Cellular Customer Churns Due to Mobile Number Portability: Causes and the Strategies to Deal with it (An Empirical Study)

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ABSTRACT

Retaining existing customer has been considered to be one of the most critical challenges for telecommunication service providers than for attracting new ones. In telecommunication, the service offered is different from that of a general commodity sale as in the former case the service is considered to be a continuous process, wherein the service provider can offer the differentiated services throughout the customer’s tenure. This differentiation in service offered creates a demarcation from the competitors and hence establishes competitive advantage for that service provider for attracting new customers and retaining the existing ones, which ultimately determines the profitability. In this paper, the author captures this differentiation factor by investigating customer switching behavior under Mobile Number Portability (MNP) in Indian telecommunication market. It is shown that only limited attention has been paid to the customer churn under MNP and none of the existing studies incorporated psychological constructs as the determinants of customer churn. In this context, the study used discriminant analysis to understand the factors that best discriminate between switchers and non-switchers and predict (develop a churn prediction model) the customer churn behavior through incorporating psychological constructs. The findings indicate that service quality, customer satisfaction, attachment, commitment and switching costs are the major factors differentiating the switching and non-switching decisions. Service quality of the service provider found to be as the differentiating factor in churning decision. The results of the study have implications for both academicians and relationship managers; they are using psychological constructs to predict customer switching behavior.

Keywords: Customer Churn, Customer Commitment, Customer Satisfaction, Indian Telecommunication Market, Mobile Number Portability, Telecommuting

INTRODUCTION

Customer churn has become an important issue for firms operating in different fields like publishing, financial services, telecommunication, insurance, electronic utilities, health care, banking, and telephone and cable service industries (Neslin et al., 2006). Since the cost associated with the acquisition of a new customer is much greater than the cost of retaining the customer, the service providers have been in search of strategies which help to predict customer retention than acquisition. In this context, churn prediction has emerged as

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a crucial Business Intelligence (BI) application for modern telecommunication service providers (Hadden, 2007). Compared to other service industries, in telecommunication industry, power and willingness of a customer in terms of retention and altering the service provider is higher which helps to choose among multiple service providers and actively exercise their rights of switching from one service provider to another. In this extremely differentiated and competitive market, customers will demand customized products and augmented services at fewer prices.

In the telecommunication industry context, the concept of customer churn can be stated that “an action in which the current customer of a service provider cancelling the services from that particular service provider and selecting another service provider”. This type of churning includes the initiation done either by service provider or by the customer. One of the best instance of service provider initiated churning is that a customer’s account being closed because of the default in the payment of that particular customer to service provider. Customer initiated churning happens because of many reasons and vary from customer to customer and situation to situation (e.g. in those situations in which the service provider failed to provide good service quality to the customer). Due to these reasons, churn prediction has emerges as a critical mobile Business Intelligence (BI) function that aims at identifying and differentiating customers who are about to transfer their business to a competitor (i.e., to churn) (Fildes, 2002).

The rich history of customer churn prediction literature raises questions about the need for a model that includes relevant variables particularly psychological constructs. Therefore, the purpose of this paper is twofold (a) To identify the major determinants of customer churn in telecommunication industry; (b) To understand how factors like commitment, attachment, service quality, switching cost and customer satisfaction will affect switching and staying decision.

In the following sections, first, given a brief overview of Indian telecommunication industry, followed by literature review in the second part. Third, identification of factors determining customer churn which done through an extensive literature review in different fields. Fourth the study discusses the methods, measures and sample. Fifth part of the study includes analysis and results. And the paper concludes with a discussion and implications.

THE INDIAN MOBILE TELECOMMUNICATIONS SERVICE MARKET

In India the number of mobile phone subscribers has increased from 846.32 Million at the end of March 2011 to 861.48 Million to April 2011. The industry registered a growth rate of 1.79 percent during March-April 2011 alone. The detailed information about telecom subscription is shown in the Table 1.

After the introduction of Mobile Number Portability in India in April 2011 about 85.41 lakh subscribers have submitted their application to various service providers. The MNP status of various service providers at the end of April 2011 are shown in the Table 2.

In India the major chunk of telecommunication service market share has been held by private operators, which is around 88.21% in April 2011. The two major public telecommunication service providers are BSNL and MTNL, which together held only around 12% of the market share. The service provider wise market share and net additions in April 2011 are shown in the Figure 1 and Figure 2:

REVIEW OF LITERATURE

There were several attempts have been made to study and analyze the customer churn in different contexts. Wei and Chiu (2002) used an experimental evaluation for predicting customer churn and used subscriber call pattern changes and subscriber contractual information for the same. The methodology introduced by this study is capable of identifying potential churners at the contract level for a specific prediction time-
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