

Effect of Service Strategies Adopted by Internet Service Provider on Customer Retention: A Case of Airtel Rwanda Ltd

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Abstract: Due to the increase in competition and increasing market liberalization, firms in the telecommunications industry are facing a threat to the profit sustainability. As market players' increase and offerings diversify, the market share reduces causing decrease in profit. Furthermore, customers' preferences are dangerously volatile, and satisfaction of their diverse needs can prove arduous and the heightened customer awareness results in search for better alternative offerings in the market. As a result, customers may voluntarily switch from one vendor to the other. The general objective of the study was to assess of effect of service strategies adopted by internet service provider on customer retention. A case of Airtel Rwanda Ltd. The study was guided by the following specific objectives: to examine the effect of service quality on customer retention in internet service providers in Rwanda, to investigate the effect of loyalty programs on customer retention in internet service providers in Rwanda, to determine the effect of market penetration on customer retention in internet service providers in Rwanda and to determine the effect of price on customer retention in internet service providers in Rwanda. The study adopted a descriptive research design. The target population for the study was 150 full time employees of Airtel Rwanda that included IT and Network staff, Heads of the following departments: Customer Care, business Market, Marketing and Finance department. A sample size of 110 respondents was determined using Yamane's formula. Simple random sampling technique was used to select a sample size from the departments of IT and Networking, whereas Census was applied for departments where only heads were considered. The study used both primary and secondary data. Structured questionnaires and interview were used for data collection. Data collected was analyzed through SPSS version 21. Data analysis involved statistical computations for averages, percentages, and correlation and regression analysis. Results revealed that a strong relationship exist between the factors that influence customer retention in Rwanda. The questionnaires were analyzed using SPSS. Likert scales and descriptive data was used to determine frequencies. Chi-square was used to establish the relationship between retention variable factors and the customer category to establish the major determinants of retention. The Chi-square was obtained at 95% confidence level and at 68 degrees of freedom. Pearson Product Moment Correlation was used to establish the relationship between the independent variable (retention factors) and dependent variable (customer satisfaction). The results confirm that the variable factors observed have a positive impact on customer retention in the Internet Service Providers in Rwanda. From the above regression equation, it was revealed that holding Service quality, loyalty programs, market penetration and price to a constant zero, customer retention in Airtel Rwanda would be at 0.455. A unit increase on service quality would lead to increase in customer retention in Airtel Rwanda by a factor of 0.016, a unit increase in loyalty programs would lead to increase in customer retention in Airtel Rwanda by a factor of 0.182, a unit increase in market penetration would lead to increase customer retention in Airtel Rwanda by a factor of 0.153 and unit increase in price would lead to increase in customer retention in Airtel Rwanda by a factor of 0.204.

Keywords: Service quality, customer retention, internet service providers in Rwanda

1. Background

Over the past decade competitive environment maximizes customer retention probability so as to sustain the company's protection against inroads competition (Dawes, J2009). To achieve this goal customer retention key factor in determining the success of businesses today (Khan, 2010). Fluss (2010) notes that competitors are always on the lookout to steal customers through better deals. Fluss has observed that annual customer attrition rates range from 7% in industries that have high exit barriers such as banking and insurance, to almost 40% in the mobile phone industry. It can, therefore, be concluded that customers in the cellular industry keep on switching network providers for better deals. Customer retention has a direct impact on long term customer lifetime value, which is a more profitable avenue for firms that seek to pursue growth and sustainability or those that seek to protect themselves from market shrinkage resulting from a contracting economy (Gee et al., 2008). Supporting this argument, Lombard (2009) notes that today the pressure on companies to retain customers is fueled by the market where customer acquisition is slow. Customer retention is important when loyalty is decreasing, and sales

cycles are aggravating the business environment. Under these circumstances, losing an important customer to a competitor would impact significantly on the organization's profitability and growth.

Globally, considerable research has been done on the cellphone industry, especially in countries like Austria, UK, Spain, Italy, Greece and Pakistan (Abdullah, & Arokiasamy, 2013). However, most of this research has tended to focus on service satisfaction and service quality. For instance, studies that were conducted in Greece, where the mobile cellphone market has reached its mature stage (Blery et al., 2009), revealed that service quality perceptions positively influenced behavioral intentions and willingness by customers to recommend cellphone networks to prospective customers. These studies also indicated that service quality is an important factor, which contributes to the organization's ability to retain loyal customers, and thus contributing to improved organizational performance. In addition, the studies showed that prices were negatively associated with repurchase intentions. The aim of these studies was to investigate whether service quality and perceived price had any influence on customers repurchasing intentions. Similar

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studies have been done in Pakistan. Research on customer retention strategies in the Pakistan cellular industry is arguably more advanced compared to that undertaken elsewhere in the developing world, where only little research has been done on this subject. Based on existing literature, Pakistan is the only country where intensive research has been conducted around the topic and is considered as the leading country with regard to research on customer retention strategies in the cellular industry. Studies in Pakistan revealed that between 2003 and 2006 the number of cellphone subscribers in this country increased by 150%. The number of subscribers rose from 0.6 million in 1995 to over 98 million in 2009, while the cellular franchises increase from 618 to 1748 between 2003 and 2009 (Khan, 2010).

In spite of the criticality of service quality to businesses, measuring service quality causes difficulties to service providers, as of the unique characteristics of services: intangibility, heterogeneity, inseparability and perishability (Douglas & Connor, 2013). In sight of this, services need a distinctive framework for quality clarification and measurement. Among the major frameworks, SERVQUAL model developed by Parasuraman et al. (2010) is most preferred and widely used model for measuring service quality in the service industry.

Market-centered; from organizing by products to organizing by market segments. Global and local; from being local to being both global and local. Decentralized; from being managed from the top to encouraging more initiative and “entrepreneurship” at the local level. As market growth slows or as markets became more competitive, firms are likely to attempt to maintain their market share by focusing on retaining current customers. Customer retention has been shown to be a primary goal in firms that practice relationship marketing (Gronroos *et al.*, 2012). There is a general consensus that focusing on customer retention yields several economic benefits (Dawkins and Reichheld, 1990; Reichheld, 1996; Buttle 2014). As customer tenure lengthens, the volume purchased grows and customer referrals increase. Simultaneously, relationship maintenance costs fall as both customer and supplier learn more about each other. Because fewer customers churn, customer replacement costs fall. The adherents of customer retention argue that retaining customers improves profitability, mainly by reducing the costs incurred in acquiring new customers (Reichheld and Kenny, 1990; Reichheld 2016). The prime objective of customer retention is to achieve “zero defections” of profitable customers (Reichheld 2016). Customer retention therefore incorporates the notion of offering the retained customers goods or services that are thought likely to meet their needs (Reichheld and Kenny, 2010).

To improve customer retention, firms initiate a variety of strategies, including programs on customer satisfaction, complaint management loyalty (Reichheld, 2016). In understanding customer retention and satisfaction, researchers have paid particular attention to the management of service quality; developing strategies to meet customer expectations (Parasuraman et al, 2008) and explaining the impact of service quality in profits (Zeithaml et al, 2016). Managers are responsible for establishing priorities

and making strategic choices (Cravens et al, 2010), making it clear that the organization’s customer base is a key strategic asset (Schmittlein, 2010). They should provide clear direction so that the causes of customer defections are uncovered and addressed (Reichheld and Kenny, 2010). Service quality, internet and a long-term perspective all require significant commitment and clear signals from senior manager with appropriate reinforcement customer retention requires clear direction and this is the first strand of customer retention, followed by organizational structure, selection, systems and lastly staff forms. Many companies focus on strategies that overemphasize new sales, seriously neglecting the vital strategies related to customer loyalty and retention (Reichheld, 2010). If service providers knew how much it actually costs to lose a customer, they would make greater effort to retain them. The essential role of banks in international and national economies is to connect those who have capital (such as investors or depositors), with those who seek capital (such as individuals wanting a loan, or businesses wanting to grow) which is the general definition of banking (Macesich, 2010).

ISPs are companies that provide access to the Internet. An internet service provider (ISP) is an organization that provides a user with internet access via some sort of connection: traditionally, this connection was always a telephone line, although faster digital technologies such as cable and DSL have appeared in recent years. ISPs sell bandwidth to internet users and assist organizations and individuals to get connected to the internet. Organizations or individuals wanting to access and explore the myriad resources and services of the internet have to be connected to the net before they can take advantage of it. The cable service providers offer triple play services like internet, TV and telephone all on one cable once they connect their respective clients (OECD, 2011).

Internet Service Provider offer services such as Internet access, Internet transit, domain name registration and hosting, dial-up access, leased line access and server collocation. Internet service providers may be organized in various forms, such as commercial, community-owned, non-profit, or otherwise privately owned. Our project will focus on commercial ISPs in Rwanda. Most of the fixed connectivity ISP have coverage within the same regions and engage in fierce marketing strategies to get more clients. The limitation on bandwidth provision to individuals and organizations by mobile operators is what leads to the provision of fixed high bandwidth internet access by the other providers in terms of cable or fiber (RURA, 2009). Rwanda has a relatively high level of mobile penetration. According to RURA, mobile penetration increased from 7% in 2007 to 13.8% in December 2008; that is, a total national subscriber base of 1,322,637, with MTN Rwandacell securing 1,158,674 of these. The subscriber base of Rwandatel (currently known as Liquid Telecom) increased from 25,710 to 43,963 subscribers (CDMA), representing a 71% increase, with its new GSM subscriber base growing to 120,000 subscribers in December 2008. Competition within the mobile market is anticipated to remain intense due to a number of factors, including Rwandatel’s (currently known as Liquid Telecom) expansion plans and the newly merged companies Tigo and Airtel. The

study therefore assessed the effect of service strategies adopted by internet service provider on customer retention. A case of Airtel Rwanda Ltd.

1.2 Statement of the Problem

With subscriber base nearing saturation and the rising competition from globalization, the mobile industry needs to adopt strategies that defend their market and understand the impact of their retention strategies on the customer and business performance in regard to their sales, market share, profitability and customer satisfaction. Understand how they can create sustainable competitiveness through retention strategies. This is crucial to their hedging of the market against the local, international and global giants. With the lowering of the switching costs, sim-cards getting cheaper and cheaper, it has seen a lot customer churning in this industry. The players in this industry are spending huge sums of money on retention strategies as way to prevent the customer loss. Many have spent huge sums of money on infrastructure as way to better service delivery and retain customers and Airtel has been leading this regard. Thus, this research focuses on evaluating the retention strategies being employed by the mobile service providers in Rwanda. Determine the extent to which they have impacted on customer retention and satisfaction. Customer satisfaction is a critical to customer retention. A delighted customer will always return. There is also needing to understand which retention strategies have had greatest impact on customer retention and which ones did not. This is important in identifying the strategies this industry needs to focus on most. Given the role played by the ISP's, as well as the need to grow and prosper and remain profitable, there is need for management to formulate customer retention strategies. The proposed study therefore sought to fill the gap by providing answers to the following research question: -What are the customer retention strategies used by internet service providers in Rwanda.

1.3 Objectives of the study

1.3.1 General objective

The general objective of the study was to assess of effect of service strategies adopted by internet service provider on customer retention. A case of Airtel Rwanda Ltd. The study sought specifically to examine the effect of service quality on customer retention in internet service providers in Rwanda.

2. Conceptual Framework

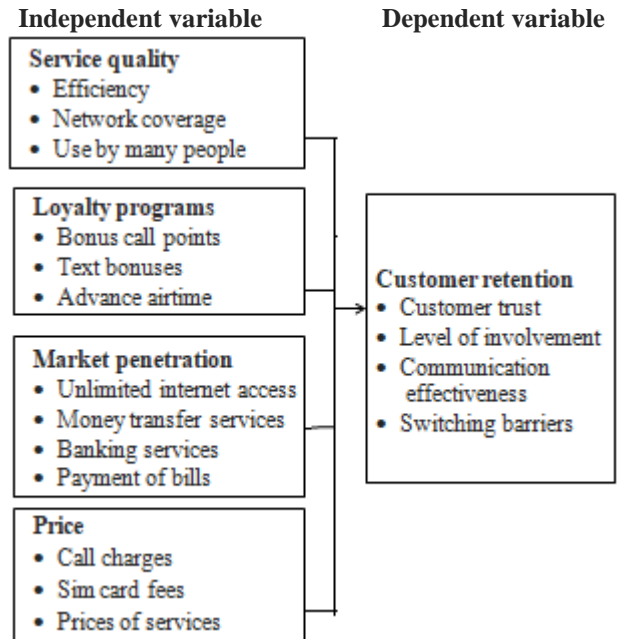


Figure 2.1: Conceptual framework

3. Target population

According to Cooper and Schindler (2008), a population is a well-defined set of people, services, elements, and events, group of things or households that are being investigated. There are several Internet service provider firms in Rwanda however; the researcher carried out a research on the Airtel as a case study. The population of study targeted by the researcher comprised of 150 employees of the Airtel Ltd in Rwanda. The population of interest in this study is homogeneous everyone has equal chance to be included in the final sample that is drawn.

4. Research Findings and Discussion

4.1 Effect of service quality on customer retention

The first objective of the study was to examine the effect of service quality on customer retention in internet service providers in Rwanda. Respondents were asked to indicate to which extent the service quality considered important influence of customer retention in their organization. Respondents were presented with a five-point Likert scale to rank these dimensions. Scale rank 5 was considered 'to a very high extent', 4 'to a high extent', 3 'to some extent', 2 'to a small extent' and 1 'to no extent at all'. Data was analyzed using mean scores, standard deviations, and correlation and cross tabulations. The higher scores for the mean indicate higher levels of each construct. A mean score greater than 4 ($M > 4$) is considered to imply to a very high extent; a mean score greater than 3.5 but less than 4 is considered to imply to a high extent; those with mean scores greater than 3.0 but less than 3.5 imply to some extent; a mean score greater than 2 but less than 3.0 imply to a small extent; while a mean score of less than 2 is considered to imply to no extent. Standard deviations greater than 1.5 implies that there was a significant variance in the way the factor was considered. This is interpreted to mean that there was lack of agreement / consensus on the responses while standard deviation of less than 1.5 would imply there was

consensus and responses did not differ substantially between one respondent and another.

Table 1: Respondents views on service quality on customer retention

| Critical factors | Mean | Std.Dev |
|---|------|---------|
| Airtel network is efficient regarding clients | 3.55 | 1.06 |
| Airtel network coverage is standard | 3.70 | 0.823 |
| Airtel is used by many clients because of the quality | 3.98 | 0.660 |

Table 1 shows that there was a high consensus ($Sd=0.83$) that the P Airtel network coverage is standard was considered to a high extent when influencing customer retention ($M = 3.75$). In particular, the highest ranked critical factor was "Airtel is used by many clients because of the quality" ($M = 3.98$) followed by "Airtel network is efficient regarding clients of all key stakeholders ($M= 3.75$)

Correlation between service quality and customer retention was done and the following relationship was found.

Table 4.2: Service quality and customer retention correlation

| | Service quality | Airtel network efficiency | Airtel network coverage | Airtel use by many people |
|-----------------------------------|---------------------|---------------------------|-------------------------|---------------------------|
| Customer satisfaction with Airtel | Pearson Correlation | .484** | .348** | .306** |
| | Sig. (2- tailed) | 0.000 | 0.000 | 0.000 |
| | N | 105 | 105 | 105 |

The relationship of service quality and customer satisfaction as denoted by the results in Table 4.7 which shows that there is a low to moderate relationship between the variables. The correlation coefficients of Airtel network efficiency and customer satisfaction is (0.484) and this considered as a moderate relationship. Also, there is a moderate relationship between Airtel network coverage and customer satisfaction as denoted by the correlation coefficient of (0.348). The number of subscribers for a particular service has no influence on customer retention as shown by correlation coefficient value (0.306) which is a weak relationship. Therefore, using overall results in Table 4.7, we reject the hypothesis. Service quality has an impact on customer retention. In support the following researchers note that, the higher the customer perception of technical and functional quality the higher the trust and customer satisfaction and the relationship commitment (Sharma & Petterson, 2009).

5. Conclusions

The main aim of the study was to assess the service strategies of ISPs and its impact on customer retention. Customer retention is a critical business requirement, Customer value is an asset to the organization. While, quality service is essential in today's competitive market. The objective of this study was to find out customer retention on service quality with respect to service quality dimensions. From the findings, the research objectives were achieved by identifying the determinants of service quality as reliability, accessibility, responsiveness tangibles and empathy. By analyzing the impact of service quality on Customer retention in the Airtel, it is observed that out of five service quality dimensions, Tangible is having a high Mean score and the ISP should concentrate on empathy as it has the least

mean score. The study also established that the combination of tangibility, reliability, responsiveness, assurance and empathy together have significant effect on customer retention. Therefore, service quality has positive effect on customer retention.

6. Recommendations

In this section, a list of recommendations has been presented based on the findings of the study conducted on effect of quality service on customer retention in the ISP sector. In relation to the findings, the study came up with following recommendations: Since ISPs are a service-oriented organization, hence providing continuous training to the employees on issues like courtesy, etiquette and communication skills while dealing with customers is of immense importance.

Since ISPs are a customer-oriented organization, hiring potential human resource is a must. And for this reason, the ISP should hire self-motivated, enthusiastic employees who will like to deal with customer and will try to solve customer complaints and other issues in an effective manner. Only then the ISP can render superior customer services and enjoy the benefit in the long run.

7. Areas for further research

The research was carried out on effects assess of effect of service strategies adopted by internet service provider on customer retention. A case of Airtel Rwanda Ltd. Based on the findings the study recommends also areas to be researched further. Moreover, further studies should be done to investigate how investment on service quality practices affects customer retention in public and private organizations in Rwanda or the effects of service quality on customer retention in other organization apart from ISPs.

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