



# Differences between LTE and 3G service customers: Business and policy implications



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## ABSTRACT

South Korea has now become one of the world's leading mobile service markets with the launch of its advanced LTE services; the LTE service subscription rate in Korea has exceeded 50% as of November 2013. This development raises the question of how LTE service subscribers may differ from 3G service subscribers. Within the context of this rapidly changing environment of mobile service markets, this study examines the validity of the traditional determinants of customer satisfaction in data-service oriented mobile communications markets, analyzes the effects of customer satisfaction and switching costs on customer loyalty, and assesses the difference between 3G and LTE subscribers with respect to their determinants of customer loyalty. The results show that there are significant differences between 3G and LTE subscribers while traditional factors such as call quality, data quality, customer support, and price perception are still significant determinants of customer satisfaction.

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## 1. Introduction

The Korean mobile telecommunications market has shown the fastest growth rate in the world for the past few years and has entered a saturated stage with penetration rates reaching over 100% as of 2010.<sup>2</sup> Market saturation in the Korean mobile telecommunications market has intensified competitions between Korean mobile network operators (MNOs) and induced them to switch their marketing strategies from attracting new customers to retaining existing customers and stealing customers from competitors.

Moreover, as the market has reached its saturation point, attracting and securing new customers are not only becoming difficult but also becoming costly in terms of marketing. Hence, it has become an industry-wide belief that one of the most efficient marketing strategies is to retain existing customers by strengthening customer loyalty (Kim et al., 2004). It is a widely held belief in marketing research that the cost of acquiring a new customer far exceeds the cost of retaining an existing one (Siber, 1997), and the cost of obtaining new customers is five times higher than the cost of keeping existing customers (Verbeke, 2012). In addition, the mobile number portability (MNP) policy in the Korean mobile telecommunication market further intensified the competition by lowering switching costs for customers (Kwon and Kwon, 2014; Shin and Kim, 2007).<sup>3</sup> As the switching costs are reduced, less loyal consumers become more likely to switch their

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<sup>2</sup> 2010 KCC Communications Service Statistics Report.

<sup>3</sup> The MNP, implemented in Korea in January 1st, 2004, refers to a service that allows customers to move to other MNOs while keeping their mobile phone numbers (Kwon and Kwon, 2014).

MNOs, thereby making customer retention one of the major challenges. Previous research on customer retention suggests that customer loyalty is a key antecedent of customer retention (Gerpott et al., 2001), stressing the importance of securing customer loyalty in retaining existing customers. Studies also suggest that developing customer loyalty provides companies with a foundation of a competitive edge and helps them win market shares in highly competitive markets (Deng et al., 2010; Lee and Cunningham, 2001). Furthermore, loyal customers are much more influenced than non-loyal customers by negative information about the products or services (Donio et al., 2006). Following the results of the studies, MNOs today place great emphasis on developing customer loyalty in order to survive under the pressure of ever increasing competitions.

Customer satisfaction has long been recognized as the major factor that influences customer loyalty. There have been numerous studies on customer satisfaction, customer loyalty and the relationship between them. However, not many studies have been conducted with respect to the mobile telecommunications market especially in recent years during which rapid adoption of smartphones took place. This may be due to the relatively short history of smartphone usage; global smartphone penetration did not explode until the late 2000s. The global smartphone penetration rate more than quadrupled between 2009 and 2013, increasing from 5% to 22%. In addition, the increase in smartphone usage has resulted in a sharp increase in data service traffic; mobile data traffic increased more than 15 times from 2009 to 2013 (Kwon and Kim, 2012). Such an increase in data traffic implies that the mobile service trend is now rapidly shifting from call-based services to data-based services. For instance, mobile companies worldwide are now offering rate plans that provide unlimited call hours and charge monthly fees based on the level of data usage. Such changes in the market paradigm give rise to questions as to whether the traditional customer loyalty determinants are still valid and whether the data service has any significant effect on customer satisfaction.

Furthermore, with the rapid increase in the number of LTE subscribers, it has become increasingly important to understand the difference in factors leading to satisfaction and loyalty of 3G and LTE subscribers. Understanding the difference may not only provide useful insight in formulating customer retention strategies tailored to each type of customer groups but may also help in implementing strategy aimed at attracting new customers from competitors. There has been a number of research that have studied the moderating effect of demographic variables (e.g., age, gender, income) and situational characteristic (e.g., expertise, involvement, purchase volume) in the relationship between customer satisfaction and customer behavior (Anderson et al., 2008; Baumann et al., 2005; Cooil et al., 2007; Magi, 2003; Venn and Fone, 2005). In this study we focus on the moderating effect of service type on the links between the constructs in order to analyze the difference between 3G and LTE subscribers. Service-dominant logic and its foundational premises developed by Vargo and Lusch (2004, 2008) offer some theoretical guidance on the potential moderating effect of different service groups on the relationship between the constructs. Consistent with the previous research and service-dominant logic, this paper observes the moderating role of service type as a situational characteristic and find that there are significant differences between 3G and LTE subscribers.

This paper analyzes the effects of customer satisfaction and switching costs on customer loyalty within the context of the Korean mobile telecommunications market and compares the difference between 3G and LTE (Long Term Evolution) subscribers. Specifically, this study has three major objectives: first, to examine the effects of the major and traditional factors (constructs) of customer satisfaction in the Korean mobile telecommunications market and to assess their validity in the current age of data communications; second, to analyze the effect of customer satisfaction and switching costs on customer loyalty; and third, to determine whether there exist differences between factors affecting customer loyalty of 3G and LTE subscribers. Theoretical justifications are advanced to bolster the relationship between the constructs and as to why the 3G and LTE subscribers are expected to be different.

The remaining structure of this paper is as follows. Section 2 overviews the recent developments in the Korean mobile telecommunications market in order to help understand the unique characteristics of the Korean mobile telecommunications market. Section 3 identifies theoretical frameworks and develops research hypotheses based on previous research. Also, the analytical model is developed and introduced. Section 4 introduces data and the method of analyses, Section 5 reports analytical results, and Section 6 concludes the paper with the implications of the major findings.

## 2. Recent developments in the Korean mobile telecommunications market

### 2.1. Evolution of market structure

The mobile services in Korea have been served by three major MNOs, namely SKT (SK Telecom), KT, and LG U+ with their market share being 50.42%, 29.86%, and 19.72%, respectively as of March 2014. South Korea launched its first mobile telecommunication services in 1984 through a government-owned company named KMT (Korea Mobile Telecom). Later, in 1994, SK Group acquired KMT and changed its name to SK Telecom. The monopolistic market structure had continued for more than 10 years from 1984 to 1996 when new players joined the market. The entrance of Shinsegi Telecom in April 1996 put an end to the long-lasting monopoly structure in the Korean mobile telecommunications market.

Following the entry of Shinsegi Telecom, other competitors, namely, KT, Hansol, and LG Telecom, joined the market and made the market increasingly competitive. The fierce competition among the five MNOs brought down subscription prices, brought about significant increases in the number of mobile service subscribers, and ultimately led to dramatic growth in the market. However, the competition and the presence of latecomer disadvantages led to market restructurings which reduced

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