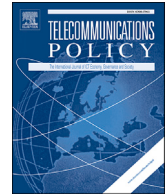


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## Termination notice of mobile network operator customers after a tariff switch: An empirical study of postpaid subscribers in Germany

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### ABSTRACT

Proactive subscriber churn management strategies of mobile network operators (MNOs) require that steps are taken to keep customers before they hand over a formal notice of termination to their provider. Therefore, several studies have analyzed how MNO customers who gave a termination announcement differ from individuals who did not communicate this message. However, no work has examined such differences among subscribers who recently switched to another tariff of their MNO. Therefore, this paper explores socio-demographic, service consumption and tariff change differences between contract cancellation “announcers” and “non-announcers” in a sample of 1810 postpaid customers who had changed their rate plan not long ago. Cancellation announcers were more likely to be males who decreased their mobile voice consumption after their tariff switch, had already attempted to churn in the past, had moved from an unmetered to a metered rate type, paid higher monthly bill amounts and received no discounts on their current rate plan that was introduced on the market some time ago. Among subscribers who gave a termination notice, early (late) cancellation announcers were more likely to be older (younger) customers with a growing (shrinking) SMS consumption after their tariff switch, had not attempted (had already tried) to leave their current MNO in the past, and were in a rate plan that was (not) recently introduced. The findings contribute to the literature on mobile customer retention and have implications for practitioners and scholars.

### 1. Introduction

For quite some time, the number of subscriptions to radio-based networks enabling mobile communication services (MCS) exceeds a country's number of inhabitants in most national markets (GSM, 2017). Put differently, MCS markets are close to saturation in countries such as Germany, which is the focal country of the present study. Therefore, it often happens that a customer acquisition of one mobile network operator (MNO) equals a loss for a direct competitor. In 2016 alone, 25% of all mobile subscribers changed to another MCS provider worldwide (Jungermann, 2017). From an MNO perspective, most customer defections entail significant economic disadvantages such as reductions in profitability and negative word-of-mouth referrals among potential customers (e.g., Gerpott, Ahmadi, & Weimar, 2015; Jahromi, Sepehri, Teimourpour, & Choobdar, 2010; Reinartz & Kumar, 2000; Shapoval & Setzer, 2015).

Against this background, MNOs and other mobile service providers devote considerable resources to proactive and reactive customer churn reduction measures (Gerpott & Ahmadi, 2015). Proactively, MCS suppliers try to avoid subscribers' contract cancellations by targeted offerings to prevent termination notices caused by unmet customer needs. Additionally, it is standard practice to react to contract cancellations by contacting valuable customers in the period after the receipt of a cancellation notice and before the date the

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termination becomes legally effective to convince them to stay. Although such reactive win-back efforts are typically less expensive than the acquisition of new subscribers, they nevertheless have negative impacts on an MNO's bottom line results. Therefore, churn prevention efforts that eliminate reasons for contract cancellations before customers send a formal cancellation announcement may be seen as economically preferable to reactive win-back attempts. Proactive churn prevention programs require that MNOs identify the most likely churners in advance and then develop offers that fit with their unfulfilled expectations.

Consequently, a large number of studies has looked at various variables which could be significantly correlated with the occurrence of subscriber loss or churn in the sense of a customer-triggered termination of a valid service contract between a subscriber and her MNO (e.g., Adebisi, Oyatoye, & Amole, 2015, 2016; Amin et al., 2017; Banda & Tembo, 2017; Calvo-Porrall, Faiña-Medín, & Nieto-Mengotti, 2017; Chuang, 2011; Díaz, 2017; Gerpott & Ahmadi, 2015; Gerpott et al., 2015; Kim & Yoon, 2004; Lee, Kim, & Lee, 2017; Lemmens & Croux, 2006; Malhotra & Kubowitz Malhotra, 2013; Mannan, Mohiuddin, Chowdhury, & Sarker, 2017; Ranganathan, Seo, & Babad, 2006; Shapoval & Setzer, 2015; Shin & Kim, 2008; Svendsen & Prebensen, 2013; Ulubaşoğlu, Şenel, & Burnaz, 2017). The literature encompasses two streams.

First, there are survey-based studies examining claimed subscriber intentions to switch to another MNO as a criterion and subscriber attitudes such as satisfaction as predictors (e.g., Banda & Tembo, 2017; Calvo-Porrall et al., 2017; Chuang, 2011; Díaz, 2017; Kim & Yoon, 2004; Malhotra & Kubowitz Malhotra, 2013; Mannan et al., 2017; Shin & Kim, 2008; Svendsen & Prebensen, 2013; Ulubaşoğlu et al., 2017). This type of research carries the advantage that it includes perceptual antecedents which are frequently derived from well-known theoretical frameworks such as the “Technology Acceptance Model” (Davis, 1989) or “Theory of Reasoned Action” (Fishbein & Ajzen, 1975). Main drawbacks of this approach are that (1) it is plagued with common method bias, (2) stated switching intentions are by far not perfectly correlated with churn behavior, and (3) it emphasizes predictors which are typically not available to practitioners in charge of reducing MNO customer loss.

Second, there are investigations that deal with actual switching behaviors and revert to objectively recorded customer-related characteristics extracted from the billing engines and customer management systems of MNOs. The present analysis belongs to the second group of studies. Most prior pieces of work in the second research stream classify MNO customers as churning in case that their contract has legally ended. We do not follow this tradition. Instead, in line with Nitzan and Libai (2011) and Gerpott and Ahmadi (2015), our analysis identifies individuals who recently sent a cancellation notice to their MNO but whose termination is not yet legally effective (= cancellation announcers). This has the upside that it helps MNOs to design proactive measures that aim at preventing subscribers to write a notice of termination.

Furthermore, most earlier research tends to neglect that a customer's decision to quit an MNO contract is frequently triggered by critical (negative) events or experiences subscribers go through before they write a termination notice. Such events are temporally and locally clearly determinable, subjectively important occurrences in the flow of interactions between customers and their MCS provider (Chuah, Rauschnabel, Marimuthu, Thurasamy, & Nguyen, 2017; Keaveney, 1995; Wirtz, Xiao, Chiang, & Malhotra, 2014). The few studies that explore critical incidents focus predominantly on technical shortcomings customers experience in the use of mobile communication services such as dropped mobile voice calls, insufficient geographical network coverage or slow data transmission speed (see Table 1). Surprisingly, a subscriber's switch to another tariff type is rarely investigated as an event which may trigger customer defection or incentivize a subscriber to stay. This is difficult to understand because there is strong evidence suggesting that switching to a tariff that better (worse) fits a subscriber's mobile communications habits affects the decision to stay with or to leave one's current MCS supplier (Iyengar, Jedidi, Essegai, & Danaher, 2011; Joo, Jun, & Kim, 2002; Wong, 2010). Therefore, more research is desirable that examines impacts of mobile tariff changes among existing customers on their contract cancellation behaviors. Such work is not only interesting from a behavioral science perspective. Rather, it is also important and useful for management because even small relative cancellation rates after a tariff switch translate into considerable absolute revenue and contribution margin reductions given the large postpaid customer numbers of most MNOs all over the world (see Section 3.2.1).

Consequently, the present paper contributes to the literature by exploring differences between cancellation announcers and “quiet” subscribers in a sample of persons who had recently switched to another tariff of their MNO. We also include the nature of the tariff switch (movement towards or away from an unmetered rate plan) as a potential antecedent to customer (non-)defection in addition to demographic and use-related predictors considered in many earlier studies. The analysis is based on objectively recorded data of 1810 subscribers of the German subsidiary of a multinational MNO.

The remainder of this article is divided into four sections. The next section reviews the literature to derive the study hypotheses and questions. Section 3 describes the data set, variables, and the statistical procedure applied. Section 4 presents the empirical results. The final section discusses implications of our findings for management practice and future research.

## 2. Research hypotheses and questions

The development of our research hypotheses and question is aligned to four classes of customer characteristics which were extractable from the customer files of the MNO collaborating with the investigators. In the following, we review the literature related to the four classes of subscriber features for which data was available with regard to their correlations with the event that a subscriber sends a cancellation notice to her MNO.

First, numerous investigations explore associations between the two socio-demographic customer characteristics age and gender at the one hand and MNO subscriber defection on the other. Regarding age, a few studies find that this variable is not a significant predictor of churn (Bahmani, Mohammadi, Mohammadi, & Tavakkoli-Moghaddam, 2013; Mohammadi, Iranmanesh, Tavakkoli-Moghaddam, & Abdollahzadeh, 2014; Polo, Sese, & Verhoef, 2011). Furthermore, some studies report significantly ( $p \leq 0.01$ ) positive age-contract cancellation links among MNO customers but the associations are usually too low to be of practical relevance (Keramati & Ardabili,

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