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The Influence of Customer Experience on Customer Loyalty in Telecommunication Industry

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Abstract

This study aims to examine the relationship between customer experiences and customer loyalty in the context of telecommunication industry. A self-administrated questionnaire was distributed to 248 network service subscribers as a sample of this study. PLS approach to Structural Equation Modelling (SEM) was applied to data analysis. In the second-order model derived from the results, customer experience is decomposed into 3 dimensions, namely core service, charging, and brands, which have a significant impact towards customer loyalty. It is concluded that customer experience positively influenced customer's loyalty. The study's results have important implications for the durability of customer relationship with the service provider since it provides the best practice guideline in building customer loyalty through customer experience. Designing good customer experience will ensure telecommunication industry to perform well. Furthermore, this paper hopes to enhance marketing manager's knowledge and understanding of the effect of customer experience towards customer loyalty. Thus, they will be able to precisely maneuver the identified determinants that contribute towards greater customer experiences

Introduction

Business environment nowadays is struggling hard to develop a long-term relationship with the customers. Providing better services to their customers will strengthen and sustain the customer loyalty programmes, which are already in place. However, better service alone is insufficient to differentiate the industry players and to stay competitive (Schembri, 2006; MacMillan & McGrath, 1997; Berry, Carbone, & Haeckel, 2002; Prahalad & Ramaswamy, 2004).

This paper attempts to examine customer experience relationship with customer loyalty in the telecommunication industry. It is anticipated that the findings of this study will create a better understanding of the literature topics involving customer experience. This is achieved through

the clarification of customer experience concept and the specification of the factors and consequences. The study also touches on the evaluation of customer experience constructed in the context of the telecommunication sector. There are a number of managerial contributions anticipated from this study, although most of the findings will benefit the telecommunication service industry. It will allow them to specifically distinguish those experiences that customers valued more—which may differ from the experience communicated by the firms. Once better customer experience is designed, only then the telecommunication industry will perform well and achieve their business target.

Problem Statement

A survey report published by Frost & Sullivan's Malaysia Telecommunications Services Customer Experience online, between the months of October to November 2014 shows that in the fourth place about 58%, is the complaint on the absence of customer experience among mobile operators is one of the causes that Malaysians discontinued their subscription. Another 83% of the consumers will choose another telecommunication service provider if there is an uncertain issue on the pricing and subscription plans. Whilst 66%, of the survey respondent insists for a higher speed internet or data connectivity and will not hesitate to terminate their subscription plan from the existing mobile operator with poor internet speed experience. The network service provider requires new approach and strategies to retain their existing customers while ensuring a continuous growth in the customer base, increased usage of Average Revenue per User (ARPU) as well as improving customer loyalty and differentiate services through innovation. This can only be achieved by introducing a compelling customer experience, which creates a greater impact on loyalty (Barsky & Nash, 2002) to serve as the key driver towards customer loyalty.

Literature Review

Customer Experience

Customer experience refers to a set of interaction that happened between the customer and a product, which will evoke the emotion or provoke the action or reaction (Gentile, Spiller, & Noci, 2007; Verhoef et al., 2009). Schmitt (1999) suggests that customer experience acted as the primary source of competitive advantage and differentiation because each experience is subjective and unique based on the individual and personal encounter (Bagdare & Jain, 2013).

The first dimension in this study is focusing on the core service as the main dimensionality of the telecommunication sector. Mohammad et al. (2013) proposed that core service such as the network is a determinant of customer experience. Meanwhile, Richardson (2010) claimed that providing a competitive pricing and distinctive network will create a positive experience for the customer throughout their engagement with the company and brand. The customers identify service providers by their core services and they make most purchasing decisions based on these core services (Lovelock & Wirtz, 2011). Islam and Rima (2013) conducted a study to determine the factors that significantly influence customer experience in the telecommunication sector in Pakistan. Their study confirmed that core service, has a positive and significant influence on customer experience.

All network service providers strive to provide a superior experience for their customers with the goal of cementing a strong number of loyal customers and encouraging future purchases. The core aspect would be the network and call and customers who used the services will always have an experience that they will label as good, bad, or neutral. The experience will determine customers' satisfaction with the core services and it will influence their intent whether to repeat purchase in the future. Evidently, customer's emotion will influence what they remember and how they evaluate their encounters and decisions, thus it is imperative in cementing loyal customers. Nevertheless, first-time customers tend to focus only on core services when considering future purchasing (Walsman et al., 2014). Therefore, telecommunication service provider should focus on how they are able to deliver a better customers' experience.

The second dimensionality of customer experience is charging. Telecommunication service provider has received frequent complaints from customers concerning the perceived accuracy of their bills (Athanasopoulos et al., 2003). A similar issue is highlighted by Wirpo (Council of Industry Research, 2012), which points out that providing a complete visibility of charged services and regular updates on cost management can positively impact customer satisfaction. It is important to impose appropriate charges, in order to satisfy the customers thus ultimately, would help the firm to retain its customers (Gustafsson, Johnson & Roos, 2005). In a similar vein, Hanif et al. (2010) asserted that a fair charging price will help to develop customer loyalty.

The third dimensionality is the brand image, which can be defined as mental picture or perception of a brand or branded product or service and may include the symbolic meaning that the consumers associated with specific attributes of a product or service (Ogba & Tan, 2009). A brand is defined as "a name, term, design, symbol, or any feature that identifies one seller's good or service as distinct from those of other sellers". (Bennett, 2001). This approach viewed the brand as part of a product and the purpose is to distinguish the brand from other competing products or services.

A strong brand image is capable of creating a great customer experience. Taking this into consideration, a brand has the capability to create positioning in the customer state of mind. Sirapricha et al. (2012) argued that in order to differentiate brands, service firms should deliver a compelling customer experience, hence, customer experience encourage the customer relationship with a brand image. In fact, customer perception of their interaction with a brand is capable to reshape the brand image in their mind. Ogba and Tan (2009) agree that brand image represents the customer's perception of a brand as reflected by the brand connection held in the consumer memory bank.

The Relationship between Customer Experience and Customer Loyalty

One definition to describes customer loyalty is "a deeply held commitment to re-buy or re-patronize a preferred product/service, consistently in the future, thereby causing a repetitive same-brand or same brand-set purchasing; despite situational influences and marketing efforts having the potential causes that trigger switching behavior" (Oliver, 1999).

The competition in gaining new customers within the market of telecommunication industry has become highly intense year after year. Thus, capturing and retaining customer loyalty is considered important in order to remain as a relevant player in the industry and has positive effect on long-term profitability and business sustainability. Additionally, it evidenced that keeping loyal customers is more profitable in the long run compared to acquiring new customers (Chung & Wu, 2012). Therefore, the development and enhancement of customer loyalty become a strategic objective for most companies.

Garrett (2006), emphasized that customers became loyal because of the experience they gained. Therefore, more companies nowadays are focusing on creating a stronger customer engagement and long-lasting experience for their customers (Berry et al., 2002; Macmillan & McGrath, 1997; Pine & Gilmore, 1998; Carbone, 1998; Gilmore & Pine, 2002; Wyner 2000). Enhancing customer experience is important for customer loyalty, and ultimately the firm's profitability (Lin and Bennett, 2014; Kumar, Pozza, & Ganesh 2013).

In the recent years, companies' managers are becoming increasingly aware of the need to create value for their customers in the form of experiences. Customer experience constitutes a crucial factor that influences the customers' willingness to repeat the experience or to recommend it to their friends or colleagues (Slåtten, Krogh, & Connolley, 2011). Pine and Gilmore (2002) emphasized that an experience is successful when it is capable of promoting customer engagement and creating memories within them. Evidently, customer experience has a positive relationship with the brand image. For this study, the major elements that will have a direct effect on customer experience are the customers' interaction with the core services, charging, and brands; and customer loyalty will be the consequence from this interaction.

Building customer experience becomes the foremost priority for marketing managers of the telecommunication service provider. This is a way to secure customer loyalty, expand the customer base, increase the company's profitability, ensure the company survival and create a deeper connection with its customer on a personal level in the years ahead. Therefore, marketers need to deliver a compelling and long-lasting experience to their customers (Carbone & Haeckel, 1994; Pine & Gilmore, 1999; Carbone & Haeckel, 1994; Berry, Carbone, & Haeckel 2002; Gilmore, & Pine, 2002). In addition, customer experience is a crucial factor that influences the customers' willingness to repeat the experience or to recommend it to their friends or colleagues. Pine and Gilmore (2002) emphasized that an experience is successful when it is able to engage a customer and create memories within them. This is in line with other studies that mentioned customer experience has a great impact on loyalty (Barsky & Nash; 2002 & Berry et al., 2002). Therefore, the aforementioned discourse leads to the following proposed hypothesis:

H1: Customer experience will have a positive effect on customer loyalty.

Methodology

Sample Characteristics

The respondents' demographic profile of this study consists of the final total sample of 210 respondents. The analysis of the respondents' information reveals that the majority of the

respondent is made up of female respondents at 61.7%, whilst 38.3% are male respondents. Most of the respondents (46.9%) are in the age of 18 years old to 34 years old, followed by the age group of 35 years old to 49 years old (36.8%) and the lowest percentage is in the range of 50 years old (16.3%). Meanwhile, the service providers' subscribers comprised 47.4% postpaid and the remaining 52.6% are prepaid subscribers. Out of the 210 respondent, 47.8% are Celcom subscribers, 36.8% are Digi subscribers, 9.6% are Maxis subscribers and the remaining 5.7 % are from other service providers. In terms of experience with the network, 33.5% have been with the operator they subscribed to for more than 10 years, 22.5% between 6 to 10 years, 31.6% between 1 to 5 years and the remaining 12.4 % have been less than 1 year with the service provider.

Measures

For the current research use, the dimensions of customer experience consist of core service, charging, and brands. The questionnaire was adapted and modified from the previous research such as Grace and O'cass (2004), Sujata et al. (2015), and Tabaku et al. (2015) for core service. Charging is measured by a three-item measurement adapted from Lim et al (2006). Measurement for brand image dimensions is determined by using five items of measurement adapted from Zhang et al. (2009) and Sirapracha et al. (2012). Measurement of customer loyalty variable was determined using a five-item measurement adapted from Aydin and Ozer (2005).

Data Analysis Technique

Two statistical techniques were applied to analyze the survey data. First, the IBM statistical package for Social Science (SPSS) version 20 was used. Second, the statistical technique used was Partial Least Square (PLS) approach to Structural Equation Modelling (SEM). SEM-PLS is now commonly used by numerous researchers and provides a robust way of analyzing the survey data (Hearth & Rao, 2009; Simkin & McLeod, 2010).

The Harman's one-factor test as suggested by Podsakoff et al. (2003) was employed. All the items of this study were entered into the principal component analysis with zero rotation to identify if a single factor emerges from factor analysis or one general factor accounts for more than 50% of the co-variation. The accumulated variation explained was 48.13%, thus, this study did not have a serious problem with the common method variance.

Results

Assessment of Measurement Model

First, the measurement model (outer model) was tested for convergent validity. This was assessed through factor loading, composite reliability (CR), and average variance extracted (AVE) (Hair et al., 2006) as shown in Table 1. Factor loading exceeded the recommended value of 0.708 (Hair et al., 2014) will be retained. Therefore, the core service (CS1, CS2, CS), charging (Cj1, Cj2 Cj3), brands (B1, B2, B3, B4, B5), and loyalty (Loy1, Loy2, Loy 3, Loy4, Loy5), are retained. Second, the composite reliability analysis was used to assess the reliability of the construct for internal consistency. A composite reliability of 0.70 or greater is considered acceptable (Fornell & Larcker, 1981). Composite reliability for core service (0.985), charging (0.894), brand (0.844), and loyalty (0.93), met the minimum cut off. Each construct should account for at least 50% of the assigned indicators' variance to achieve an adequate convergent validity ($AVE \geq 50$) (Bagozzi & Yi, 1998;

Fornell & Larcker, 1981; Hair et al., 2014). The AVE for core service (0.719), charging (0.738), brand (0.612), and loyalty (0.727) exceeded the recommended level. It is concluded that the constructs of this study exceeded the recommended level, thus, they met the reliability and convergent validity requirement. Table 1 shows the validity and reliability of the construct.

Table 1: Validity and reliability for construct

Construct	Items	Loading	CR	AVE
Core Service	CS1	0.850	0.884	0.719
	CS2	0.833		
	CS3	0.860		
Charging	Cj1	0.873	0.894	0.738
	Cj2	0.838		
	CJ3	0.866		
Brands	B1	0.799	0.887	0.612
	B2	0.810		
	B3	0.803		
	B4	0.748		
	B5	0.747		
Customer Loyalty	Loy1	0.831	0.930	0.727
	Loy2	0.817		
	Loy3	0.902		
	Loy4	0.916		
	Loy5	0.790		

After the assessment of discriminant validity using the criteria by Fornell and Lacker (1981) and Henseler's heterotrait-monotrait (HTMT) (2015) criterion. From the Fornell and Larcker criterion, where the square root of AVE calculations values on each construct are reported in bold along the diagonal. Hair et al. (2006) suggested that the average variance shared between a construct and its measure should be greater than the variance shared between the construct and other constructs in the off-diagonal elements in the corresponding rows and columns as shown in Table 2. Similarly, Henseler's HTMT criterion that imposes more stringent assessment than the earlier criterion suggests that all constructs are distinctively different at HTMT 0.90 threshold (Henseler et al., 2015) as shown in Table 2 and Table 3.

Table 2: Fornell and Larcker Criterion

	Brands	Charging	Core Service	Loyalty
Brands (BB)	0.782			
Charging (Caj)	0.617	0.859		
Core Service (CS)	0.341	0.319	0.848	
Loyalty (Loy)	0.667	0.594	0.342	0.853

Table 3: HTMT Criterion

	Brands	Charging	Core Service	Loyalty
Brands (BB)				
Charging (Caj)	0.736			
Core Service (CS)	0.406	0.391		
Loyalty (Loy)	0.757	0.686	0.400	

Criteria : Discriminat Validity is established at $HTMT_{0.90}$

Assessment of Formative Second Order Construct

Once the reflective measurement achieved the anticipated requirement, the next step is to proceed with the formative construct to complete the second higher order construct. Therefore, collinearity issues for core service, charging, and brands are assessed. The evaluation of collinearity is crucial to ensure that the constructs do not measure the same factors. According to the results, the VIF values are consistently below the threshold value of 5 (Hair et al., 2014), which ranged from 1.663, 1.637, and 1.148. Hence, it is suggested that these constructs are distinct and measure the aspect of customer experience. The first order dimension that forms customer experience is significant except for core service, as shown in Table 4. In this case, prior research or based on the theory supports the relevance of this indicator in capturing customer experience (Grace & O’cass, 2004; McDougall & Beatty, 1999). Thus, these indicators are retained in the formative construct even though their outer weights are not significant to the relationship between customer experience and its first order dimension as in Table 4: Reliability and Validity of Second Order Construct.

Table 4: Reliability and Validity of Second Order Construct

Weight of The First Order Construct on Customer Experience	Weight	VIF	T-Value	P-Value
Brands <- Customer Experience	0.631	1.663	6.628**	0.00
Charging <- Customer Experience	0.416	1.637	4.377*	0.00
Core Services <- Customer Experience	0.131	1.148	1.825	0.069

**p< 0.01, *p<0.05 (one-tailed)

Assessment of Structural Model

Prior to assessing the structural model, it is important to ensure that there is no collinearity issue in the inner model of the study. All VIF values is below 5 as suggested by Hair et al. (2014) which ranges from 1.148 to 4.339. Table 5 shows the results of path co-efficient assessment using

bootstrapping procedure for the hypothesized relationships. The results indicate that customer experience is significant and positively related to loyalty ($\beta = 0.292$, $p < 0.01$).

Table 5: Results of the Structural Model

Hypothesis	Standard Beta	Standard Error	T-Statistics	Supported
H Customer Experience -> Loyalty	0.292	0.066	4.462**	Yes

** $p < 0.01$, * $p < 0.05$ (one-tailed)

Table 6: Determination Co-efficient (R^2), Predictive Relevance (R^2) and Effect Size (f^2)

	Determination Coefficient R^2	Predictive Relevance Q^2	Effect size f^2	
			Loyalty	Effect Size
Loyalty	0.725	0.489	Customer Experience	0.176
				Medium

The R^2 s refers to the explanatory power of the predictor variables(s) on the respective construct and reported in Table 6—Determination Co-efficient (R^2), Predictive Relevance (Q^2), and Effect Size (f^2). Customer experience explains 72.5% of customer loyalty ($R^2 = 0.725$). In regards to model validity, Chin et al., (2008) classified the endogenous latent variable as substantial, moderate, or weak, based on the R^2 value of 0.67, 0.33, or 0.19, respectively. Accordingly, loyalty ($R^2 = 0.725$) can be described as substantial. The Q^2 value of 0.489 is greater than 0 and this indicates that the model has a predictive relevance which indicates customer experience has sufficient predictive capacity over loyalty. Next, to measure the effect size (f^2), Cohen (1988) guideline is used. The f^2 value of 0.02 shows a minimal effect, whilst the f^2 value of 0.15 indicates a medium effect and f^2 value of 0.35 shows a large effect. In this the relative effect size (f^2) of the predicting (exogenous) construct is ($f^2 = 0.176$).

Discussion and Conclusion

The research objective examines the relationship between customer experience and loyalty among the subscribers of network service providers. The findings indicate customer experience positively influence customer loyalty in the telecommunication industry. This is consistent with the previous researchers' findings, which revealed that customer experience has a significant effect on customer loyalty, both in the hotel and retailing industries. The results of this study confirmed and supported the findings by Barsky and Nash (2002) and Berry et al. (2002). In other words the higher the customer experience the more loyal the customer will be.

The findings of this study have enabled us to identify the important factors that strengthen or improve customer experience that consists of three dimensions namely core service, charging, and brands, which then increase customer loyalty. Accordingly, marketers could focus on these factors to improve the services offered to their customer. Particularly, network operators should derive the benefits from the findings to better understand which factors lead to customer loyalty. In a service setting, a positive outcome and customers' response permeates to the entire

organization, which translates to increase customers' loyalty towards the services and organization. Corpanzano and Mitchell (2005) argued that if a customer has a positive experience at one service location, he/she would develop positive feelings towards the same brand at different locations, thus increased customer loyalty towards the service brand. Likewise, a bad experience at one service location will negatively affect customer loyalty towards the service brand at other locations as well.

This study will benefit the telecommunication service industry. The study findings will enable the service providers to specifically identify the experience that customers valued most—which may be entirely different from the experience communicated by a company. The main practical implication is that it provides the best practice guideline for building customer loyalty through customer experience. Designing a better customer experience will improve the telecommunication industry performance. Furthermore, this paper also hopes to enhance the marketing managers' knowledge and understanding about the effect of customer experience towards customer loyalty.

These research findings provide empirical evidence on the effect of customer experience towards customer loyalty in the telecommunication sector. The study reveals the three factors (core service, charging and brands) that contribute to customer experience, which has a significant positive effect on customer loyalty. In other words, a distinct core service plays an important role towards greater customer experience in cementing customer loyalty. In extension to that brand image will also has a significant influence towards customer experience, which means, customer's interaction with the service provider will shape the firm's brand positioning within the customer's mind which will have a positive impact towards customer loyalty. Consequently, a customer will be less likely to have the tendency to switch to another brand and more is likely to return to the same service provider.

Limitation and Future Research Suggestion

Although the research findings add to the extant body of knowledge, particularly on the determinant of customer loyalty and customer experience, this study, nevertheless has some limitations and suggestion for the future research. The models used in this study were rather modest, thus, it is strongly recommended that future research should consider other variables that may influence customer experience and loyalty. The adoption of convenient sampling method in this research has also inevitably limited the generalizability of the research findings. In addition, the findings should be interpreted with caution when applied to different industries. On the other hand, the future research of similar subject matters should also cover other types of industries.

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