CHAPTER 3

CONCEPTUAL FRAMEWORK OF CUSTOMER CHURN

From the chapter on Review of Literature, it is clear that managing customer churn is of great concern in the Indian prepaid mobile sector. Retaining the customers in the network is the major challenge faced by the prepaid mobile operators in India. This chapter elicits the concepts and reviews related to the factors of customer satisfaction and the customer churn. It also explains the attributes contributing in measuring the level of customer satisfaction and how it determines the customer churn behavior with the hypothesized model.

3.1 CUSTOMER SATISFACTION

Chen (2001) provided a more precise definition as a post-consumption evaluation that a chosen alternative at least meets or exceeds expectations. In simple words, customer satisfaction can be defined as the difference between what the customers think they should be getting and what they actually do get [232]. The relationship between customer satisfaction and customer retention has been a matter of intense debate within the marketing literature (Lee et al., 2001) [233].

Customer satisfaction is the extent to which customers are satisfied with their purchased goods and services (Boone and Kurtz 2004) [234]. Perreault and McCarthy (2005) are of the opinion that customer satisfaction is the extent to which firm fulfills a customer’s needs, desires and expectations, hence the need for companies to know that production and marketing must be aimed at producing economic utility for customers in form, task, time, place and possession utilities. Customer satisfaction is generally understood as the satisfaction that a customer feels when comparing his preliminary expectations with the actual quality of the service or product acquired. In other words, customers are typically concerned with the value and quality of the product or service they receive. In addition, customers generally
want the best possible product or service for a low cost. The perception of the best product or service and lowest price can however vary significantly by customer segment or industry. It recognizes the understanding of customer wants as the starting point of an organization’s business operations. Several factors affect on customer satisfaction, price is one of them. Price is used as an indicator of product quality, which results in better expectations from the product and determines higher satisfaction[235]. The research shows that price perceptions directly influence satisfaction judgments as well as indirectly through perceptions of price fairness (Herrmann et al. 2007). According to this view, the successful organization is the one that directs all its business activities towards satisfying the needs, wants and aspirations of its target market for a profit (Mahmoud et al., 2010)[236-237]. Price reasonability and consumer satisfaction are significantly associated with each other. The customers can switch to any other cellular service provider who offers fair prices this reveals that the consumers can be held on to for a longer duration by offering them the fair prices so; the customer satisfaction is caused by the fairness of the price (Ali et al.2010) [238].

Indeed, the marketing concept recognizes that the key to achieving organizational goals consists of determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors (Hinson and Mahmoud, 2011)[239]. Boohene and Agyapong (2011) in their quest to explain the basis for achieving sustainable competitive advantage. Advocates of customer Creating satisfied and loyal customers is a key concern of marketers and marking managers in now a days and it will remain in the future. It is well accepted that customer satisfaction is both a goal and a marketing tool for customer-centered companies (Kotler, Keller 2012) [240-241].

Thus, service providers need to identify their customer expectations’ and perception towards their services in order to identify the extent to which customers are satisfied. For attending the customer expectations’ and perception towards their services, product performance, service performance, price, corporate image, Customer relationship management, Service Quality were taken to measure the level of customer satisfaction.
3.2 PRODUCT PERFORMANCE

Products can be tangible and intangible. A tangible product is something that one can see, smell, touch, hear, taste and possess: meanwhile an intangible product is distinct from tangible product. Intangible product can be recognized as services, idea, people and place. A product is used by a company to satisfy customers through some exchange process like features, functions, benefits and uses (Solomon, Marshall, & Stuart, 2008). From the perspective of marketing, a product is not as simple as goods in a package; it is a bunch of attributes that includes the packaging, brand name, benefits and the supporting features that is additional to a physical good. Normally, product must meet the requirements of basic product performance in order to satisfy customers' needs and wants and gain profit for the organization. Product performance plays an important role in customer purchasing process [242].

For example, with mobile telecommunication, satisfaction can be related to a specific attribute of Multimedia Messaging Service, Mobile TV or Mobile Internet Service such as satisfaction with the voice quality, picture quality, speed, and the like. On the other hand, customer satisfaction can be related to the overall performance of a product/service or the overall performance of an organization’s products/services. Viewing satisfaction as attribute specific or overall performance depends on what one is interested in. If the interest is more of achieving marketing value, then attribute-specific would provide more useful insights to the practitioners as to the extent to which a specific attribute of a service meets customer expectations or desires. Roma Mitra Debnath and Ravi Shankar (2008) discuss the methodology used to benchmark the performances of service providers in order to create a loyal customer base as well as to retain it, and they claim customer service is one of the factors that influences the revenue growth of the telecom industry [243].

3.3 SERVICE PERFORMANCE

Wei zu yang (2002) represented that the mobile prepaid service has become an important mobile application with rapid growth of subscription rate. The most widely deployed prepaid solution today is the service node approach that deducts and updates the prepaid credit during a phone call. Implementation of the service-node
approach may generate a large number of credit checks that significantly degrades the performance of a service node [244].

Kalavani (2006) in their study analyzed that majority of the respondents have given favorable opinion towards the services but some problems exist that deserve the attention of the service providers. They need to bridge the gap between the services promised and services offered. The overall customers’ attitude towards cell phone services is that they are satisfied with the existing services but still they want more services to be provided [245].

Debnath (2008), in his study, he explained that the prime focus of the service providers is to create a loyal customer base by benchmarking their performances and retaining existing customers in order to benefit from their loyalty. With the commencement of the economic liberalization in 1991, and with a view to expand and improve telecom infrastructure through the participation of the private sector, the Government of India permitted foreign companies holding 51 percent equity stake in joint ventures to manufacture telecom equipment in India. The Indian Government has announced a new policy, which allows private firms to provide basic telephone services. There had been a monopoly of the state owned department of telecommunications. However, several companies are expected to benefit from the policy change [246].

According to the Indian Telecom Services Performance Indicator report of TRAI 2014 indicated that due to the improvement in service performance, the number of telephone subscribers in India increased from 933.01 million at the end of March 2014 to 942.95 million at the end of June 2014 registering a growth of 1.07% over the previous quarter [247].

3.4 PRICE

As the customers are satisfied with their current service so they are willing to pay substantial charges to cellular service providers but customers tend to switch not only because the price is high, but also when price increase is deemed unfair (Sindhu, 2002) [248]. In order to increase the share, the call rate and connection fee should be reduced or should be put adjusted according to customer mental accounts
Price, an important factor in the marketing mix, the role of product or service price in the formation of customer satisfaction has not been studied extensively in previous customer satisfaction research (Herrmann et al., 2007) [250]. Price is the amount of money charged for a product or service, or the sum of the values that customers exchange for the benefits of having or using the product or service (Kotler & Armstrong, 2010) [251]. Nowadays, due to breathtaking competition, the telecommunication service providers tend to offer innovative services as well as competitive prices just to attract handful magnitude of customers (Haquea et al., 2011) [252]. Price plays a vital role in telecommunication market especially for the mobile telecommunication service. Mobile service charges depend on many factors like technology, services, maintenance and taxes etc; users are willing to pay certain amount of money for using cellular services, and service providers want a profit from their share. Pyramid research (2010), Prepaid Mobile Services examines the success of prepaid operators in developing markets. The prepaid platform has encountered resounding success around the world and is the preferred billing plan in most developing markets. Its success, however, goes beyond the mere adoption of a popular billing plan; it is the outcome of a comprehensive rethinking of the mobile business model. Since there is huge investment in cellular industry so there must be some charges for using cellular services. According to GSMA intelligence report of 2013 reckoned that Indian prepaid customers are highly cost conscious and price is acting as major driving force. The introduction and popularity of hybrid plans across several developing markets also point to the importance of allowing cost-conscious prepaid consumers the ability to tailor their mobile packages [253].

3.5 CORPORATE IMAGE

The corporate image is a valuable intangible capital that is hard to imitate and it can help an organization to achieve a sustainable and superior financial performance (Roberts, Dowling 2002) [254]. In recent times, corporate level marketing, referring to a broad managerial philosophy whereby the corporate image, identity, or brand of a company is seen to be the central anchor or driver for its strategies and management has attracted considerable interest from scholars (e.g.,
Balmer, 2009; Brown et al., 2006) [255-256]. Brown et al. (2006) provide further support for this view, construing image as consumer perceptions of the brand and what individuals know or believe about an organization. Balmer (2009) highlights the importance of corporate image, asserting that a link exists between an individual’s image of the organization and that person’s behaviour towards it [257]. What these corporate marketing related perspectives share as a basic assumption is the notion that the various constituencies or stakeholders of a company essentially orient their behaviours towards the company according to what they perceive about the company’s identity and how they evaluate it, that is, according to perceived corporate brand image (Aspara and Tikkanen, 2011) [258]. Notably, consistent with the interdisciplinary work in the area, the role of the perceived corporate identity as a driver of stakeholders’ behaviors is seen to be the case with the company’s customers in particular. In line with this, Minkiewicz et al. (2011), in their quantitative study in the leisure services sector, found positive image to be related to customer satisfaction. Minkiewicz et al. (2011) suggests that satisfaction will occur when individual expectations are confirmed and that it is reasonable to expect that a positive image and expectation of a leisure experience prior to consumption, if met or exceeded, would result in customer satisfaction. On the other hand, the possibility that a positive corporate image may negatively influence satisfaction cannot be discounted, particularly where the image has created unrealistic expectations for customers. Where these expectations are not met, customers are likely to be very dissatisfied (Minkiewicz et al., 2011) [259].

New findings from a survey, conducted by trade publication retail touch Points and online research firm Decision tree Labs (TSYS 2011), found significant gains in awareness and usage of prepaid cards for corporate image, incentives, customer rebates and loyalty offers. In addition, the survey pointed to growing opportunity for consumer brands to drive traffic and average transaction size via prepaid card incentive offers. The company image is defined as the total impression that the public has for a company. From the companies’ perspective, being reliable, professional and innovative, having social contribution and valuing the customers are the elements that form the company image (Vranakis et al.2012) [260]. Virgin Mobile has ranked highest in overall customer satisfaction among the USA wireless prepaid customers according to a J.D.
Power survey (2007). It mentioned corporate image played vital role next to call quality for prepaid mobile users. Vodafone, India (2012) found out that corporate image seemed to be the vital factor for the prepaid user to select and continue with network. On the basis of the above submissions, this study conjectures that a mobile telecommunications provider’s brand image would impact the level of mobile subscriber satisfaction [261].

3.6 CUSTOMER RELATIONSHIP MANAGEMENT

In turn, consumers have grown accustomed to dealing with businesses that proactively understand and serve their needs (Vimani, 2007) [262]. CRM is an umbrella concept that places the customer at the core of an organization. Likewise, it is also concerned with coordinating customer relation across all business functions, points of interaction, and audiences. CRM is a tremendous step forward in creating a system that provides a means of retaining individual loyalty. However, Greenberg (2008) [263] believe that, understanding CRM requires the understanding of the changing nature of customers. Businesses now adopt CRM systems due to its benefits which lie in helping to build up long-term customer relationships. In the view of Croteau and Li (2009), the primary goal of CRM is thus differentiating business from competitors is achieved by customization which meets the needs of segmented customers building customer loyalty overtime (Babatunde and Ajayi, 2010) . According to (Gartner, 2010), the three phases in which CRM helps to support the relationship between a business and its customers are, to: Acquire; a CRM can help a business in acquiring new customers through excellent contact management, direct marketing, selling and fulfillment. Existing literature on CRM has done little to shed light on this challenge in the telecom industry. Babatunde and Ajayi (2010) also viewed CRM, as an emerging customer innovation which focuses on growing customers profitably by delivering value to the customer in a bid to enhance customer, intimacy; this is achieved through increase in quality levels and enhanced business penetration [264-265].

Pareekh jain (2010) listed 100 key performance indicators in the Indian telecommunication sector and they mentioned that Telecommunication service industry around the world is facing significant challenges from competition,
technological revamps at very short frequencies and never-ending customer demands. In full-grown markets, the preferred path to growth is that of acquisition of competitors or alliance with newer partners. On the other hand, promising markets with explosive demand provide vast opportunities for the players. They emphasized that telecommunication industry is no longer technology centric, but it revolves more around customer relationship. Customer satisfaction and marketing intelligence with innovative promotional schemes and advanced technology are the drivers of business [266].

As one of the criteria to meet organizational goals, a firm must determine the needs and wants of its consumers and then deliver products and services that satisfy those needs and wants more efficiently than its competitors. An important task, therefore, is to determine, with some reasonable degree of precision, the extent to which CRM can maximize customer loyalty. Understanding exactly what modern telecom mobile users require or desire from their service providers is a challenge for many operators (Oyatoye et al., 2013) [267].

3.7 SERVICE QUALITY

In measuring customer satisfaction with service quality, it is significant to examine the service quality concept, its importance and the dimensions. Again on the role of service quality Berry et al. (2002) emphasize “managing the total customer experience”. It is explained that “during the consumption experience, various types of emotions can be elicited, and these customer emotions convey important information on how the customer will ultimately assess the service encounter and subsequently, the overall relationship quality” (Wong 2004). Wong (2004) found that negative emotions have a stronger effect on satisfaction with quality than positive emotions. Since service quality is basically defined from customer perspective and not the manufacturers, it is usually referred to as customer perceived quality. It is argued that “during the consumption experience, various types of emotions can be elicited, and these customer emotions convey important information on how the customer will ultimately assess the service encounter and subsequently, the overall relationship quality” (Wong 2004) [268-269]. Quality is the comparison of perceived performance and expected performance (Kang, 2006). The firm’s ability to create and
sustain competitive advantage depends upon the high level of service quality provided by the service provider (Yoo & Park, 2007) [270-271].

Theoretically, positive relationships between service quality, customer satisfaction, and customer loyalty. A recent study by Xin Shu (2010) reveals that Service Quality practices presents a comprehensive evaluation of Customer Perceptions of Service Quality in the Chinese mobile communications market through developing and estimating a Hierarchical and Multidimensional model and are useful in the Telecommunications Network that utilize more core dimension as well as sub dimensions. Though service quality has been perceived for a long time to be an outcome of customer cognitive assessment, recent studies confirm that service quality involves not only an outcome but emotions of customers [272].

3.8 CUSTOMER RETENTION

Long term customers tend to take less of company time and are sometimes less sensitive to the price, Gan et al (2006) [273]. They further indicate that retaining customers become the priority for most enterprises and there is compelling arguments for managers to carefully consider the factors that might increase customer retention rate. In any case, the cost of creating a new customer has been estimated to be five times the cost of retaining existing customers, (Reichheld 1996)[274]. A retained customer will always show resistance to competitors’ enticement and will be able to give both solicited and unsolicited referral (Omotayo et al, 2008)[275]. Customer retention is, therefore, crucial to mobile cellular companies in Ghana, because 5% improvement in customer retention can cause an increase in profitability between 25% and 85% (in terms of net present value), depending upon the industry (Reichheld and Sasser, 1990)[276].

3.9 CUSTOMER CHURN

The problem of churn, or loss of a client to a competitor, is a problem facing almost every company in any given industry. This phenomenon is a major source of financial. The Impact of Experimental Setup in Prepaid Churn Prediction loss, because it is generally much more expensive to attract new customers than it is to retain and sell to existing ones. Therefore, churn is important to manage, especially
in industries characterized by strong competition and saturated markets, such as the mobile telecom industry. Prepaid subscribers of mobile telecom services are not bound by a contract; therefore, they can churn at their convenience and without notification, which makes the task of predicting the likelihood and moment of churn very important [277].

3.10 RELATIONSHIP BETWEEN CUSTOMER SATISFACTION AND CUSTOMER RETENTION- CUSTOMER CHURN BEHAVIOUR

The level of customer satisfaction is measured to examine the customer churn as it has the relationship on customer retention. Three major views have been suggested concerning the relationship between customer satisfaction and customer retention: First, customer satisfaction is a key determinant of customer retention (Day, 1994) [278]. Customer satisfaction encompasses many dimensions, including products and services, customer services and service quality to name a few. Ranaweera and Prabhu (2003) defined customer satisfaction as an evaluation of an emotion, reflecting the degree to which the customer believes the services provider evokes positive feelings [279]. Aydin and Ozer (2005) supported this view by examining the relationships between the different dimensions of customer satisfaction and customer retention. They pointed out that satisfied customers stay loyal longer, are less price-sensitive and pay less attention to competitors' advertising, and spread positive WOM. This study is consistent with this view, and examines it by investigating customer satisfaction along with other factors that might contribute to customer retention. Customer retention is the key to long-term profitability and can be achieved by maintaining continuous and active relationships with customers. Managing customer retention is a critical issue in the mobile market [280]. Mobile operator companies lose about 20% to 40% of their subscribers every year (Ahn et al., 2006; Seo et al., 2008) [281-282]. Moreover, the mobile telecommunication industry faces combined difficulties such as increasing national and international competition, slower growth rates and mature markets. Furthermore, the changes that emerge because of deregulation, globalization and technological developments also contribute to hinder the ability of business to retain their customers. Customer retention simply means maintaining a continuous and
active relationship with customers. Hoyer and Macinnis (2009) defined it as the practice of working to satisfy customers with the intention of developing long-term relationships with them. These relationships can be achieved by: (1) Subsequent purchases; (2) extending the customers’ contract with the service provider over a specified period; (3) the customers’ intention to make future purchases from the provider; or (4) inducing customers to refrain from terminating their contracts [283].

The hypothesized model was designed based on the literature review of the study undergone by Jeewon Choi, et al., (2008). According to Jeewon Choi, et al., (2008), pointed out the level of customer satisfaction with respect to m commerce and e commerce. Based on this study, hypothesized model was built by mentioning the factors of customer satisfaction for prepaid mobile services. Product performance, service performance, price, corporate image, Customer relationship management, Service Quality were taken to measure the level of customer satisfaction. Based on the level of customer satisfaction, the customer churn with respect to prepaid mobile was determined [284].

![Figure 3.1 Hypothesized Model for the determinants of the customers’ churn behavior of prepaid mobile Services](image-url)
The basic model was designed to recognize peculiarities of m-commerce from those of e-commerce and distinguish variables to impact client fulfillment (m-satisfaction) and reliability (m-loyalty) in m-commerce in the Korean mobile industry.

Thus the hypothesized model was developed to examine the determinants of churn prediction in the prepaid mobile segment in India. The main constructs, Product performance, service performance, price, corporate image, Customer relationship management, Service Quality were taken to measure the level of customer satisfaction with respect to prepaid mobile segment in Tamil Nadu. Based on these six constructs 101 items were designed to measure the level of customer satisfaction and 37 items were posed under the construct of customer churn.