

INTI UNIVERSITY COLLEGE

MASTER OF BUSINESS ADMINISTRATION

Factors Influencing Customer Loyalty in Telecommunication Industry

- A Students outlook of Customer Loyalty

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Abstract

In the telecommunication industry, customer loyalty is the key to the organizations standings in the marketplace. With unified Telco prevailing in Malaysia, customer loyalty is the base for the organizations operating in the service industry (telecommunication). Developing this knowledge, the study focuses on the important factors (quality, price, value, service, satisfaction and Customer Relationship Management Programs) that have significant effects on the customer loyalty for the telecommunication industry of Malaysia. The study will focus towards the student population of Malaysia and their perception towards loyalty for the current telecommunication firms used by the student, also the decisive factors for loyalty would be derived from the results of study conducted from the students. The overall purpose of this research is to develop a conceptual foundation for investigating the customer loyalty for the telecommunication industry, with the use of the concepts of customer satisfaction, pricing and relationship quality. The research involves a critical examination of the satisfaction-loyalty, price loyalty and the development of a more comprehensive view of the customer's quality, value and service perception with loyalty.

A quantitative method with deductive approach is chosen in this research. In order to collect primary data, a self-completed questionnaire is designed and giving to students who are linked with a particular telecommunication agency that serves multiple telecommunication service provider. The SPSS for windows is used to process the primary data. The findings shows that determinants like price, value, loyalty program and satisfaction have a significant effect on customer loyalty as compared to quality with has a very weak fit to customer loyalty as in the students perspective. With the student attitude and behavior fast changing the factors that affects customer loyalty, has been combined to create a customer loyalty model that focus on improving the loyalty factor in amongst student population.

This study can serve as a model to be adopted for years to come in the decisive factors for customer loyalty in the telecommunication industry of Malaysia. The variables, specifically pricing, value, service, quality, satisfaction and customer retention programs are in use for years, through various industries. These particular decisive factors will continue to be of use across the telecommunication industry and other service-oriented industry, as efforts are made to measure customer loyalty in a scale that is usable across the Malaysia.

Keywords: *Customer Loyalty, Satisfaction, Telecommunication Industry, Customer Value, Quality, Pricing and Loyalty Programs.*

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Chapter 1

Introduction

The introduction chapter will start with a background of the subject followed by a problem statement and the research questions and objective, then the purpose of this study will be presented. This chapter will end up with limitation and operational definition

1.1. Background

Customer loyalty is a platform that provides a base for customers and organizations implementing it to be mutually beneficial. Malaysia's telecommunication industry has undergone many changes in the past few years. In the year 2008, the Malaysian telecommunication industry went through a massive restructuring, whereby it allowed customer to use the same mobile phone number, but can switch between different telecommunication service providers (Zainudin, 2009). This created a stir, and pushed all the organization in the telecommunication industry to focus more towards developing customer loyalty, to retain their customer and to gain newer customers.

Telecommunication is a service industry and customer is the core for its sustainability, and customer loyalty is a key to improve their business. With increased competition and restriction in business process, customer loyalty has become the core competence for the telecommunication industry. To compete in such overcrowded and interactive marketplace, telecommunication organizations are forced to look beyond the marketing strategy, which are not longer enough to be implemented for achieving competitive advantage. Therefore, customer retention using loyalty build-up has become an alternative

means for organizations to develop strong, ongoing associations with their customers.

Customer loyalty overall is an individual entity that has been having dependency on various elements. These elements can have an effect of how customer loyalty could be utilized effectively. As a part of customer loyalty, elements like quality, satisfaction, trust, brand, pricing are utilized to acquire and retain customers via loyalty. This has become one of the keys to success in acquiring strong competitiveness in the present markets, because of its implications for access to markets, generation of repeat purchase, creation of exit barriers, and the view that it benefits all parties.

The telecommunication industry is becoming one of the most important industries in the world. The telecommunication industry delivers voice communications, data, graphics, and video at ever-increasing speeds. Telecommunication influences the world economy and the telecommunication industry's revenue was estimated to be \$1.2 trillion in 2006. The competition is also becoming more and sharper. In order to obtain sustainable competitive advantage, telecommunication firms are forced to make innovation and do the best for retention. Due to this, customer loyalty plays an important role in telecommunication industry (Gronroos, 2004).

Customer loyalty is one of the main influential factors that most of the telecommunication organizations use to improve its standing in the competitive market, unlike the traditional approach, that focuses only on gathering new customer. Customer loyalty provides the foundation of a telecommunication organization's sustained competitive edge. Developing and increasing loyalty is a crucial factor in telecommunication organization's growth and performance (Reichheld F, 1996; Lee & Cunningham, 2001). What a customer perceives, affects their judgment and later customer satisfaction and customer loyalty. It is an industry-wide belief that the best core marketing strategy for the future is to try to retain existing customers by increasing customer's loyalty and value (Kim *et al.*, 2004). Customer loyalty is the core of most organization that has

customer in the center of the business process. In Malaysia, many telecommunication firms have implemented customer loyalty programs, but the loyalty level towards the organizations tends to be quite non-optimistic.

This research examines from the student perspective of what is customer loyalty and what are the elements that contribute towards students as the loyal customers.

1.2. Problem Statement

The dissertation mainly focuses on the customer loyalty in the usage of telecommunication services, where the focus for identifying customer loyalty will largely dwell on the students in the higher education level. It is the norm for people from the age group of 17- 25, to adopt the trend of often switching between their service providers, whether in telecommunications or other service sectors. Therefore with this ongoing trend, the customer loyalty in terms of service usage tends to be on the lower end for the aforesaid age group people, which incidentally are the average age group of the tertiary or higher education students (Peng and Wang, 2007). Besides service, the other main factors that contribute to customer loyalty are quality, satisfaction, pricing, value and loyalty program. According to Zeithaml (1988), the telecommunication organizations and higher education students do not completely understand the effects of all these factors for their effective and efficient use of the service rendered. Telecommunication organizations have generally been found to gain customer loyalty only from certain factors i.e. pricing and loyalty programs while other factor were certainly not of their core concern and thus created a bias factor amongst the achievement of customer loyalty (Reichheld, 2003).

Currently, students are one of the most dominant users of the telecommunication service. The customer loyalty factors like quality, satisfaction, pricing, value and loyalty programs could be the vital pointers to increase the customer loyalty amongst the student population which will eventually lead to an increase in retention. This could certainly pave the way for

the organization to have a competitive advantage in the customer loyalty in the area of telecommunication. Indeed, with no costs involved between switching among service providers, the students will certainly have plenty to gain. However, with customer loyalty as the main concern and with utilizing the other plus point factors like quality, satisfaction, value, pricing and loyalty programs as a whole combination for loyalty, the retention level of students could be dramatically increased.

Most of the telecommunication organizations are bias in utilizing only certain factors like satisfaction and pricing as the tool for customer loyalty (Reichheld, 2006). The students in the higher education level are not much familiar with customer loyalty of how loyalty can improve their usage. According to Spencer (2008), most of the students concentrate mainly on low pricing and value as the main elements to look for in customer loyalty. With a mix of beliefs in terms of factors concerning customer loyalty, there has not been a common focus of how customer loyalty can be chained up using all these factors as a key and ways through which students can derive to a conclusion on increasing their loyalty level and retention rate towards a particular organization.

1.3. Research Questions

Companies have implemented various customer loyalty practices to attract students, some of those tactics did not work effectively, and there are phenomena showing that switching behavior frequently occur among most of targeted customers (students). Accordingly, the research questions are brought forward as follows:

- How do factors like satisfaction, price, quality and value contribute to customer loyalty?
- How different customer loyalties factor do affect loyalty of students in higher education level?

- What are the possible ways to improve student loyalty using the customer loyalty factors from the results of the research?
- What is the gap that persists in students mind about loyalty available and loyalty expected from the organization.

1.4. Research objective

The objective of the research is to focus on customer loyalty in usage of telecommunication service with students in higher education level as the focus of the research.

- To determine the difference factors like pricing, quality, value and satisfaction contributing to customer loyalty
- To identify the understanding of customer loyalty and its contributing factors from the students of higher education level.
- To determine the possible customer loyalty model to clarify the usage of telecommunication service amongst student of higher education level.

1.5. Significance of Study

The research aims to find the reasons why customer's loyalty tends to change in Malaysian telecommunication industry and analyzing the students need and wants in an organization for the customer to be loyal to the organization. The research conducted on the customer perspective of customer loyalty will indicated how loyalty compliments the customer transition with the organization and decision-making. The outcome of the study can help telecommunication organization to understand the factors involving customer loyalty the concerns to take into consideration. I.e. when a student is loyal towards a particular telecommunication organization and any factors of satisfaction or quality affects the customer, how will the student's loyalty level rise or fall towards the

organization, customer switch loyalty with other telecommunication organization, and will mishap in one customer affect all the other loyal customers in the organization.

Furthermore, the survey conducted will highlight the factors that must be considered when focusing towards the customer loyalty in perspective of both organization and students in the higher education level. Which in turn will help the student have a better participation on his/her loyalty towards the organization and the organization can improve their business model and their loyalty programs that help the organization to have more valuable customer and gain success.

1.6. Limitation of Study

There are various limitations; firstly, the customer loyalty will be based on the usage of the telecommunications service from the student in the higher education level perspective. Students having very low customer loyalty, getting them to understand the perspective of the customer loyalty, and getting the feedback is certainly a challenge. And also, the accurate output gathering from the student's perspective in a usage of telecommunication is a challenging task i.e. valid and reliable information analysis is a key challenge.

The second limitation is that, the research is focused towards analyzing the factors involved in customer loyalty, each of these factors have their own effect, which may contradict in achieving a proper analysis in customer loyalty. I.e. satisfaction might contradict with quality, but the research is focused on how quality and satisfaction can affect customer loyalty, not how quality can affect satisfaction. Thus having a clear structure of focus would be a challenge in the research. Even though it might look up a major challenge, any contradiction in the minor level would certainly affect flow of research.

Thirdly, the research needs to get information from students in their perspective of customer loyalty and collecting information from study population is quite a

challenge. I.e. the problem could be the understanding of customer loyalty. Because there are not global factors that could define customer loyalty, each of the target population might have their own understanding in the customer loyalty based on which the data gathered could have biasness.

In this research, it investigates some important tactics, which influences customer loyalty on Malaysian telecommunication industry. However, Bansal, Taylor & James (2005) also pointed out the impact of the customer loyalty — “push effects”(quality, satisfaction, value, trust, price perception, commitment), the “pull effects”(alternative attractiveness) and the “moor effects”(attitude towards switching, subjective norms, switching costs, prior switching experience, variety seeking) — on retaining customers. There are others important tactics such as commitment and customer behavior, which could influence customer loyalty, have not been discussed in this study. Thus, further research needs to contain more desirable tactics, in order to gain better insight.

In this research, it uses the survey research method. The research makes sampling for the undergraduate students and master students who study are linked with telecommunication agent in and around Inti University College. Inevitably, the survey findings will not be generalized cross other group of population. It will bring limitation to complete a deeper research about the impact of customer loyalty. Further research could expand the survey in order to reduce the sample errors.

The items for each construct stated in the questionnaire were adapted from previous articles or developed by the researchers without pre-testing for reliability and validity before conducting the research. Some of the items might be ambiguous or hard to understand, this would cause invalid data collected, which definitely influenced the research results.

1.7. Assumptions

The assumptions for this study are that most of the student relates their loyalty based on the price and offering. As told my Economist Paul herbier, student in higher education level, because of their economic status and financial structure student tend to deviate their interest towards pricing.

Most of the students tend to confuse satisfaction with loyalty, and all the other factors involved with the customer loyalty will certainly have a strong influence on the customer loyalty in terms of the students. Since most of the student population involved will, certain have theoretical understanding of the customer loyalty it would certainly be have a strong influence in terms of the information analysis.

Factor involved in customer loyalty are focused on Quality, satisfaction, pricing, value and loyalty programs. Many other factors could influence customer loyalty. However, the combination of these factors would certainly have a greater influence on the customer loyalty focus as compared to other factors. With students in higher education, level literate on only few factors that they could relate their loyalty too. The assumption is that the research would provide the framework through which loyalty will be perceived an entity rather than a particular focus.

Students in higher education sector, have less consciousness about customer loyalty and the factors surrounding it. The major assumption is that the research is structured around the students in higher education are more focused at acquiring the product/service rather than involving in loyalty with the organization.

1.8. Operational Definition

Customer loyalty is one of the lifelines of the service industry, especially in telecommunication. With the research, focusing on various factors that can contribute to customer loyalty, the operation definition will provide a clear definition of the key variables that are involved in the customer loyalty factor.

Customer loyalty – customer loyalty is the core module of this research. Customer loyalty in telecommunication usage is the focus for most of the telecommunication organization. In the service industry, where customers are the base of the business operations, loyalty is the tool that push customer to benefit the organization and organization to benefit act of loyalty. Customer loyalty is a combination of multiple factors that creates the structure of loyalty in the organization. Customer loyalty defined as answering, 'Agree', when asked the question, when asked the question, "My loyalty to telecommunications service provider has grown stronger".

Willingness to recommend - Willingness to recommend serves as one of the few forward measurements that can access the student's satisfaction, whereas most other metrics are latent in nature, it is a good measurement of the intensity of satisfaction. Willingness to recommend focused as positive word-of-mouth marketing that is free and highly effective towards the customer loyalty. Willingness to recommend would be defined as answering, "Agree," when asked the questions, "I will encourage friends and relatives to use the services offered by this telecommunications service provider".

Repurchase Behavior - This variable provides the measure of the satisfaction of the students towards the telecommunication usage. The repurchase behavior indicates the satisfaction of students leading to loyalty. Higher repurchase rates is one of the fundamental assumptions of relationship marketing, empirical evidence concerning the satisfaction providing the gateway to customer loyalty. Repurchase behavior would be defined as answering, "agree," when asked the questions, "I would like to repurchase the products and services from my current telecommunication provider".

Brand equity - Refers to the marketing effects or outcomes that accrue to a telecommunication usage with its brand name compared with those that would accrue if the same product did not have the brand name. In addition, at the root of these marketing effects is student's knowledge. In other words, student's knowledge about a telecommunication brand makes manufacturers/advertisers respond differently or adopt appropriately adept measures for the marketing of