisition is 5 to 10 times more than the cost of customer retention which indicates that customer retention enhances profitability of the organisation.

Laura Lake (2008) proposes that 80% of the sales come from 20% of the customers and hence customer retention is not only a cost effective and profitable strategy but also the necessity of today's business world. Om Kumar Jha (2011) proposes that running behind new customers is a blind race and is without appropriate business sense and ROI justifications. Om Kumar Jha (2011) also adds that the Cost Of Customer Acquisition (COCA), the amount spent by a mobile service provider for onboarding a customer, is meant to cover expenses like cost of SIM Card, Channel partners commission, bonus airtime etc is quite huge comparing with the Cost Of Customer Retention (COCR). The biggest part of COCA is for incentivizing channel partners. There is no guarantee that these customers are going to continue with the organization at least for a shorter duration.

The mobile telecom service market in India is almost saturated. But still new customers are getting added under different service providers. Hence customer acquisition in mobile telecom service market is mainly attributed by churn which means the subscriber quits one network and joins the competitor. Every service provider has to face churn losses. The true losses arising out of churn comprises of COCA and ARPU (Average Revenue Per User). Loss of COCA will remain constant for each churn but loss of ARPU will differ from churn to churn.

Ruth. N. Bolt (1998) proposes that by modeling customer-provider relationship it is possible to predict the revenue impact of service

improvements. The changes in customer satisfaction can have important financial implications for the organization.

Chatura Ranaveera and Jaideep Prabhu (2003) proposes in a study with reference to UK that both customer satisfaction and trust have strong positive effect on customer retention than customer satisfaction alone. But the effect of trust on retention is weaker than that of satisfaction. Chatura Ranaveera et al (2003) also propose that switching barriers have significant positive effect on customer retention and moderate effect on relationship between satisfaction and retention.

There are certain researches which conclude that some unsatisfied customers may choose not to leave the service provider since they expect that they will not get better service from anywhere and vice versa. Oyeniyi, Omatoyo and Abiodun Abolali Joachim (2008) argues that customer satisfaction is viewed as an important indicator of customer retention, but customer satisfaction is not always an assurance of customer retention.

Thorsten Hennig-Thurau and Alexander Klee (1997) argue that there is a strong and positive relation between relationship quality and customer retention. Thorsten Hennig-Thurau and Alexander Klee also argue that the relationship between relationship quality and customer retention is influenced by intra psychological, contextual and situational factors as well.

Gaya Prasad Patel (2012) argues that Mobile Number Portability has its effect on Customer retention. Gaya Prasad Patel (2012) also states that the effect of offered service quality or availability of mobile network, economic status of customer, promotional offer also have effect on customer retention.

Researches show that the main reason for switching existing operator came out to be the Tariff followed by Network Coverage. Siddharth Tak (2012) proposes that the analysis of the overall MNP data suggests that in India during the last 20 months, total MNP requests had increased from 3.83 million in February 2011 to 69.78 million in September 2012. Other researches also show that the effect of MNP increases the customer churn rate.

## Development of theoretical framework

The present day customers are very much aware of the mobile telecom services. In the competitive era of mobile telecom services the service provider should be aware of the needs of his customer, dissatisfaction of his customer, inadequacy of his services and advantages of his competitor. This is the basic platform upon which the service provider has to stand and think in the direction of customer retention.

The existing researches prove that service quality positively affect customer satisfaction. In mobile telecom service sector the service quality is one of the important features that leads to customer satisfaction. Mohammad Muzahid Akbar and Noorjahan Parvez (2009) argue that **Customers'** perceived service quality has a positive effect on customer satisfaction. Customer care activities, complaint redressal, providing more number of Value Added Services and lower pricing are some of the features which lead to service quality. Hence it can be proved that service quality positively affect customer satisfaction.

Proposition 1: Customer satisfaction is positively affected by service quality.

The literature review shows that trust is another important factor contributing customer satisfaction. Vilte Auruskeviciene et al (2010) propose that clients should feel that company demonstrates genuine interest in the clients themselves as well as in their demands, requirements, value systems and in persuasive way introduce products, services or any other elements of general offer. This creates in developing trust towards the service provider. The customers should have the feeling that they are considered and not cheated by the service providers. Customers generally wish for the individual attention from the service provider. Mohammad Muzahid Akbar and Noorjahan Parvez (2009) propose that trust is viewed as one of the most relevant antecedents of stable and collaborative relationships in business. Once the service providers have succeeded in winning the trust of customers then the customer satisfaction naturally improves. Hence it is finalized that trust is directly related to customer satisfaction.

Proposition 2 : Customer satisfaction is positively affected by trust.

The satisfaction of customers is exceptionally important in any business. Muhammad Alshurideh, Ra'ed Masa'deh and Barween Alkurdi (2012) propose that relationship duration has a positive effect on customer satisfaction. Muhammad Alshurideh, et al (2012) also proposes that variety of mobile telephone services provided has a positive effect on customer satisfaction. Researches show that service quality and trust are two important antecedents to customer satisfaction in the positive direction. Thorsten Hennig-Thurau and Alexander Klee (1997) propose that customer satisfaction is an important antecedent directly affecting customer retention in the positive direction. According to Muhammad Alshurideh, et al (2012) customer satisfaction is the primary antecedent to customer retention which lead the customers to make repeat purchases. Hence it is concluded that customer retention is positively affected by customer satisfaction.

Proposition 3: Customer retention is positively affected by customer satisfaction.

Researches show that even unsatisfied customers also try to continue with the existing service provider. The reason is that even though they are unsatisfied under the current service provider they might not have other options to switch over. The customer may be unsatisfied under a provider because of one or two features. But as part of getting satisfaction if it switches over to another provider, he may have to undergo dissatisfaction in many features. Under these situations the customer is normally compelled to continue under the current service provider as a dissatisfied customer. Oyeniyi, Omatoyo and Abiodun Abolali Joachim (2008) argue that retention should not be taken for loyalty and loyalty is valid only when customer has got options. There are sufficient options in service providers in mobile telecom service market. But a lot of barriers are there to prevent a customer from switching over to another service provider. Hence it is concluded that switching barriers have positive effect on customer retention.

Proposition 4: Customer retention is positively affected by switching barriers.

Researches show that the implementation of Mobile Number Portability in India paved the way for accelerating the customer churn rate. During those days when MNP was not implemented many mobile telephone customers were continuing under the service providers with a lot of dissatisfaction. The customers were not ready to leave the providers only because they were not ready to lose their mobile telephone numbers. The statistics of customer churn after the implementation of MNP in India underline this fact. According to TRAI the introduction of number portability will also benefit operators as they will strive to offer better service to prevent churn. International experience proves that there is substantial improvement in the Quality of Service after the introduction of MNP. Sean Lyons (2006) suggests that Mobile Number Portability increases churn rate and leads to price reduction. Siddharth Tak (2012) proposes that during the period of last ten months starting from December 2011, eight out of 10 times it was found that the MNP requests figure crossed the 4-million mark. Hence it is concluded that the effect of MNP in the opposite direction of customer retention.

Proposition 5: Customer retention is negatively affected by the implementation of MNP. Based on the above five propositions the following theoretical model is proposed.

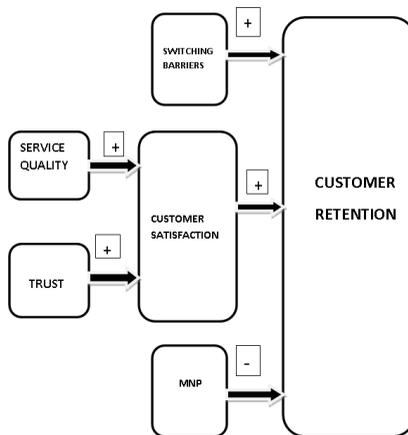


Fig 2. Theoretical Model for Customer Retention in Mobile Telecom Market

## **Conclusion, Limitation and scope for future research**

The present conceptual study is meant for building a theory to find out the various antecedents on customer retention and how they affect the customer retention in mobile telecom service market in India. The study shows that customer satisfaction plays an important role in customer retention. The more the level of customer satisfaction the more will be the quantum of customer retention. The customer satisfaction in turn is affected by various antecedents. The study shows that service quality and trust are two antecedents which affect customer satisfaction positively. More network coverage, quick complaint redressal and providing more value added services lead to improved service quality. Customer satisfaction leads the customers to make repeat purchases and thereby leading to customer retention. Switching barrier is another important antecedent for customer retention. There are situations that the dissatisfied customer may not quit the existing service provider because of the absence of acceptable service providers. There are a number of switching barriers which positively affect customer retention.

Mobile Number Portability (MNP) is another important antecedent on customer retention. The study finds that MNP is highly contributing to customer attrition. MNP has a direct effect on reducing customer retention. The implementation of MNP contributed more towards customer churn. To reduce the churn rate resulted after the implementation of MNP the service providers have to struggle a lot. The telecom mobile service sector in India is no more a monopoly. In a multi service provider operating telecom mobile market, customer retention is going to be a new head ache to the service providers. But mobile telecom service providers have to accept MNP as an opportunity to improve their quality of service.

There are a lot of opportunities for customer retention. But a lot of challenges are also to be faced by the service providers in connection with customer retention. The customer retention can be improved by improving service quality. The quick rectification of faults, quick redressal of billing related complaints and offering more Value Added Services are some of the opportunities.

Augmenting network coverage and improving quality of service are other opportunities for customer retention. MNP is the biggest challenge faced by the service providers as part of customer retention. Competition existing in the industry is another challenge. As the churn rate increases the providers have to go for lower pricing is another challenge.

A complete empirical study on the proposed theoretical model is required to prove the model and hence there is a scope for future research. A limitation of the study is that only a few antecedents on customer retention are considered for the study. Other factors may also have impact on customer retention. Hence more number of antecedents can be included in future studies to get better knowledge regarding the effect of various factors on customer retention.

The customer retention has got so many benefits. It increases repurchasing behavior and cross selling behavior. Declined price sensitiveness and increase of value of customer are certain other benefits of customer retention. Other benefits of customer retention include positive word of mouth recommendations and reduced migration rates. Researches show that the cost of acquisition of new customers is 5 to 10 times more than maintaining a new customer. Every successful company works with customer retention. Hence customer retention is one of the important factors behind the success of any organization.

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