

CHAPTER 1 INTRODUCTION

1.1 An Overview of the Telecommunications Market

The global market for telecommunications is expanding rapidly. It is not a question of demand pull or supply push, as both are happening at the same time. The interaction of these two forces has made telecommunications one of the leading growth sectors in the world economy. It has also made telecommunications one of the most important components of social, cultural and political activity.

On the demand side, growth is pulled by an increasing reliance on telecommunications and information technology in every area of human life – in all sectors of economic and social activity; in government, in the provision of public services, and in the management of public infrastructures; in the pursuit of knowledge and the expression of culture; in the control of the environment; and in response to emergencies, whether natural or man-made. This has increasingly required service providers to differentiate their products and services in order to stay ahead of the competition.

On the supply side, growth is pushed by rapid technological developments, which continuously improve the efficiency of existing products, systems and services, and provide the foundation for a continuing stream of innovations in each of these areas. Particularly noteworthy is the convergence of telecommunication, information, broadcasting and publishing technologies, which has greatly enriched the communication choices available to consumers.

Over the last decade, the centralized telecommunication monopoly in Malaysia has been changed and a relatively open and free competitive market is gradually evolving. As a result, many functional and fundamental changes have taken place in telecommunication reforms and more and more attention has been given to improve customer perceived service quality, customer value and customer satisfaction in building superior competitive advantage for effective customer acquisition and retention with the increasingly intensified domestic competition.

1.2 The Need for Customer Loyalty in the Telecommunication Market

In reference to the fundamental changes in telecommunications, as they apply to the service industry in particular, relationship marketing approaches assert that obtaining customer loyalty is a preeminent goal for marketing strategy (Reichheld and Sasser, 1990; Dick and Basu, 1994; Gwinner *et al.*, 1998). It is readily apparent that the majority of the research on brands, until recently, focused on consumer goods settings and the general influence of the awareness and image of the brand (Keller, 1993).

However, there is an emerging stream of research about branding that aligns with the Service Dominant Logic (Vargo and Lusch, 2004) and which focuses on the value-adding processes leading to the creation of the customers' experiences (Berry, 2000; de Chernatony and Segal-Horn, 2003). It follows the way Vargo and Lusch (2004) use the term service marketing in which the service-centred dominant logic represents a reoriented philosophy that is applicable to all marketing offerings, including those that involve tangible goods and the process of service provision. Hence, the concept of the

service brand is integrative where service is embedded in the branding of goods and/or services (Brodie *et al.*, 2006).

The recent implementation of mobile number portability has further complicated the issue of brand loyalty as research has shown that given the circumstances of a better deal and low switching cost, satisfied consumers have no qualms in changing mobile service provider; this shows that satisfaction no longer ensures loyalty (Grabowich & Guy, 2007). Customer loyalty is now the major concern for service providers with questions raised concerning the importance of customer loyalty – when a service provider loses a customer, it does not lose one sale but a lifetime opportunity of profitability with that individual. A critical issue for the continued success of a firm is its capability to retain its current customers and make them loyal to its brands (Dekimpe *et al.*, 1997, p.405).

A typical organization gains 65 percent of its business from its existing customers. Loyal customers build businesses by buying more, paying premium prices and providing new referrals through positive word of mouth over time (Ganesh *et al.*, 2000, p.65). In contrast, the cost of disloyal customers may lead to millions in lost revenue and profit. An established mobile service provider, Orange painted a typical example for such a situation. Approximately 20 percent of customers of the mobile service provider Orange defect each year, and, on average, it cost Orange £256 in 1996 to recruit each new customer. This reflects the cost of introductory offers, subsidized phones and advertising. Therefore, with almost a million customers, reducing the churn rate from 20 percent to 10 percent would bring about annual savings of over £25 million (Palmer, 1998, p.117).

Similarly, studies conducted in the financial service industry show that increasing customer retention or customer loyalty by 5 percent could lead to 25 - 75 percent profit growth (Chan *et al.*, 2001, p.5):

Especially in telecommunications services, it is frequently pointed out that once customers have been acquired and connected to the telecommunications network of a particular provider; their long-term relations with the focal provider are of greater importance to the success of the company in competitive markets than they are in other industry sectors (Gerpott *et al.*, 2001, p.249).

Oliver (1997, p.392) defines customer loyalty as a deeply held commitment to repurchase a preferred product/service consistently in the future, thereby causing repetitive same-brand-set purchasing, regardless of situational influences and other marketing efforts that have the potential to cause switching behaviour.

1.3 Research Objectives

This study seeks to identify and examine the potential antecedents of customer loyalty towards the established mobile service providers in Malaysia. However, there are many antecedent factors that may affect brand loyalty and it is impossible to have a study that examines the effects of all factors simultaneously. Therefore, a few main factors are determined in this study as the foci for more specific findings, these are service quality, brand trust, brand image, all of which have a mediated influence on customer value that leads to customer loyalty.

As the previous research on service brand is largely qualitative, this study further explores the understanding of the nature of service brand by undertaking a quantitative

investigation. By taking a disaggregate approach, the factors selected in this study further extend previous studies, which helps to understand how service-related factors may influence customer loyalty and apply for practical usage.

With the significance of this study in mind, a set of research objectives are established to provide a clear sense of purpose and direction:

1. To analyze the major antecedents that contribute to customer loyalty towards established mobile service providers in Malaysia.
2. To examine the relationship amongst factors concerning customer loyalty towards established mobile service providers in Malaysia.
3. To estimate the significance of factors in the conceptual framework of customer loyalty.

1.4 Research Questions

While the major antecedents are clearly defined, the following research questions are set to guide the present study:

- Q1:** What would contribute to customer loyalty to the established mobile service providers in Malaysia?
- Q2:** Are the antecedents of customer loyalty to mobile service providers interrelated to one another?
- Q3:** Are some antecedents of customer loyalty towards mobile service providers in the conceptual model more significant than others?

1.5 Scope of Study

It is apparent that the major telecommunication players in Malaysia have been aggressive in their advertising, promotion, differentiating their market position and expanding their market share through extensive marketing and advertising efforts. According to The Neilson Co. Malaysia telecommunication ADEX advertising expenditure tracking, as of 2009, telecommunications continued to dominate the position of the top ten advertisers in media ad spending (*The Star*, January 2010).

Considering the uplift and assertiveness phenomenon of the telecommunication market, it is a clear indication to the researcher that this is the most important service market. Consequently, the empirical setting for the research is based on mobile service providers in the telecommunication market to understand the main drivers of customer loyalty.

As of 2009, virtually all of the 27 million people in Malaysia had a mobile service provider. This means that Malaysia has the second highest mobile penetration in South East Asia after Singapore. Most significantly, growth in the mobile sector continued during 2009, with a significant push into 3G services. The mobile subscriber base jumped from just 2 million in 1998 to 27 million and 100% penetration in 2008 (Evans, 2010). In this study, it is appropriate for the researcher to select the convenience sample with easy access to mobile users who are subscribed to any established mobile service providers in Malaysia.

Mobile users may range from as young as 12 years old to 50 years old and above considering that some school students actually inherited mobile phones from their parents

for safety reasons. In addition, the older generation has been re-cultivated to replace landlines with mobile phone by the younger generation. For the criterion of this study sample, the age group is set within the range of less than 24 to 40 years and above who are capable of elucidating and interpreting their experience of dealing closely with mobile service providers concerning the range of services offered as a customer.

Historically, competing on price has been the long-time strategy for mobile service providers in Malaysia, however, winning customers on the price, rather than on service and support, dilutes a mobile service provider's value. In addition, while price is important to customers, it is not the main driver for customer loyalty.

Despite the shift of focus in service research, the telecommunication market in general is facing high churn rates every day. The lack of customer focus in this market has yielded one of the worst customer loyalty levels across all industries. The competitiveness of the domestic market has been further intensified with the implementation of mobile number portability (MNP). The significance and need for this study can be judged on its contribution to domestic mobile service providers by enabling them to focus on improving service quality in order to deliver superior customer value, achieve higher customer satisfaction and loyalty, and keep customers or attract potentially profitable new customers.

1.6 Organization of Study

This study is divided into five chapters, which are organized as follows:

Chapter 1: Provides an overview of this study by introducing the research idea and interest of the study, research objectives and research questions for greater specificity; the scope of the study helps to define the criterion of the study area for practical value.

Chapter 2: Presents the literature review that defines the subject parameters. In this section, the theories and concept of each variable are developed by relating to past literature. Relationships among the variables are tested. The demonstration of the conceptual model with hypotheses development is clearly outlined.

Chapter 3: Focuses on the research methodology, research hypotheses, sampling design, interpretative instrumentation and scales, data collection method and data analysis techniques.

Chapter 4: Concentrates on data analyses and involves the interpretation of results obtained from the analyses of the measures and testing of hypotheses. The preliminary analyses and mediating test are employed in this section.

Chapter 5: Encompasses the discussion, recommendations and conclusion. The research results together with the findings of the study are discussed in this section. The contributions of the study are outlined with a discussion of managerial implications. The research limitations have been outlined with recommendations provided for future research.

1.7 Summary of the Chapter

In this chapter, the researcher has identified the issues relating to the importance of mobile service providers in recognition of the high penetration in the country and the shift in market trends from provider-centric to consumer-centric. The importance of customer loyalty is the key to shaping a marketing strategy and formulating the capability to retain customers for mobile service providers.