# Conceptualizing Loyalty in the South African Mobile Telecommunications Industry

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CONCEPTUALIZINGLOYALTYINTHESOUTHAFRICANMOBILETELECOMMUNICATIONSINDUSTRY

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# Conceptualizing Loyalty in the South African Mobile Telecommunications Industry

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## I. Introduction

The telecommunications industry is a highly competitive, dynamic environment in which players need to maintain a competitive advantage to ensure business continuity and prevent strategic drift (Arsal & Yatera, 2014). In order to succeed in such challenging, dynamic environments customer loyalty becomes pivotal (Santouridis & Trivellas, 2010), since in an increasingly saturated environment, businesses must devise strategies to enhance loyalty in order to off-set lower acquisition numbers and ensure future value can be realised from existing customers. Furthermore, in a consumer-centric view of economic activity, one must anticipate that individuals seek to optimise consumption or value in order to satisfy their needs. If they are not able either to satisfy their needs or receive the maximum amount of subjective value given their socio-economic circumstances, customers will change their behaviour and preferences and loyalty will become eroded. Most mobile subscribers in South Africa are shared among three major providers, which for the purposes of this study have been labelled provider A, B and C. As of July 2014, provider A was estimated to have 43.5% of the market share, and C approximately 20%, and B 33%, due to having lost 5% of its previous subscribers to C (Mawson, 2014). The market is thus showing signs of having evolved from its previous duopolistic state to a more competitive environment and furthermore, the state owned fixed line provider, referred to as provider D, is the most recent 'kid on the block' and to date it only holds an estimate market share of 2.5% (Mawson, 2014).

The telecommunications market in South Africa has become increasingly competitive, and providers C and D are launching aggressive promotions to 'steal' market share from the big players (Tarrant 2013). Towards the end of 2013, the CEO of provider B suggested that the current 'price war' could lead to market failure. While service providers are placing their hopes on data-related products and services, there appears to be increasing focus on driving loyalty to retain current customers. In fact, industry writers are not only recognising the problem of loyalty but claim that mobile services customers are ditching their service providers faster than ever in the history of the industry (Goldman, 2012).

In a competitive market where margins are getting smaller and traditional products and services like mobile voice are reaching saturation, deriving more value from existing customers is undoubtedly a significant business challenge. Total loyalty of servicing all one's mobile communication needs is a function of the interplay between organisations and customers and, the ability of companies to maximise the derived value perception of customers. Customer loyalty will fade through switching or using multiple service providers if their mobile communication needs are not satisfied, or if they could derive greater benefit from another service provider. In view of the multiple ways in which loyalty affects customer behaviour, this study seeks to understand loyalty as a phenomenon, and conceptualizing the factors which may influence customer loyalty in the South African tele-communications sector.

## II. Literature Review

Customer loyalty is an important consideration for businesses because it promises a steady source of revenue through repeat purchases and upselling potential. It can also drastically reduce the need for promotional activities and hence reduce costs while increasing profitability.

When reviewing the literature on customer loyalty, it becomes evident that the concept is somewhat ambiguous, and the common problem is that there is little agreement on what exactly constitutes customer loyalty. In early studies two dominant perspectives of loyalty prevailed: loyalty as behaviour and loyalty as attitude (Wong & Zhou, 2006). Attitudinal loyalty refers to a consistent expression of favour for a brand, while behavioural loyalty implies that a consumer is loyal, based on repeated purchasing behaviour. By taking a

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behavioural stance, Sharp, Sharp, and Wright (2000) posit that attitude holds little value in determining brand loyalty, unless it translates into behaviour. The a forementioned research is based on the premise that there is no 'true' definition of brand loyalty and, hence all debates on the topic become a fruitless exercise. The 'attitude perspective', on the other hand, suggests that just describing the behaviour of a consumer does not suffice, unless the research highlights the underlying pattern of attitudes and preferences. In this way, loyalty would not only describe a measurable trait but also assume an explanatory dimension in order to analyse why consumers make certain choices (Khan, 2009).In their three-dimensional model Worthington, Russell-Bennett, and Hartel (2009) contend that three factors affect human behaviour: cognitive processes, attitudes and behavioural responses. Thus, a customer is brand loyal if he/she feels and thinks positive about a brand which in turn leads to action or purchases (Worthington et al., 2009). There are, of course, other researchers who ignore behavioural versus attitudinal perspectives altogether and propose alternative models by describing loyalty in terms of an intellectual and emotional dimension. Emotional loyalty happens when consumers feel connected to a brand without even considering alternatives, while intellectual loyalty is transactional and requires customers to rationalise their commitment to a brand. Bandyopadhyay and Martell (2007) argued that the meaning and operationalization of brand loyalty has not been fully understood, and they see the greatest challenge being understanding and inclusion of attitudes in analysing loyalty, because it hardly ever leads to empirical data that can be applied across brands and categories. In this article, the researchers adopt Oliver's (1999), definition which states that customer loyalty is a deep commitment to re-buy or re-patronise a certain product or service in the future, irrespective of marketing efforts or situational influences that could cause the customer to switch to another brand.

Hossain and Suchy (2013) examined the interplay between customer satisfaction and loyalty in the telecommunications industry, and they argue that five factors, namely communication, price structure, value-added services, convenience and customer service/care have positive correlations with customer loyalty. However, there are shortcomings in the applicability of Hossain and Suchy's (2013) study for several reasons. The aforementioned study was conducted for the telecommunications market in Bangladesh, and thus lacks local (South Africa) relevance, since the extent of the correlation between the variables will be relevant for the market in which the study was conducted. Even though the variables namely, communication, price structure, value-added services, convenience and customer service/care, are likely to also have an impact on loyalty in the South African market, their weighting/impact is likely to be different. The five variables in the aforementioned study excluded brand image, and whether there is a correlation between loyalty and the customer's perception of the brand. This is important, since numerous studies confirm the relationship between image and customer loyalty.

A study on brand loyalty in the telecommunications sector in Pakistan (Nawaz & Usman, 2011) offers a theoretical model for loyalty, by proposing that the following four variables as antecedents of brand loyalty, namely: trust, satisfaction, service quality and commitment (Nawaz & Usman, 2011).

From a study among Vodafone subscribers in Ghana, Boohene and Agyapong (2011) argue against a positive correlation between customer satisfaction and brand loyalty. The aforementioned researchers contend that "focusing a great deal on satisfaction may not drive up customer loyalty as it can bring about possible neglect of some important service quality aspects that can bring about a decrease in customer loyalty" (Boohene & Agyapong, 2011, p. 236).

Kruger (2013) investigated brand romance, attitude and loyalty in the South African cellular market and found, amongst other issues, that consumers stick to a brand device for a period of one to three years. Such findings, albeit interesting, have limited relevance to this exploratory study because devices are 'product' brands whilst providers are 'service' brands.

From a study on the financial sector, Clarke (2012) claims that bank customers on a global scale are becoming less loyal to their banks and this trend is also noticeable in South Africa. In the aforementioned article, it is reported that between 2011 and 2012, customer churn in the banking sector increased by 17.4%. Moreover, 70% of clients who have switched to another bank are reported to state high prices as a reason for the change (Clarke, 2012). Such findings are interesting because they suggest that fading loyalty could be a cross-industry phenomenon.

The structure of most studies is that the researcher would first define the antecedents of loyalty according to a theoretical model and then examine the relationships between each of these variables and the independent variable of customer loyalty. For example, Craucamp (2012) researched factors influencing customer loyalty, retention and satisfaction in the South African banking industry and his findings confirm the implication of the Ernest & Young report that there is a strong correlation with fees (prices) and customer loyalty. Craucamp (2012) cites customer satisfaction, switching barriers, perceived value, customer retention, competitive advantage and relationship marketing as having a significant impact on customer loyalty.

From the general discussion above, the researchers have extracted the following constructs,

namely, brand image, customer satisfaction, perceived quality, and perceived value to explore their association with customer loyalty.

## III. BRAND IMAGE

Although there is no universally accepted definition of brand image or agreement on how to measure it as a variable, in the context of this article, it seems sufficient to view the concept as consistent with existing associative network memory models, whereby brand image refers to the cluster of associations that a customer connects to a brand name in their mind (Dobni and Zinkhan, 1990). Brand image and associations thus become a vehicle for constructing meaning to a customer. Romaniuk and Nenycz-Thiel (2013) propose positive relationships because customers with higher re-purchase behaviour are more likely to cite positive brand associations. Sondoh, Omar, Wahid, Ismail and Harun (2007) conclude that managers should strive to maximise brand image benefits in order to maximise customer satisfaction and loyalty. Onyancha (2013) posits that a positive brand image enhances customer loyalty as well as perceived quality, which in turn influences loyalty through enhancing customer satisfaction.

According to Keller (2008) brand equity is unique from customer loyalty since brand equity is the differential effect that brand knowledge can have on the way a consumer responds to a brand. For Aaker (1996) brand equity has four dimensions: brand name awareness, brand loyalty, perceived quality, and brand associations (1996, p.8). A brand has high customer-based equity if consumers perceive the quality of the brand to be high; there is a high level of awareness of what the brand stands for; customers are loyal to the brand; and customers have positive associations with the brand. Of interest for this study, is Keller's (2008) regard of brand equity as an antecedent to brand loyalty. This view is not fully consistent with the view of Aaker (1996), who primarily sees brand loyalty as a dimension of brand equity. Nevertheless, Aaker (1996) concedes that brand loyalty could be both, a dimension of brand equity and an outcome of positive brand equity.

Although brand equity is a complex concept with multiple variables, research relating to declining loyalty should also look at how customers perceive the brand image of their service provider of choice. In light of the above, and with respect to the mobile telecommunications industry in South Africa, it is proposed that:

*P1:* Customer perceived brand image affects/is associated with brand loyalty

### a) Customer Perceived Value

Perceived value is an important consideration for both, customer loyalty and customer satisfaction, since it conceptualises the difference between how a customer evaluates all the benefits and the costs of an offering versus the costs and benefits of known alternatives in the market (Keller & Kotler, 2009). A slightly different view describes perceived value as a trade-off between perceived benefits on the one hand and monetary and non-monetary sacrifices on the other hand. It is important to bear in mind that value is perceptual and always relates to a consumer's subjective evaluation of a product or service.

The actual relationship between customer value and loyalty can be ambiguous however, this is more related to the issue of attempting to describe loyalty purely on the basis of perceived value. Setiowati and Putri (2012) investigated the impact that several factors relating to perceived value have on brand loyalty and customer satisfaction in the spa industry and conclude that perceived value does indeed have a positive effect on both, customer satisfaction and brand loyalty. Similarly, Kaura (2012) found that perceived price is an important antecedent to customer satisfaction as customers use it as a reference point to determine the quality (value) of a product. When customers perceive value to be low, this might compel them to look for alternative brands in order to maximise perceived value. This in turn results in declining loyalty (Anderson & Srinivasan, 2003).

For the purpose of this study, perceived value is looked at from an economic point of view, that is, cost considerations will be treated as a sub-segment of perceived value. The marketing literature for example describes price as one of the most important factors in determining customer satisfaction because customers generally evaluate the perceived value of a product/ service based on the price they paid (Virvilaite 2008).

In light of the above, with respect to the mobile telecommunications industry in SA, it may be postulated that:

*P2:* Customer perceived value is associated with customer loyalty

### b) Perceived Quality

Service quality is generally accepted to play an important role in predicting and explaining customer behaviour, and it thus plays a role in both, customer loyalty and customer satisfaction. Perceived quality is one of the key drivers of brand equity in Aaker's (1996) model. Here, perceived quality describes the level to which a customer feels that a brand offers good quality products and services that can be measured according to a number of criteria. It is important to note that Aaker (1996) considers price to be one of these evaluation criteria next to availability of the product; the number of available line/brand extensions; and the overall product quality as reason to purchase.

Perceived quality as a variable is closely related to perceived value because perceived quality often

serves as an evaluation criteria, based on which customers determine value (Zeithamml, 1988). Choi and Kim (2013) review several studies and find that perceived quality either indirectly increases customer satisfaction (through the positive correlation between perceived value and perceived quality) or has a direct, positive effect on customer satisfaction. Similarly, Zaibaf et al. (2012) found that that functional quality and image have a positive and noticeable influence on perceived quality and, in turn, satisfaction in the hospitality industry. The aforementioned writers however note that there is no significant relationship between technical quality and perceived quality

*P3:* Customer perceived quality is associated with customer loyalty

### c) Customer Satisfaction

The interplay between customer satisfaction and customer loyalty is arguably one of the most crucial focus areas in marketing theory and practice, because it is the culmination of efficient marketing programs (Gupta & Zeithaml, 2006). When attempting to define customer satisfaction one typically encounters similar challenges to defining customer loyalty. The challenge for example becomes evident through the debate of whether customer satisfaction is a process or the outcome of a sum of activities. Nevertheless, for the purpose of this research such debates will be set aside and there is no departure from the widely accepted conceptualisation of customer satisfaction as a post-purchase or post-engagement evaluative judgment of a specific transaction. Bae (2012) conducted a review of the existing body of research on the customer loyalty and customer satisfaction relationship, and concluded that there is a positive relation between customer satisfaction and loyalty. Bae (2012) however points out that there is an equal pool of research indicating that the positive relationship between satisfaction and loyalty is not generalizable. In light of the above, with respect to the mobile telecommunications industry in SA, it is postulated that:

*P4:* Customer satisfaction is associated with customer loyalty

In light of the above, with respect to the mobile telecommunications industry in SA, it may be postulated that:

*P5:* Customer perceived brand image is associated with customer satisfaction

*P6:* Customer perceived value is associated with customer satisfaction

*P7:* Customer perceived quality is associated with customer satisfaction

### d) Proposed Theoretical Model

Although several studies, arguments and descriptions of the antecedents to loyalty were briefly discussed or alluded to above, there is however a noticeable gap in the literature. Firstly, many of the studies are either not specific to the telecommunications sector or lack relevance to the South African context. Secondly, it was shown that many of the key concepts are not defined equally across the various literature. Each writer might have their own understanding of the concept of customer satisfaction for example; what its components are, how these components relate to each other; and how customer satisfaction exactly relates to other issues such as customer loyalty and brand equity. Thirdly, whilst there are studies showing general trends such as the positive relationship between perceived quality and customer satisfaction, these results are difficult to generalise because in some settings the relationship is direct; and in others it is indirect; and in some the relationship is hard to prove. It is for the above reasons that this study needs to collect primary data on customer loyalty in the South African tele-communications market. Based on the literature review a customised theoretical model as depicted in Figure 1is proposed.

From Figure 1 which depicts the conceptual model, it is evident that the following are hypothesised. The aforementioned propositions (P1-P7) can be depicted in the proposed conceptual model below.
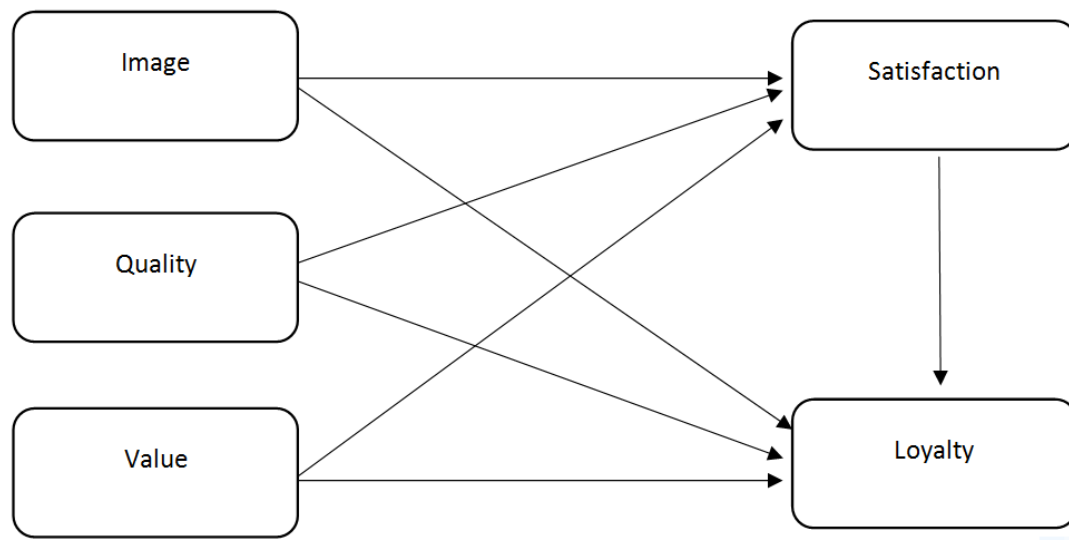
*Figure 1:* Proposed Conceptual model

## IV. Conclusions and Recommendations

Even though there is an abundance of research studies dealing with the concept customer loyalty, the paradigm to some extent remains unique in its "incapability to produce generalisable results" (Bandyopadhyay & Martell, 2007). As such, marketers and academics concerned with the telecommunications sector face a tangible need to conduct research should they wish to understand the dynamics surrounding loyalty for the respective consumers. The objective of this articles was to develop a conceptual model through interrogation of the literature on customer loyalty. From the literature review, it became evident that the image customers have of the brand and the value they attribute to the brand together with their perception of the quality of service offered by the service provider, will determine both their level of satisfaction as well as the degree of loyalty they may exhibit towards the service provider. The next logical step would be to develop a research instrument to empirically evaluate the proposed relationships among a representative sample of customers from the various telecommunication service providers in South Africa.

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