EFFECT OF RELATIONSHIP MARKETING ON CUSTOMER RETENTION: EVIDENCE FROM MOBILE TELECOMMUNICATIONS INDUSTRY OF A LARGE EMERGING ECONOMY

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INTRODUCTION

Telecommunications are regarded as one of the primary forms of infrastructure for economic development of a nation. They have the ability to connect various companies and countries, making the world a global village. This primacy is due to enormous technological progress and high degrees of competition (Gerpott, Rams and Schindler, 2001; Saxena, Thakur and Singh, 2009). As a large emerging economy, India has the fifth largest telecoms network in the world and is on an exponential growth path. As of July 2010, there were 652.42 million customers, registering a staggering growth rate of 47.7% during the previous one year. The tele-density is only 58.17, indicating enormous potential for growth (TRAI, 2010).

Historically, the government controlled the telecommunications sector. Privatization and deregulation, which started in 1991, allowed the private sector to play an increasingly important role. Government now regulates this sector through a unified licensing scheme that provides a level playing field for multiple operators who engage in fierce competition (Shukla, 2005).

Until recently, the Indian mobile industry focused heavily on the acquisition of new customers and the fight for market share. However, this sector has witnessed increasing losses due to customer churn rate. In 2009, the churn rate was 53.2 percent and is expected to increase to 56.6 percent (Gartner, 2009). According to Jain and Lakshman (2003), such churn of Indian customers can be attributed to their value-conscious nature. Under this scenario, a shift in strategy is imperative. Today's companies find themselves more and more in a situation in which they have to build professional customer retention management systems. Many mobile operators are willing to pay significant amounts to retain customers and maintain relationships. Reichheld and Sasser (1990) claimed that the profitability of an individual customer grows with the duration of the business-relationship. To achieve this, telecoms companies have developed a mix of relationship marketing tools to establish and build profitable customer relationships (Gustaffson, 2004).

The purpose of this study is to investigate whether relationship marketing can influence customer retention in the context of cellular mobile telecommunications. Consequently, a model is proposed which includes variables such as relationship marketing tactics, perceived relationship investment, relationship satisfaction and customer retention. Marketing tactics are further sub-divided into four categories, namely rewarding, personalization, preferential treatment, and communication. To enrich the study, the effects of additional variables deemed relevant to the context, such as payment equity, perceived difficulty in switching, and attractiveness of alternatives, have also been included in the model for empirical testing.

METHOD

To measure and analyze the model, we developed a survey instrument. All the variables were measured using a multiple-item scale which required the respondents to indicate their degree of agreement or disagreement with a statement or to answer a question on a Likert-type scale. The survey instrument was pre-tested to check if it was well understood and suitable for cellular mobile customers. Some words were modified to improve clarity.

Using the pre-tested and modified instrument, a survey was conducted in the most cosmopolitan and commercial city of India – Mumbai – and data were collected from 344 respondents from varied backgrounds. After examining the completed survey, 317 usable questionnaires were selected for analysis. To test various hypotheses, multiple regression analysis was conducted using SPSS. The moderating effect of payment equity, attractiveness of alternatives and perceived difficulty in switching were also tested following the suggestions of Too, Souchon and Thirkell (2001).

FINDINGS AND DISCUSSION

The findings of the research indicate that use of relationship marketing tactics has a positive impact on perceived relationship investment, leading to relationship satisfaction and, ultimately, customer retention. The results confirm a few findings from previous research (De Wulf, Odekerken-Schroder and Iacobucci, 2001; Odekerken-Schroder, De Wulf and Schumacher, 2003) showing a positive relationship between marketing tactics and perceived relationship investment. All four relationship marketing tactics were also found to have a positive role in affecting customer perceptions of relationship investment.

Further, perceived relationship investment and payment equity were found to have a positive effect on relationship satisfaction, and payment equity was found to be acting as a moderator. This finding supports other studies such as Gerpott, Rams and Schindler (2001) in the mobile phone industry. Similarly customer retention is directly influenced by the four variables, namely relationship satisfaction, payment equity, attractiveness of alternatives and perceived difficulty in switching.

A unique contribution of the research is the finding that the customer's perception of a firm's relationship investments has a negative effect on the attractiveness of alternatives, which in turn would result in increased customer retention.

CONCLUSION AND IMPLICATIONS

The study has shown how relationship marketing can play an important role in retaining customers in the context of the Indian cellular mobile industry, which is both growing and highly competitive. This suggests that rewarding tactics such as loyalty programmes or discounts would likely enhance customer perceptions. Market segments such as urban- and rural-based may be identified for appropriate packages of relationship marketing tactics.

Customer perceptions were found to play a critical role in establishing relationships. This leads to relationship satisfaction, which in turn positively affects customer retention. A high level of perceived service due to the provider's investment in the relationship decreases the attractiveness of alternatives, which translates to higher customer retention. This could be enhanced by increasing the perception of difficulty in switching through brand building and other relationship investment measures. The finding that payment equity has a strong effect on relationship satisfaction and customer retention indicates the price sensitivity of Indian mobile customers. This may, perhaps, require careful market segmentation and price discrimination approaches to leverage the full potential.

The study extends previous research in the area of relationship marketing practices, and fills the gaps in the literature by examining the effect of relationship marketing on customer retention in the Indian cellular mobile industry. For practitioners, the findings can serve as a guide to enable managers to devise retention-focused marketing programmes and implement relationship marketing tactics.

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