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Switching behavior of U.S. mobile phone service customers after providers shift from contract to no contract mobile phone service plans ☆

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ABSTRACT

The study examines the impact of the recent shift of the mobile phone service providers in the U.S., from contract to no contract mobile phone service offerings, on the switching behavior of customers in different age groups. Consistent with previous research, the findings ascertain that switching barriers related to relational benefits, availability and attractiveness of alternatives, service recovery and retention in the mobile phone industry are perceived differently by customers in different age groups. However, counter to previous research in the retail banking industry, the research finds that younger customers in the mobile phone service industry are more likely to perceive relational benefits, the effort providers exert to recover a service and are less likely to switch to other providers than older customers. The research findings have implications to theory and practice.

1. Introduction

A considerable amount of research on mobile phone service customer switching behavior and mobile phone service industry switching barriers exists in the literature (Malhotra and Malhotra, 2013; Liang et al., 2013; Richard and Larry, 2012; Shin and Kim, 2008; Kim et al., 2004; Roos et al., 2004; Lee et al., 2001). Previous research, with the exception of the inclusion of the pay as you go mobile phone service plans, was based largely on the contract mobile phone service model of the mobile phone service offering.

Recently, while T-Mobile has totally dropped contract based mobile phone service plans, AT&T, Verizon and Sprint are providing a mix of contract and no contract mobile phone service plans. The recent mobile phone service companies' in the U.S. shift from contract to no contract mobile phone service plans provides mobile phone service customers in the U.S. with more flexibility than before. However, the effect of the changes in the mobile phone service industry on mobile phone service consumer switching behavior has yet to be explored and understood.

Hence the authors of this paper examine the impact of the changes in the mobile phone service offerings on the switching behavior of U.S. mobile phone customers in different age groups. This study is important because to reach out to each customer group successfully, mobile phone service providers and manufactures in the U.S. need to understand the mobile phone service needs of customers in different age groups. Furthermore, with the introduction of the changes mentioned before and the dwindling number of mobile phone service providers in the US with exclusive right to sell new mobile phones, AT&T is no more an exclusive I-phone provider, price competition has become prevalent in the mobile phone service industry. Hence understanding how the shift from contract to no contract mobile phone service model influences the switching behavior of mobile phone service customers in different age groups, helps mobile phone service providers and manufacturers design a marketing strategy that enables them to attract customers in different age groups.

The paper is organized as follows. Section 2 briefly describes the theoretical background. Section 3 explains the methods. Section 4 discusses the findings. Finally, Section 5 offers the conclusions.

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2. Theoretical background

It has been long acknowledged in the marketing literature that retaining an existing customer is a strategic advantage to a firm (Gustafsson et al., 2005; Venetis and Ghauri, 2004; McDougall, 2001; Reichheld and Sasser, 1990; Anderson and Sullivan, 1993; Jones and Sasser, 1995; Reichheld, 1996). It is also widely discussed in the literature that as customers stay with the company longer, their value to the company increases (McDougall, 2001; Keaveney, 1995). Firm's high customer retention rate can lead to more sales revenue, more retained customers and loyal customers that have strong resistance to competitor's pressure to switch (Verhoef, 2003; Dick and Basu, 1994; Bolton and Lemon, 1999). According to Dick and Basu (1994) retained customers are more likely to engage in positive word of mouth and help in bolstering good image of the firm's products and services among potential customers. Hence losing a customer is often considered as a setback to a company because it can cost up to five times to acquire a new customer than retain the old one (Hogan et al., 2003; Heide and Weiss, 1995). In addition to incurring additional cost to recruit customers, the loss of existing customers can have harmful effects to the company. The customer loss can, among other things, result in negative word of mouth with damage to the reputation of the company that could lead to difficulty in recruiting new customers (Hogan et al., 2003). Moreover, a firm that loses its customers often can have difficulty in establishing long term relationships with its consumers (Venetis and Ghauri, 2004; Ganesh et al., 2000). Hence it comes as no surprise that the mobile phone service industry is known for employing switching barriers to discourage customers from switching to other competitors (Malhotra and Malhotra, 2013).

2.1. Switching barriers

Jones et al. (2000), define switching barriers as any factor that makes it difficult or costly for customers to change providers. Switching barriers help service providers to keep not only satisfied customers, but also dissatisfied customers tied to the firm for an extended period of time (Ranaweera and Prabhu, 2003). According to Keaveney (1995) pricing, inconvenience, core service failure, competition, ethical problems and involuntary switching are factors that lead to switching barriers. Later Colgate and Lang (2001) classified switching barriers into relational benefits, switching costs, availability and attractiveness of alternatives and service recovery. Furthermore, recently Malhotra and Malhotra (2013) divided switching barriers into hard and soft lock-ins. In this research we are going to adapt Colgate and Lang's (2001) classification of switching barriers.

2.1.1. Relational benefits

Relational benefits are defined as, "the benefits customers receive from long term relationships beyond the core service performance" (Koritos et al., 2014, p. 266). Reichheld and Sasser (1990) argue that by providing relational benefits, firms can create special bond with their customers and ultimately retain them for a longer period. Moreover, Gwinner et al. (1998) explained that through developing relationships with their service providers, customers can receive confidence, social and special treatment benefits. According to Mittal and Lassar (1998) and later Colgate and Lang (2001) relational benefits have negative effect on customers switching behavior. By committing to long term relationships with their service providers, contract based mobile phone service customers often receive discounted or at no cost devices, installment plan to pay device cost, free call time to their friends in the same network and can upgrade their phones and services easily (Lam et al., 2004; Malhotra and Malhotra, 2013). Previously such services were reserved for mobile phone service customers who commit to two year contracts with their service providers. However, after the recent providers shift from contract to no contact plans even customers who do not commit to two year contracts can finance their devices with the provider and in some cases are eligible for upgrade. For no contract plan customers to break the device financing agreement, they need to pay the device price in full. Moreover, before no contact plan customers are eligible for upgrade, most mobile phone service providers require customers finish at least one-year service.

Also as a strategy to attract new customers, many mobile phone service providers are encouraging mobile phone users to switch from competitors in return for a promise of better service and a refund of the penalty switching customers might have to pay for breaking a contract with their current mobile phone service providers (Malhotra and Malhotra, 2013). Although such offers come with certain restrictions, they offer mobile phone service customers more flexibility and an opportunity to exit from abusive service providers.

2.1.2. Switching costs

Switching costs are one of the most important categories of switching barriers (Richard and Larry, 2012; Colgate and Lang, 2001). Pick and Eisend (2014, p.186) define switching costs as "costs perceived, anticipated, and/or experienced by a buyer when changing a relationship from one seller to another". Switching costs are classified into time, monetary and psychological costs (Sengupta et al., 1997). Also according to Murray and Schlacter (1990) and later Murray (1991), switching costs include customer perceived risk: consumer's uncertainty about loss or gain in a particular transaction. Perceived risk is classified into performance, social, psychological, and time convenience loss. Increasing switching costs to deter customers from using other providers is a common strategy in the service industry (Lam et al., 2004; Fornell, 1992; Malhotra and Malhotra, 2013). According to Malhotra and Malhotra (2013) contract mobile phone service providers in the U. S. restrict the customers' right to switch, even when the customers are dissatisfied with the service, by locking them into unreasonable contract length. Many mobile phone service providers charge customers very high cancellation fees for terminating a contract early. Although customers in the contract mobile phone service model enjoy more incentives than customers in the no contract mobile phone service model, when it comes to switching to another provider, the latter enjoys more flexibility and lower costs. No contract mobile phone service customers can break the contract at any time they want with no financial consequences. However, when they decide to switch providers, both contract and no contact mobile phone customers may face psychological, effort and time based costs. Potential switching customers who do not have the time to visit mobile phone service providers' physical store, to sign for new service, have to do it by accessing the service providers' online websites. Although such strategy may save customers some time, often customers who sign into mobile phone service on the service provider's online website do not get the service automatically and have to wait five to twelve days until the smart chip, also called SIM card, is mailed to them. Customers may also incur switching costs, such as hefty new service activation fees, whenever they decide to switch and join an alternate provider.

2.1.3. Availability and attractiveness of alternatives

The number of alternatives available and their attractiveness to the customer may also influence the customer's propensity to switch to another provider (Colgate and Lang, 2001; Colgate and Hedge, 2001). According to Ping (1993) if customers are not aware of attractive alternatives, they may decide to commit to their