Journal of Retailing and Consumer Services 36 (2017) 124–136

Contents lists available at ScienceDirect

Journal of Retailing and Consumer Services

journal homepage: www.elsevier.com/locate/jretconser

What drives Gen Y loyalty? Understanding the mediated moderating roles of switching costs and alternative attractiveness in the value-satisfaction-loyalty chain

Stephanie Hui-Wen Chuah[a,*], Malliga Marimuthu[b], Jay Kandampully[c], Anil Bilgihan[d]

[a] School of Management, Universiti Sains Malaysia, 11800 Penang, Malaysia
[b] School of Business, Charles Darwin University, 21 Kitchener Drive, Darwin, NT 0800, Australia
[c] Department of Human Sciences, The Ohio State University, Columbus, OH 43210, USA
[d] Department of Marketing, Florida Atlantic University, Boca Raton, FL 33431, USA

ARTICLE INFO

Keywords:
Perceived value
Customer satisfaction
Switching costs
Alternative attractiveness
Customer loyalty
Generation Y
Mobile technologies

ABSTRACT

Generational theory presumes that generational cohorts develop similar attitudes and beliefs with regard to their market behaviors. This study examined the attitudes and beliefs of the Gen Y members towards mobile Internet service providers (MISPs). Gen Yers have the highest adoption of mobile Internet. They are also the most value-conscious, least satisfied and loyal customers compared with all other generations. This study therefore proposed a research model to elucidate the relationship between perceived value, satisfaction, switching costs (SC), alternative attractiveness (AA) and loyalty, and tested it using empirical data collected from 417 Gen Y mobile Internet subscribers. The results indicated that perceived value significantly influenced the satisfaction of Gen Y customers and, in turn, their loyalty towards MISPs. The results also confirmed the existence of mediators and moderators in the relationship between customer satisfaction and loyalty. Both SC and AA proved to be partial mediators, whereas AA was a moderator. Further, it was found that the moderating effect of AA on the association between customer satisfaction and loyalty was contingent upon the mediating effect of SC. Finally, the implications of these findings are delineated.

1. Introduction

The quantum leap in mobile data transfer speeds is the result of advancements in mobile technologies, such as fourth generation (4G) or Long Term Evolution (LTE), which have provided mobile Internet users with fast Internet access (Lam and Shankar, 2014). 1980's 1G cellular networks were basic analog systems designed for voice communications. The earliest move to data services and improved spectral efficiency was realized in 2G systems through the use of digital modulations and time division or code division multiple access. 3G introduced high-speed Internet access and improved video and audio streaming capabilities by using technologies such as W-CDMA and HSPA (Rappaport et al., 2013). 4G-LTE networks offer an exponential increase in data transfer speed and capacity, in that large data files can be exchanged at a speed greater than 100 Mb/s with great stability (Park and Kim, 2013). These advances, together with improved affordability of smartphones and mobile data plans, have stimulated mobile Internet service consumption. Worldwide, penetration of mobile Internet services is forecast to grow from 48.8% in 2014 to 63.4% in 2019 (Statista, 2016).

Gen Y, also known as "Millennials", "Net Generation", "digital natives" and "Generation C" (or Connected Generation), are individuals aged 18–34 years at the time of publication (Bruwer et al., 2011; Nielsen, 2012a; Nusair et al., 2013). Being the first generation to grow up with technology and the Internet, Gen Yers are highly sociable, tech-literate, and media/tech savvy (Bilgihan, 2016). As a result of their exposure to rapidly changing technologies like the Internet and mobile devices, Gen Yers have adopted technology as part of their lifestyle and it represents their "third hand and second brain" (Palmer, 2009a, 2009b). Because of their confidence in using new technologies (Kandampully and Zhang, 2015), Gen Yers are often early adopters and heavy users of the latest mobile technologies (Kumar and Lim, 2008; Spaid and Flint, 2014). Given this, it is not surprising that Gen Y are the generation with the highest level of mobile Internet penetration, at 74% in the first quarter of 2014 (Statista, 2016).

Despite being the main stream of mobile Internet subscribers, Gen

* Corresponding author.
E-mail addresses: hw.chuah@gmail.com (S.H.-W. Chuah), malliga.marimuthu@cdu.edu.au (M. Marimuthu), kandampully.1@osu.edu (J. Kandampully), abilgihan@fau.edu (A. Bilgihan).

http://dx.doi.org/10.1016/j.jretconser.2017.01.010
Received 12 July 2016; Received in revised form 12 December 2016; Accepted 23 January 2017
Available online 07 February 2017
0969-6989/

Yers are more unpredictable and less brand loyal than their predecessors, Gen X and Baby Boomers, making it difficult for marketers to retain them as customers (Kim and Kandampully, 2012; Kumar and Lim, 2008; Lazarevic, 2012). According to Keaveney and Parthasarathy (2001), customer defection can have a particularly detrimental effect on the bottom line of subscription- or membership-based service firms that depend on customers to pay their charges on a fixed-fee continuous basis. For instance, mobile service providers experience a churn rate of 15–30%, costing the global industry up to $10 billion each year (Ascarza et al., 2016). Given the business impact of churn, it is imperative that marketers gain a better understanding of the factors influencing Gen Y loyalty in the context of mobile Internet subscriptions.

As the mobile telecommunications market becomes increasingly dynamic and competitive, mobile service providers have acknowledged that the best core marketing strategy is to retain existing customers by satisfying their needs through the delivery of superior value (Karjaluoto et al., 2012). According to Kim et al. (2013a), a user of mobile Internet is not only the adopter of a mobile technology but also a subscriber of a mobile Internet service provided by a company in return for prescribed fee. Previous researchers have viewed the concept of value from the perspective of technology users and examined how the technology attributes (e.g., perceived usefulness, ease of use, enjoyment, ubiquity, and network externality) influence the individuals' adoption of mobile Internet (e.g., Chong et al., 2012; Roostika, 2012; Yang et al., 2012). Relatively few studies, however, have examined the concept of value from the perspective of service subscribers and how it influences customers' loyalty towards mobile Internet service providers (MISPs). This gap is especially surprising given that understanding customer value is essential for firm competitive advantage and key to long-term survival and success (Haas et al., 2012; Zauner et al., 2015). Furthermore, Gen Y consumers are the most value- and emotion-driven cohort (Bilgihan, 2016; Noble and Noble, 2000) and, according to generation theory, they perceive value in an offer differently than other generations (Parment, 2013). Therefore, determining what Gen Y customers seek from a product or service should help firms to design value propositions that appeal to this segment (Landroguez et al., 2013).

To fill the above gaps, the present study develops an integrated model to explain how value is constituted from the perspective of Gen Y customers and how it influences their satisfaction and subsequently loyalty towards MISPs. Prior studies on customer value have primarily focused on functional (quality and price) and affective (emotional) attributes (see e.g., Eskafi et al., 2013; Senić and Marinković, 2014). However, we argue that customer-centric attributes (e.g., relational and customization value) are crucial in shaping the value perceptions of Gen Y customers in a continuously provided service setting. Our contention was supported by Aimia (2011), who noted that 75% of Gen Yers were more likely to choose a service provider that offered loyalty or rewards programs over a service provider that did not. Gen Yers also expected customized products that meet their personal needs, interests, and tastes (Leen et al., 2012).

Although value creation has become a strategic necessity in creating satisfied and loyal customers (Nyadzayo et al., 2016), the value-satisfaction-loyalty link may not be direct and straightforward (Chen, 2012, 2015), and satisfaction is always non-linearly and asymmetrically connected to customer loyalty (Tuu and Olsen, 2010). Kumar et al. (2013) pointed out that the magnitude of the influence of customer satisfaction on loyalty is dependent on the structure and competitiveness of the industry, customer segment studied, and the presence of various factors that serve as mediators, moderators, or both to the relationship. In light of this, this study examines the direct effect of customer satisfaction on loyalty, and also the indirect effect via other mediator and moderator variables, such as switching costs (SC) and alternative attractiveness (AA).

1.1. The need for research

The intense competition in most consumer markets has compelled companies to offer products with significant value to customers in exchange for locking them through SC (Lee and Neale, 2012). SC refers to the time, money, psychological and physical efforts incurred when customers move from one service provider to another (Ray et al., 2012). The counterpart to SC is switching benefits, which are analogous to the notion of AA (Goode and Harris, 2007). AA is defined as the extent to which customers perceive alternative service providers to be superior to that of the focal service provider (Jones et al., 2000). Examples of AA include lower prices, better service quality, more choices, quicker delivery and so forth (Goode and Harris, 2007).

The mobile telecommunications sector is frequently cited as an industry in which SC and AA are high (Malhotra and Malhotra, 2013; Wirtz et al., 2014). When consumers switch mobile service providers, they face substantial monetary losses (e.g., fees to break a contract, loss of points and rewards). Consumers also suffer non-monetary switching costs (e.g., time and effort spent gathering and evaluating information on feasible service providers) (Wirtz et al., 2014). Given these switching barriers, competing service providers often offer various incentives to assist prospective customers in overcoming them (Malhotra and Malhotra, 2013; Yang and Peterson, 2004). For example, T-Mobile (third largest wireless network operator in the United States) introduced Un-Carrier 4.0 initiatives that pay up to $350 in early termination fees for AT & T Mobility, Verizon, and Sprint customers who switch to the T-Mobile network. In response, AT & T Mobility (second largest wireless network operator in the United States) offered T-Mobile customers up to $450 in credit to switch to AT & T's service and trade in an eligible smartphone. When mobile subscribers are continually incentivized with attractive offers to switch, they must decide whether they should stay with or leave their current service providers (Malhotra and Malhotra, 2013). It is crucial for mobile service providers that experience high churn rates, despite substantial investments in building various switching deterrents, to understand customers' cognitive trade-offs between switching costs and benefits (Haj-Salem and Chebat, 2014; Kim et al., 2013b).

The extant literature has established that SC and AA are key determinants of customer loyalty (e.g., Edward and Sahadev, 2011; Kim et al., 2016), but there is no definite conclusion about their roles in the satisfaction-loyalty link. The inconclusive findings may be attributed to the fact that some studies investigated SC and AA from the perspective of mediators (e.g., Matzler et al., 2015; Picón et al., 2014), whereas other researchers examined these two constructs from the perspective of moderators (e.g., Dagger and David, 2012; Li, 2015). To date, few studies have taken a broader perspective and analyzed SC and AA from both perspectives. Thus, to fill the gap in the literature and to provide a better understanding of the complex phenomenon of customer switching, this study adopts a more holistic approach to examine the interplay between SC and its counterpart. Specifically, this study adds SC and AA as mediators and moderators to the traditional satisfaction–loyalty model for an emerging service context (i.e., mobile Internet) using an emerging customer segment (i.e., Gen Y).

We surveyed Gen Yers as they are dubbed as "true mobile Internet generation" (Cran, 2010), and are the biggest users of mobile Internet (Nielsen, 2012b). Furthermore, their hefty size and purchasing power are making them one of the most coveted consumer segments for many industries (Smith, 2012). However, Gen Y is a challenging group to target, considering that this segment represents the most value-conscious, least satisfied and loyal consumers compared to all other generations (Tripadvisor, 2015). Having grown up in a more media-saturated, brand-conscious world, Gen Yers respond to marketing tactics differently compared to their predecessors (Valentine and Powers, 2013). MISPs thus need to revisit their strategies, to ensure that they can establish long-lasting and profitable relationships with this "unique" customer segment.