CHAPTER 1

INTRODUCTION

Telecommunications is one of the prime support services needed for the rapid growth of any developing country. India has emerged as one of the youngest and fastest growing economies in the world today. One of the sectors that has shown the signs of profitability and contributed significantly to the country's economy is the telecom industry. In fact, the Indian telecom market has gained recognition as one of the most lucrative markets globally. The vast rural market holds a huge potential to drive the future growth of the telecom companies. Further, the Government's initiatives for increasing the telecom connectivity in rural areas are also likely to aid the telecom service providers to extend their services in the unconnected rural areas.

Telecommunications companies recognize that becoming customer centric is very important to their long term competitive advantage, as many players offer similar features. Customer centricity depends on having a single view of the customer data that gives clear insight into the customer segments, their behavior and purchasing patterns. Telecom organizations need access to data that is accurate, reusable, and productive, so that they can create a holistic, real-time view of their customers.

The history of the Indian Telecom sector goes way back to 1851, when the first operational landlines were laid by the then British Government in Calcutta. After India became an independent country in 1947, all foreign telecommunication companies were nationalized and a monopoly organization was formed by the Government of India, incorporating Post, Telephone and Telegraphs.
Originally, the telecom sector, like most other infrastructure sectors was owned and controlled by the Government of India. The Department of Telecommunications (DoT), reporting to the Ministry of Communications (MoC) became the key body for policy issues and regulation, apart from being the basic service provider for the entire country. By an act of Parliament, the Telecom Regulatory Authority of India (TRAI) was formed to be the regulatory agency, to monitor the activities of the telecom body.

The Telecom Commission was set up with administrative and financial powers of the Government of India to deal with various aspects of Telecommunications in the year 1989. The multi-pronged strategies followed by the Telecom Commission have not only transformed the very structure of this sector but have also motivated all the partners to contribute in accelerating the growth of the sector.

India is the second largest country in population and seventh largest in terms of area. Despite the government making several concentrated efforts through the Five-year Plans, to provide efficient communication system to the people of the country, due to increasing population, non-accessibility to remote and village areas and non-availability of adequate resources, the national tele-density was only 1.1 in the pre-liberalization period (till 1990), which was far low when compared to the global average of 12 for the same period.

The world began to witness the changing phase of the telecom industry of India since 1994, when the Indian Government initiated the New Telecom Policy (NTP), with a broad objective to enable availability of affordable means of communication for the citizens of the country. The prime focus of the objectives of NTP was to increase the tele-density of the country by 15 in 2010. For this the country required an additional investment of Rs.5000 billion. In order to meet the investment requirements and to realize the broad objectives of the telecom policy in a phased manner, it became necessary that the government allowed private players to operate in the industry. The government also sensed the private participation imperatives for achieving the same in an efficient manner. Hence it was decided to
open the sector for private participation, simultaneously in both basic and mobile service segments.

The other objectives of NTP 1994 include, creating a modern and efficient telecommunications infrastructure and transforming the telecommunications sector to a greater competitive environment in both urban and rural areas. Further, the NTP 1994 aimed at providing equal opportunities for all players, including the private players. Thus breaking the barriers to entry, the private sector providers forayed into the hitherto monopoly telecom sector of India, by first entering the Cellular Segment in 1994. But, the basic telecom service namely the Fixed-line Segment was at the hands of the government monopoly service provider – DoT, till 1998. The very first private player to begin operations in the fixed-line segment was Bharti Telecom. The company was given license in 1998 and subsequently began its operations in the segment in 2002.

The entire process of reform gained further momentum with the announcement of the New National Telecom Policy of 1999 (NTP 1999). The government started to issue licenses to multiple players to operate in all the segments of the industry. It also made provisions to discriminate the service providing functions and the regulatory functions of DoT, so that exclusive service providers are created to cater to the specific requirements of different segments of the population. The most noteworthy achievements of NTP 1999 were as follows:

**Creation of the Public Sector Telecom Service Providers**

One of the important objectives of NTP 1999, was to separate the service providing and regulatory functions of DoT. Subsequently, exclusive telecom service providers were floated to deploy the restructuring strategies in the sector, complying with the objectives laid down by NTP-1999. The policy separated the service providing function and policymaking and licensing function of the DoT. A brief note on the public sector telecom service providers is as follows:
The Bharat Sanchar Nigam Limited (BSNL) was floated to function as the government owned corporate entity to provide telecom services to the entire country.

For the metro cities of Delhi and Mumbai, the Mahanagar Telephone Nigam Limited (MTNL) became the service provider.

Meanwhile, the international telecom services were entrusted with the Videsh Sanchar Nigam Limited (VSNL). As a result of the disinvestment policy adopted by the Government of India, in the late 1990’s the company was sold to a private enterprise – “Panatone” – A Tata Group Company.

**Entry of Private Players**

Subsequent to the announcement made in NTP 1999, the government started issuing licenses to multiple private service providers to provide services in each telecom circle. Consequently, the private service providers kick-started their operations in fixed-line segments in the year 1994 and subsequently, the markets witnessed private players in mobile segment since 1996.

With the entry of private players in the telecom segment, the sector began to witness the collapse of monopoly on the whole. Thus, the sector that was hitherto characterized by monopoly scenario gradually moved into competitive market structure, with multiple players offering a variety of services.

As a result of privatization of the Indian Telecom industry, the most excited are the consumers. When there was monopoly, the users were left with no choice but to accept whatever the monopoly service provider gave to them. But in the present competitive scenario, consumers are able to exert their preferences as they are now offered a variety of options to choose from. The telecom market environment is witnessing brand new challenges both from the perspectives of service providers and service users.
Current Trends in Telecom Industry

According to the Telecom Regulatory Authority of India (TRAI), the number of telephone subscriber base in the country reached 653.92 million as on May 31, 2010, an increase of 2.49 per cent from 638.05 million in April 2010. With this the overall tele-density (telephones per 100 people) has touched 55.38.

According to Business Monitor International, India is currently adding 8-10 million mobile subscribers every month. It is estimated that by mid 2012, around half the country's population will own a mobile phone. This would translate into 612 million mobile subscribers, accounting for a tele-density of around 59 per cent by 2012.

Moreover, according to a study conducted by Nokia, the communications sector is expected to emerge as the single largest component of the country's GDP with 15.4 per cent by 2014. According to the latest figures made available by the Voice & Data study, Samsung posted a growth of 21.7 per cent to register revenues of Rs 5,720 crore in 2010-11 from India, from Rs. 4,700 crore in the previous fiscal. Nokia on the other hand had a flat growth, with revenues of Rs. 12,929 crore in 2010-11 from India compared to Rs. 12,900 in the previous fiscal. According to experts, home grown companies like Micromax, Karbonn, Lava, Spice and other mobile handset firms importing from China have eaten into market share of multinational firms on the back of low-cost dual-SIM feature phones.

With the availability of the 3G spectrum, about 275 million Indian subscribers will use 3G-enabled services, and the number of 3G-enabled handsets will reach close to 395 million by 2013-end, estimates the latest report by Evalueserve.

According to a Frost & Sullivan industry analyst, by 2012, fixed line revenues are expected to touch US$ 12.2 billion while mobile revenues will reach US$ 39.8 billion in India. Moreover, in an attempt to boost auction of 3G spectrum, the government has allowed prospective bidders to raise short-term funds from
domestic market, which can be refinanced through external commercial borrowings (ECBs) within 12 months.

**The Indian Mobile Sector**

Globally in terms of mobile subscriptions, India is the world’s second largest wireless market after China. At the end of March 2011, the total wireless subscribers (GSM, CDMA & WLL (F)) base was 812 million. As a result the overall tele-density rose to 71% by end of March 2011 as against 4 % in March 2001. This growth of the sector can be clearly attributed to the favorable and improved regulatory structure, declining handset prices and innovative pre paid tariff structure.

With increasing competition and the need for increasing the subscriber base in rural markets, the call rates are declining. This has led to decrease in ARPU. Therefore, in spite of unprecedented growth in the mobile subscriber base, the operator margins are declining quarter on quarter.

The success of an organization depends on the degree to which they are oriented towards customers. This requires gaining customer insight in order to understand and manage the dynamics of customer expectations which forms a part of the critical success factors of any service provider. In the light of the sharp rise in the overall tele-density, the growth of this sector is attributed to the favorable and improved regulatory structure, declining handset prices and innovative pre paid tariff structure. But with increasing competition and the need for increasing the subscriber base in rural markets, the call rates are declining. This has led to decrease in ARPU. Though the Minutes of Usage (MoU) is increasing, however the same is being offset by the lowering tariffs of operations. This can be attributed to the major subscription growth that is coming from bottom of the pyramid.

As ARPU declines, the challenges for operators are to increase revenues by differentiating their offerings and develop alternative streams by offering more value added services to the existing customers. The decrease in average revenue can also be attributed to the structure of the Indian Mobility Market which is largely
prepaid. This means that most of the subscribers added are from the bottom of pyramid with low usage resulting in low ARPU.

In terms of market share, 92% of the subscriber base in India is on pre-paid connection, with the remaining 8% on post-paid subscriptions. This has also given rise to opportunities for generating increased revenue, through exploring potential Mobile Value Added Services (MVAS) like subscription packs of news, alerts etc and more exclusive roaming services tailored to pre-paid subscribers. With the assumption that today’s Value Added Services becomes tomorrow’s Core Services, both these types of services together are referred in this study as Mobile services.

Thus in launching any of its services, the telecom service providers should focus it from the perspective of customer orientation.

Today’s Indian consumer is transforming rapidly. The consumer is growing richer, younger, aspiring and specific in his/her needs than ever before. Consumers now value convenience and choice at par alongside expecting better value for their hard-earned money. A range of telecom service providers are attempting to serve the needs of this emerging new-gen of Indian consumers. The last decade has witnessed a colossal transition in the paradigms with the emergence of many private players in the telecom domain, some of whom have invested in Indian operations basically looking at the promising takeaway from the changing lifestyles of Indian consumers. They have specially tailored their modus operandi to meet the life-style demands of the upwardly mobile Indian consumers of today. The bulging purses and liberalized market are making telecom being looked up as the “big thing” for India.

1.1 STATEMENT OF THE PROBLEM

The beneficiaries of the competition being consumers, the telecom players in today’s environment are required to design and deploy customer-centric strategies not only to grab a share in the market but also to sustain in the market in
the long-run. The players have realized the importance of constant service-quality delivery to the customers for long-run sustainability. Customer relationship signifies identifying the needs of the customers and stretching out ways and means to satisfy them. To be precise, it means achieving high customer profitability—customer revenues over and above customer costs, which demands matching customer expectations with customer satisfaction. The high cost of customer acquisition is making today's businesses understand the importance of retaining the customers for long-run sustainability.

Customer Relationship Management (CRM) aims at narrowing the gap between the company and its customers. In Telecom Sector, CRM plays a vital role in not only bringing the customers close to the company, but also in identifying the changing behavioral pattern of the customers. In technology-dynamic markets like telecom, an efficient CRM system is essential, since the customer attrition is high due to the presence of close substitutes and near-zero switching costs.

With satisfied customers becoming retained customers and the retained customers becoming loyal customers, it becomes interesting to study the effectiveness of customer loyalty through CRM implementation in the Indian Mobile sector.

This study helps the mobile service providers in determining the service quality parameters that influence service loyalty parameters which in turn influence loyalty indices. Previous studies have established the influence of service quality aspects on the customer loyalty. There are some studies that reflect behavioral aspects of the customers and the relationship on loyalty. But any such contemporary management practices when adopted by certain industry sectors need to be confirmed for its effectiveness.

Thus CRM which is being widely adopted by the mobile service providers needs to be measured with respect to the degree to which the customers turn advocates; the degree to which the customers return to the company for repurchase i.e. in the context of cross selling and up selling and the degree to which
the customers show symptoms of defection. Even though some of these aspects have been explored by previous researchers to a great extent, it is felt that not much attention has been drawn into measuring the effectiveness of loyalty, particularly for sustained presence. Hence it is felt that a closer study on this aspect would be worthwhile. The study further provides useful information and opens up new avenues for future research.

1.2 OBJECTIVES

The study has the following objectives:

1. To identify customer perceptions of service quality of mobile services used by them.

2. To analyze the service loyalty dimensions that impact the loyalty levels of the customers

3. To assess the loyalty indices that provide directives for strengthening CRM

4. To present a path model for establishing and confirming the relationship (if any) existing among service quality, service loyalty and loyalty indices

5. To provide suggestions to the service providers to base their CRM strategies on the findings of the study.

1.3 HYPOTHESES

H_{01} : There is no significant relationship between demographic variables and service quality dimensions.

H_{02} : There is no significant relationship between demographic variables and service loyalty dimensions.

H_{03} : There is no significant relationship between demographic variables and loyalty indices.
H₀⁴ : There is no significant relationship between service quality and service loyalty.

H₀⁵ : There is no significant relationship between service quality and loyalty indices.

H₀⁶ : There is no significant relationship between service loyalty and loyalty indices.

1.4 DELIVERABLES OF THE STUDY

This study would deliver an analytical insight to the strategic policy options to the competing service providers, industry onlookers and others concerned with the industry who are involved in the CRM practices. To the academic researcher, the study would provide a knowledge base to probe further, into new horizons of research.

The specific deliverables are:

- The study would provide insight on the impact of demographic variables on the service quality, service loyalty and customer loyalty of the mobile service provider.

- The confirmatory factor analysis would give a research insight as to the influence of each of the latent factors in strengthening the CRM practices, while the confirmatory path reveals the critical quality variable(s) to concentrate on in order to improve service loyalty.

- The study would suggest strategies for improvement to the various players to match the expectations and to sustain in the competitive environment.
1.5  SCOPE AND LIMITATIONS OF THE STUDY

The following are the scope and limitations of the study.

- The findings of the study can be extended for further research on varied perspectives and other sectors namely,

  Insurance and Banking
  Hospitality
  Healthcare

and other segments where service quality plays an important role in CRM.

- The study is confined only to the GSM and CDMA mobile user segment and as such the results derived may not be applicable to the other segments of the industry.

- The study limits its applicability to Chennai city and can be extended only to markets having similar demographic, geographic and socio-economic characteristics.

- The study applies convenience sampling method of data collection, and the limits that apply to this sampling method of data collection hold good for this study also.

1.6  CHAPTERISATION

Chapter 1 presents the introductory perspectives and an overview about the Indian Telecom industry. The chapter includes an introduction to the research problem, the research objectives and gives the scope and limitation of the study concepts.
**Chapter 2** provides a detailed overview on the literature reviewed by the researcher in order to have an insight into the research studies undertaken in related areas; to identify the research gaps and also to obtain a sound knowledge about the methodological issues.

**Chapter 3** focuses on the research methodology for the empirical study. The research design is discussed in terms of the scale development, questionnaire design, data collection, and participant selection, and sample size design, data editing, coding and categorizing and analyzing procedures.

**Chapter 4** presents a comprehensive note on the path of growth trends and transitions of the Indian Telecommunication industry. It also covers a detailed competitive analysis of the Indian Telecom Industry,

**Chapter 5** presents the processes and results of the preliminary data analysis and hypothesis testing are discussed in detail. Profile of participants and response rate for this study are described. Preliminary data examination includes descriptive statistics of mean and standard deviation, and normality. Reliability of the measurement scales are examined, followed by the testing of hypotheses.

**Chapter 6** discusses on the findings arising from the research, which will throw light on the significance of the path models and the findings on the effectiveness using Data Envelopment Analysis.

**Chapter 7** covers the overall conclusions of the dissertation. Conclusions are drawn about the research problem and the implications for researchers and practitioners are discussed. Limitations of the study are identified and areas for further research are suggested.
1.7 SUMMARY

This chapter provides the foundation for the thesis. It provides a context and justification for the study. The research problem and research questions addressed in the study were introduced. The main purpose of this study is to investigate ways to strengthen CRM practices by the Mobile Service Providers. Methodology underlying the purpose of the study was briefly described and justified. Definitions of the key concepts are also presented. Some delimitations of the scope are delineated and a chapter structure was provided for the whole thesis. On these foundations, the thesis proceeds with a detailed description of the research beginning with the chapter two - Literature Review.