



**CUSTOMER RETENTION IN THE NIGERIAN MOBILE  
TELECOMMUNICATION INDUSTRY**

**BY**

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## **ABSTRACT**

The massive growth rate in the mobile telecommunication market has led to a strong competition among the GSM service providers. As such the importance of retaining a customer via quality products and services by an organization cannot be overemphasized. This requires that service providers engage in marketing activities that would enable them to retain their customers, especially as the market is becoming very saturated and with little opportunity to attract new customers. The main objective of this study, therefore, was aimed to identify the antecedents that determine customer retention in the Nigerian mobile telecommunication industry in order to fill a research gap particularly in the Nigerian context. The variables used in this study as well as both the conceptual and theoretical frameworks were influenced by the expectancy disconfirmation theory (EDT). A quantitative method approach in line with the positivist philosophical view was used at all stages of data collection, analysis and results. Relevant information was collected from some respondents that use any or some of the mobile phone services of the telecommunication companies in Nigeria. The data collection instrument is based on the literature review through a survey questionnaire distributed in Kano state, Nigeria. The Structural Equation Modeling (SEM) as a quantitative tool was used to test the variables among which interrelated relationships were developed. The result of the study indicates that customers are more likely to be satisfied when they perceive the service delivered to them to be of good quality. It was also revealed that the perception of quality service will result in customers feeling that they are getting value out of their consumption. The positive perception of value and satisfaction will then result in loyalty. Ultimately, the feeling of attachment and belongingness to the service provider (loyalty) will lead to retention of the customer. Recommendations based on research findings and best global practices were offered.

## ملخص البحث

لقد أدى معدل النمو الهائل في سوق الاتصالات المتنقلة إلى منافسة قوية بين مزودي خدمة النظام العالمي للاتصالات المتنقلة (GSM). ومع هذا فإن أهمية الإبقاء على العملاء من خلال منتجات وخدمات عالية الجودة من قبل المنظمة العاملة في هذا المجال لا ينبغي المبالغة فيها. وهذا يتطلب أن على مقدمي الخدمات الانخراط في الأنشطة التسويقية التي من شأنها أن تمكن هذه الشركات من المحافظة على عملائها، خصوصا أن السوق أصبحت مشبعة جدا وأضحت الفرص ضئيلة لجذب عملاء جدد. الهدف الرئيس من هذه الدراسة هو تحديد السوابق التي تحدد المحافظة على العملاء في قطاع الاتصالات المتنقلة النيجيرية من أجل سد الفجوة البحثية وخاصة في السياق النيجيري. لقد تأثرت المتغيرات المستخدمة في هذه الدراسة، وكذا الأطر المفاهيمية والنظرية، بنظرية التوقعات غير المؤكدة. لقد تم استخدام منهج البحث الكمي انسجاما مع وجهة النظر الفلسفية الوضعية في جميع مراحل جمع البيانات وتحليلها ومن ثم الوصول إلى النتائج. تم جمع المعلومات ذات الصلة من بعض المشاركين من مستخدمي بعض خدمات الهاتف المحمول لشركات الاتصالات في نيجيريا. إن أداة جمع البيانات اعتمدت على الدراسات السابقة من خلال الاستبيان الذي تم توزيعه في ولاية "كانو" بنيجيريا. تم استخدام نمذجة المعادلة الهيكلية (SEM) كأداة كمية لاختبار المتغيرات التي تم منها تطوير علاقات مترابطة. وتشير نتيجة هذه الدراسة إلى أن العملاء من المحتمل أن يكونوا راضين عندما يدركون بأن الخدمة المقدمة لهم ذات جودة عالية. وكشفت الدراسة أيضا أن تصور جودة الخدمة سيؤدي إلى شعور العملاء بأنهم يحصلون على قيمة حين استهلاك الخدمة. إن الشعور بالرضا عن المنتج أو الخدمة إضافة إلى النظرة الإيجابية للقيمة يؤديان إلى ولاء ووفاء العملاء. وفي نهاية المطاف، يؤدي شعور الارتباط بالانتماء إلى مزود الخدمة (أي الولاء) إلى الإبقاء على العملاء. لقد تم عرض التوصيات بناء على نتائج البحث وأفضل الممارسات العالمية.

## APPROVAL PAGE

The dissertation of Zahra Ibrahim Adam has been approved by the following:

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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*This thesis is dedicated to Assoc. Prof. Dr. Adewale Abideen Adeyemi and my beloved husband Huzaiifa Baffa Amin for their support in its entire ramifications toward making my dream of acquiring a Ph.D. degree a reality.*

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## LIST OF ABBREVIATIONS

ADF	Asymptotic Distribution Free
ASV	Average Shared Variance
AVE	Average Variance Explained
BBM	Black Berry Messenger
CFI	Comparative Fit Index
CL	Customer Loyalty
CR	Customer Retention
CS	Customer Satisfaction
CV	Customer Value
SQ	Perceived Service Quality
CPA	Principal Component Analysis
EDT	Expectancy Disconfirmation Theory
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
KMO	Kaiser-Meyer-Olkin
ML	Maximum Likelihood
MSV	Maximum Shared Variance
NBS	National Bureau of Statistics
NCE	National certificate of education
NCC	Nigerian Communications Commission
NGO	Non-Governmental Organizations
CMINDF	Normed Chi-Square
PCT	Personal Communication Telephone
RMSEA	Root Mean Square Error of Approximation
SEM	Structural Equation Modeling
SIM cards	Subscriber Identification Module
SMS	Short Message Services
SPSS	Statistical package for the social sciences
WLS	Weighted Least Square

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

At present, service providers strive for defensive marketing strategies to maximize customer retention in order to increase their market share and profitability (Kassim & Abdullah, 2010). Customer retention is one of the key relationship marketing objectives. Nowadays, the perception and application of customer retention is significantly valued by companies. Therefore, for companies to perceive and apply marketing principles in their activities, it is important to theoretically ground and empirically assess customer retention (Tamuliene & Gabryte, 2014). As stated by Adeleke and Aminu (2012), the bulk of the current marketing efforts by mobile telecommunication service providers is aimed at retaining their existing customers. Jahromi, Stakhovych and Ewing (2014, p.1258) also stress that “it is now widely accepted that companies should concentrate their marketing resources on customer retention which translates into increased revenue for the company because loyal customers continue transacting for relatively longer durations, while ignoring offers from competitors”.

The traditional ways of attracting new customers in order to gain more market shares are now being replaced by new ways and policies to satisfy and retain the company’s existing customers. This is more so in industries like mobile telecommunication where customers may likely subscribe to more than one service provider, customer retention as well as preventing customers from switching to competitors is very crucial to service providers. Most telecommunication service



providers witness that the moment customers are acquired and connected to their telecommunication network, making them satisfied and retaining them is of optimal importance compared to just focusing on attracting new users (Ahmad, Hussain, & Rajput, 2015, Abu-ELSamen, Akroush, Al-Khawaldeh, and Al-Shibly, 2011; Rares, 2014; Adeleke & Aminu, 2012; Omotayo, 2011; Oluseye, Odunayo, Adeniyi & Borishade, 2014; Akingbade, 2014). This notion is also supported by Guo, Xiao and Tang (2009, p.1152), claiming that “with the increasing chances of losing current customers and the enhanced cost of attracting new customers in today's intensely competitive market, companies are devoting themselves to more strategic efforts to retain customers”.

In addition, retaining existing customers means cutting cost of introducing and attracting new customers to a firm's customer pool. Service providers prefer to satisfy their existing customers and keep them loyal because it is much cheaper to retain them than to acquire new customers (Gerpott & Ahmadi, 2015). With loyal customers, they have a powerful tool of attracting new customers for instance, via positive word-of-mouth and recommendations made by them. Furthermore, by retaining their existing customers, they will have continuous increase in number of purchases.

Santouridis and Trivellas (2010) state that it is more profitable for a mobile telecommunication service provider to retain an existing subscriber than to acquire a new subscriber. Loyal customers are less price sensitive and are more willing to recommend the service provider to others. Also, they engage in repeat patronage which means increase in sales and cash flow. Moreover, loyal customers are always willing to try additional features offered by the service provider. Santouridis and Trivellas (2010, p.1) opine that “a 5 percent improvement in customer retention can cause a profitability increase that ranges between 25 percent and 85 percent”.

Similarly, based on Huber, Herrmann, and Wricke's (2001) findings, operational costs are much lower when dealing with a long time retained customer than with a newly acquired customer. That is, it costs service providers more to convince a new customer to patronize their service for the first time than it does to convince an already existing customer who is loyal and familiar with their services. The reason why the cost is much lower with a retained customer is that a relationship has been established which eliminates waste of time, effort, or money associated with acquiring new customers. Under normal circumstances whenever the need for a service comes up, a retained customer will simply seek to repurchase from his/her favourite service provider. Therefore, based on Huber et al. (2001) it may be suggested that service cost is comparatively less when dealing with a satisfied retained customer than a new one.

Komunda and Osarenkhoe (2012) suggest three sources that an organisation generates its market share from. The first source is customers who switch to the organisation from their competitors; the second is new customers who are patronising the service provider for the first time; and the third is the retained customers from previous patronage. Looking at these three sources of market share, the most important and profitable source is the third source which are the retained customers (Komunda & Osarenkhoe, 2012). These customers always go back to their chosen service providers despite promotions, discount offers and advertisement by competitors, sometimes even when service failure occurs. Loyalty fosters resistance to switching to competitors and causes repeat patronage to a favoured service provider (Ball, Coelho, & Vilares, 2006).

According to Ferguson and Brohaugh (2008), new subscribers make a choice of service providers based on calling plans, mobile phone features, and price (calls

and SMS costs). On the other hand, existing subscribers decide to stay or leave their service providers based on the quality of service and network provided, brand image, and switching costs. As claimed by Ferguson and Brohaugh (2008), on average, six out of ten subscribers who use the mobile phone and broadband services change service providers. Coyles and Gokey (2005) maintain that a mobile service provider found out that 90 percent of their loyal customers were customers who switch providers in search of better service alternatives and customers who use more than one line for convenience. These are customers that are not loyal to any particular service brand.

Moreover, Joia (2004) state that when a service provider loses a customer, it does not only loose the market share and the profit it gains from that particular customer but also loses the market share from those potential customers that are affected by the negative word-of-mouth spread by the dissatisfied customer. Joia (2004) further suggests that an organisation which has a higher portion of its customers switching to competitors will witness a slow growth, a reduction in profit and most of all a shorter life expectancy.

Furthermore, according to Aydin and Ozer (2005), a telecommunication service provider loses at least 2-4 percent of their customers every month. This means that customers who are not loyal to their service providers and switch to competitors cause millions of lost profits and revenues. Woo and Fock (2004) suggest that there is a 95 percent chance that a satisfied customer will return to the same service provider and re-patronise their service, while a dissatisfied customer has only 45 percent chance of returning back. Therefore, service providers who give importance to acquiring new customers but cannot retain them will not see positive results but witness negative ones in their business.

It is customary that either by functional or institutional classification, business firms operate in different industries. Even when a set of business firms are grouped as belonging to the same industry, the nature and size of business, product lines and items, market share, growth potential, etc. are some of the myriad of distinguishing factors among such business firms in the same industry.

The foregoing is to demonstrate that business firms in the Nigerian telecommunication industry do not exist in a vacuum. Rather, they operate in a market characterised by heavy competition. In this type of market, many firms have access to similar technology, produce similar products, and each firm is small relative to the entire market. The needs consequent upon the non-constant preferences and tastes inherent to human biological being should, therefore, be explored. This is because it provides ample opportunities for firms to sort through the often impassioned argument and unprecedented corporate competition they face today.

Drawing on the synthesis of the foregoing, it is quite apparent that the mobile telecommunications industry in Nigeria, like most countries in the world, has great economic potential. It is not surprising that foreign direct investments (FDIs) into Nigeria since the 1990s have reasonable preference for the mobile telecommunication industry. Therefore, it is very crucial for the GSM companies in Nigeria to be able to determine and investigate what it is that customers find as valuable or how they define value so as to provide them with highly valuable goods/service. The opinion of Dimitriades (2006, p.3) is most apposite in this regard:

Hence, understanding, anticipating and meeting consumer needs and wants is a critical strategic issue for service organizations. Customer satisfaction and loyalty – secured through high-quality products and services providing value for money for the consumer – are seen as essential for long-term survival, let alone long-term success.

The implication of this is that no individual firm in the Nigerian telecom industry, like in any free market has any significant control and impact on the price, quality and quantity of goods produced or services rendered. As such, in order to retain their customers, they have to ensure that they deliver quality services that provide value for money to their customers. This is with the intention of enhancing customer satisfaction in order to instill loyalty and ultimately, retention of the customers.

## **1.2 THE NIGERIAN MOBILE TELECOMMUNICATION INDUSTRY**

Recently, the way communication is conducted has been significantly influenced by technological revolution (Rohman & Bohlin, 2014). At the push of a button on a mobile device, two persons located in two different parts of the world can communicate with each other; they can hear and see each other instantly and simultaneously. The phenomenal change in communication technology is still unfolding; and who knows what the next decade promises in this regard.

Even when unfolding developments in communication technology is unpredictable, there is universal acceptance of the economic potentials it holds (Loo & Ngan, 2012). Due to these perceived benefits of communication, and the fact that its necessity transcends socio-economic divides, a huge market potential exists for communication firms all over the world, especially in a country like Nigeria.

Since 1999, the Nigerian economy has been witnessing transformation through a lengthy process of privatisation, modernisation, and regulation. Amongst the most affected industrial sectors of the Nigerian economy is the mobile telecommunication industry (Adekiya, 2016). The industry has been undergoing enormous growth and radical transformation since the invention of the mobile telephone hand set (Adeleke

& Aminu, 2012). Consumers were delighted with this new invention that by the mid 2000s, almost everyone has a mobile phone in Nigeria. This created new opportunities and challenges for mobile phone industries and telecom service providers. Therefore, many businesses rushed to take part in the telecom service sector. Being a free market, constant innovations and product/service enhancements have led to heavy competition within the sector.

According to the Nigerian Communications Commission (NCC, 2013), telecommunications has attracted a massive foreign direct investment (FDI) into Nigeria necessitating that firms hinge their corporate survival on the quality of service they render in order to retain their customers. Not surprising therefore, is stiff competition among service providers in order to win new customers and more importantly, retain existing customers.

Nigeria is considered to be an attractive market for telecommunication industry as it is among the fastest developing telecommunication markets in Africa (Hoff, 2006). Hoff (2006: p.1) further claims that “Nigeria offers players in the mobile telecommunications industry an impressive opportunity to benefit from a developing infrastructure and socio-economic conditions that are encouraging competition in the telecommunications market”. Nigeria has been and until today is Africa’s largest mobile phone market by subscribers (Akingbade, 2014, Adekiya, 2016; Adeleke & Aminu, 2012).

As at February 2014, the key player in Nigeria’s mobile telecommunication industry is the South African mobile telecommunication company, MTN Group, which constitutes 45 percent of market share with 57,183,745 subscribers. MTN was launched in Nigeria in August 2001. Being the first mover in the market, MTN has witnessed a massive increase in the number of subscribers within the first year (Hoff,

2006). Since telecommunication industry is massively booming in Nigeria, MTN being the leader in providing telecommunication services in Nigeria is utilising opportunities it gets to obtain the rewards provided by the market. Such a large number of subscribers shows how much of the Nigerian mobile industry market share MTN has managed to occupy over the past decade.

Airtel, an Indian based company, is the second player in the market with 21 percent market share and 26,194,336 subscribers. The third main player in the Nigerian mobile telecommunication industry is a Nigerian owned company, Globacom, with 20 percent market share and 24,490,650 subscribers. In a distant fourth position is Etisalat, a United Arab Emirates owned company with 14 percent market share and 18,119,397 subscribers (NCC, 2014).

As at December 2015, MTN still maintains its position as the key player in Nigeria's mobile telecommunication industry with 41 percent market share and 61,252,387 subscribers. Relative to 2014, MTN has lost about 4 percent of its market share apparently due to competition and SIM card registration policy of the Nigerian government. This policy gives the Nigerian based company, Globacom the opportunity to become the second player in the Nigerian mobile telecommunication industry with 22 percent market share and 32,999,384 subscribers, as such overtaking Airtel in the number of subscribers. This effect of the SIM card registration policy on MTN did not only give Globacom the opportunity to get a rise in its market share but also gives Airtel and Etisalat an opportunity to get a 1 percent increase in their market share, though Globacom has overtaken Airtel's position as the second player in the industry. So Airtel, the Indian based company, is now the third player in the market with 22 percent market share and 32,268,301 subscribers. Etisalat (the United Arab Emirates owned company) despite a 1 percent increase in the market share, still

maintains its position as the fourth player in the industry with 15 percent market share and 22,161,290 subscribers (NCC, 2015).

Nigeria has maintained its lead as African's largest telecom market with 151,017,244 active subscribers and mobile telephony penetration in Nigeria reaching 107.87 percent as at December, 2015 (NCC, 2015). It is becoming clear that the mobile telecommunication industry in Nigeria is rapidly reaching a maturity stage. This can be associated with the intensity of competition in the industry with the four main competing players mentioned above.

### **1.3 STATEMENT OF THE PROBLEM**

The importance of retaining customers via quality products and services by an organisation cannot be overemphasised. This derives from the fact that customer needs, expectations, dispositions, tastes and preferences, consistently change over time. Any organisation that refuses to move with the dynamic trend in customers' expectations may have quite a number of complaints to handle, and thus lose customers to its competitors. For firms in the Nigerian mobile telecommunication industry, this is even more pertinent. This is because they operate in a market that has huge potential, but also very fragile due to stiff competition among firms. The massive growth rate in the mobile telecommunication market has led to a strong competition among the GSM service providers. This requires that service providers engage in marketing activities that would enable them to retain a large number of customers. This is very important as the market is becoming very saturated and with little opportunity to attract new customers (Abdin & Mullick, 2016; Adeleke & Aminu 2012).