

FACTORS INFLUENCING CUSTOMER RETENTION AND SWITCHING IN THE KOREA BROADBAND INTERNET SERVICE MARKET

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Abstract: Korea's high-speed Internet markets have all these characteristics, which is why the providers are doing their utmost to retain their current subscribers and attract other companies' subscribers. Therefore, the starting point of a basic customer strategy involves 1) the identification of the characteristics of those subscribers who maintain their membership or who have switched to another provider in Korea's high-speed Internet market, where switching between providers is becoming increasingly frequent among subscribers, and 2) analysis of the factors affecting their behavior. One of the common findings of most telecommunication service sectors including Korea's high-speed Internet market is that customer satisfaction does not always match customer behavior. In general, customers maintain their subscription to a specific provider when they are satisfied, and drop their subscription otherwise. However, even satisfied subscribers often switch to another provider and vice versa. This happens when factors other than customer satisfaction affect customer behavior. In this regard, we examine the factors which affect customer behavior in Korea's high-speed Internet market in terms of service differentiation, facilitating conditions, the cost of switching, and the attractiveness of the alternatives.

1 INTRODUCTION

There is a main characteristic in Korea's high-speed Internet market, which exhibits the features of the typical maturity stage, where the saturation point has been reached or even surpassed, with 90% of the entire population enrolled. As new additional services emerge - such as the Internet phone and IPTV - the providers find themselves in the strategic situation of having to market new services for the existing subscribers. As the market is entering the maturity stage, it is getting harder to attract new customers, and as the market is making the transition to a new service, Korea's high-speed Internet providers are engaged in relentless competition to keep their customers and attract each other's subscribers. Therefore, the starting point of customer strategy consists 1) in identifying the characteristics of the subscribers who are maintaining their

membership or who have switched to another provider in Korea's high-speed Internet market and 2) in analyzing the factors which affect their behaviour (Kim et al., 2004; Ahn et al., 2002).

When we put together the previous studies of the factors affecting customer behaviour, we can see that customer satisfaction is the primary reason why the subscribers stay (Rust et al., 1993): thus, while the satisfied customers stay, those who are dissatisfied seek another service provider. In some situations, however, customer satisfaction does not explain everything. Even customers who are not satisfied with the service they get sometimes stay enrolled, and vice versa. The switching barrier theory, which was introduced to explain this phenomenon, argues that dissatisfied customers stay enrolled due to what is referred to as the switching barrier (Kim et al., 2004). However, only a few analyses of the reasons why satisfied customers move to another provider appear to have been

conducted so far. In this study, an attempt is made to systematically identify the factors which affect the customer's continuance/switch of subscription in Korea's high-speed Internet market, and on this basis, we will state some of the implications for Internet providers.

2 SUMMARY OF MARKET SURVEY

We conducted a market survey of members of the public across the country. The target sample consisted of 800 people aged between 15 and 49 living in Seoul, the capital region, and six metropolitan cities. The survey was conducted in the form of one-on-one interviews, which some leading research institutes were commissioned to carry out.

The variables of this survey are composed of maintain or switching, satisfaction or dissatisfaction, service differentiation, facilitating conditions, switching cost and unattractiveness of alternatives.

3 ANALYSIS OF THE FACTORS AFFECTING CONTINUED SUBSCRIPTION AND SWITCHING AMONG HIGH-SPEED INTERNET USERS

3.1 Factors Affecting continued Subscription to High-Speed Internet

We studied the influence of the cost of switching and the attractiveness of the alternatives in order to identify the factors which affect the users' continued subscription to the high-speed Internet as shown in Table 1. Among the group of satisfied continuing subscribers and the group of dissatisfied continuing subscribers, the cost of the switching procedure and the unattractiveness of the alternatives were both found to have an influence. That is, even dissatisfied subscribers tend to remain enrolled if the early termination process is burdensome or if the other providers are not attractive. Accordingly, the cost of switching and the unattractiveness of the alternatives can be said to be factors which incline dissatisfied subscribers to remain with their service provider.

We conducted a multiple logit analysis of Group 2 with the others, the results of which are shown in Table 6 below. Group 1 was found to be affected by the switching cost and the unattractiveness of the other service providers; Group 3 was affected by the switching cost; and group 2 by the switching cost and the unattractiveness of the other service providers. In short, the cost of switching and the unattractiveness of the other service providers were found to influence dissatisfied subscribers into remaining with their service in general.

Table 1: The factors affecting continued subscription.

| Factors | | Satisfied | Dissatisfied | F Value | Significance level |
|--------------------------------------|-----------------------|-----------|--------------|---------|--------------------|
| Cost of switching | Penalty | 0.08 | 0.11 | 0.875 | 0.350 |
| | Termination procedure | 0.07 | 0.40 | 44.284 | 0.000 |
| Unattractiveness of the alternatives | | 0.11 | 0.45 | 41.167 | 0.000 |

Table 2: Factors which influence customers to remain with their provider.

| Factors | | Group1/ Group 2 | | Group 3/ Group 2 | | Group4/ Group 2 | |
|--------------------------------------|-----------|--------------------|--------|---------------------|--------|--------------------|----------|
| | | B | S.E | B | S.E | B | S.E |
| Cost of switching | Penalty | -0.260 | 0.679 | -0.187 | 0.540 | 0.399 | 0.618 |
| | Switching | 3.075 | 0.603* | 0.952 | 0.577* | 1.883 | 0.616*** |
| Unattractiveness of the alternatives | | 2.907 | 0.506* | 0.516 | 0.469 | 1.199 | 0.529** |
| -2log likelihood | | 86.603 | | | | | |
| Chisquare/degrees of freedom | | 118.568***/ 9 | | | | | |

*: <0.1, **: <0.05, ***: <0.01

3.2 Factors Affecting Subscribers' Decision to Switch Providers of the High-Speed Internet

We examined the influence of service differentiation and the facilitating conditions to identify the factors which affect the decision to switch providers of the high-speed Internet, as shown in Table 3. Among the group of dissatisfied people who switched and the group of satisfied people who switched, facilitating conditions such as service upgrade, additional discounts, and free gifts were found to have an influence on their decision. That is, even satisfied subscribers are likely to switch due to such facilitating conditions. This shows that service

differentiation and the facilitating conditions can persuade satisfied subscribers to switch.

We further divided the subscribers who switched into 4 groups in order to study more deeply the factors which affect the decision to switch providers of the high-speed Internet. Group 4 (26) was composed of those who were dissatisfied with both the quality and the charges; Group 3 (59) of those who were satisfied with both the quality and the charges; Group 1 (69) of those only dissatisfied with the quality; and Group 2 (45) of who were only dissatisfied with the charges. We conducted a multiple logit analysis of group 4 with the others, the results of which are shown in Table 4. Compared to Group 4, Group 3 was affected by the additional discounts and free gifts, while Group 1, like Group 2, was not affected by service differentiation and facilitating conditions. In summary, the factors affecting switching differed between those who were dissatisfied overall and those who were only partially dissatisfied.

Table 3: Factors affecting switching.

| Factors | | Satisfied | Dissatisfied | F Value | Significance level |
|-------------------------|----------------------|-----------|--------------|---------|--------------------|
| Service differentiation | Service upgrade | 0.20 | 0.08 | 4.094 | 0.044 |
| | Contents improvement | 0.07 | 0.11 | 0.963 | 0.328 |
| Facilitating conditions | Additional discount | 0.25 | 0.15 | 2.775 | 0.097 |
| | Free gifts | 0.22 | 0.07 | 7.057 | 0.009 |

Table 4: Factors affecting switching.

| Factors | | Group3/ Group 4 | | Group 1/ Group 4 | | Group2/ Group 4 | |
|------------------------------|----------------------|--------------------|--------|---------------------|-------|--------------------|-------|
| | | B | S.E | B | S.E | B | S.E |
| Service differentiation | Service upgrade | 0.755 | 0.723 | 0.330 | 0.700 | 0.355 | 0.746 |
| | Contents improvement | 1.144 | 0.853 | -0.641 | 0.950 | 0.298 | 0.915 |
| Facilitating conditions | Additional discount | 1.083 | 0.625* | -0.502 | 0.676 | 0.819 | 0.638 |
| | Free gifts | 1.513 | 0.689* | -0.319 | 0.752 | -0.010 | 0.783 |
| -2log likelihood | | -99.404 | | | | | |
| Chisquare/degrees of freedom | | 35.424***/ 12 | | | | | |

4 CONCLUSIONS

In this context, we studied the characteristics of continuing and switched subscribers analyzed the factors which affect their behavior, and tried to give the implications in order to provide useful information for high-speed Internet providers' customer strategy. We recommend that the providers adopt the following customer strategy shown in Table 5. Thus, the appropriate customer strategy is summarized as one of retaining their own customers, attracting other companies' customers, and strengthening their services.

Table 5: Customer strategy for Korea's high-speed Internet providers.

| Strategy | Retain existing customers | Attract customers | Strengthen services |
|-----------|---|--|--|
| Direction | <ul style="list-style-type: none"> ▪ Raise customer satisfaction ▪ Raise cost of switching ▪ Strengthen brand | <ul style="list-style-type: none"> ▪ Differentiate ▪ Strength facilitating conditions | <ul style="list-style-type: none"> ▪ Strengthen service values ▪ Extend service lines |
| Details | <ul style="list-style-type: none"> ▪ Enhance quality continually ▪ Offer continued discounts by economy of scale and scope ▪ Continue the development of payment plans suitable for a segmented market ▪ Raise cost of switching such as long subscriber discount ▪ Strengthen brand relative to the competitors | <ul style="list-style-type: none"> ▪ Performance differentiation of service ▪ Differentiate service itself ▪ Differentiate company image ▪ Develop differentiated payment plans ▪ Differentiate facilitating conditions | <ul style="list-style-type: none"> ▪ Strengthen service values by IPTV and Internet phone (TPS or QPS) ▪ Develop bundle packages of high-speed Internet and WiBro ▪ Adopt up-selling strategy |

The customer retention strategy can be divided into: enhancing customer satisfaction, raising the cost of switching, and strengthening the brand, as follows.

Customer satisfaction is the primary factor in persuading subscribers to remain with the provider. Therefore, in order to enhance customer satisfaction, the providers should continue to enhance their service quality, reduce costs through economy of

scale and scope, and create a mechanism whereby charges decrease incrementally. As shown in the aforementioned analysis, they need to segment the market to reflect the demographic statistics and the usage characteristics of the IT services and high-speed Internet as much as possible, and continue to develop the payment plans appropriate for the characteristics of the segmented market. Especially as the charges of telecommunication services are becoming ever more burdensome as a proportion of household expenditure, the development of various payment plans will be significant. Another key to ensuring customer satisfaction is that of strengthening customer services continually in addition to enhancing quality and lowering the charges. The strategy of systematically strengthening the mileage service, customer response service, and after service, for example, would be desirable.

Attention should also be paid to the fact that what is commonly observed with most telecommunication services - including Korea's high-speed Internet, is that customer satisfaction does not always match their behaviour. Satisfied customers generally remain with the service and get out when they are dissatisfied; however, even satisfied customers might switch, and the opposite case may also happen. That is why the strategy of raising the cost of switching is essential for retaining the existing customers, which was analyzed in depth above. The cost of switching refers to the psychological, economic, and non-economic costs that have to be paid when an existing subscriber switches to another provider. Employing the switching cost properly is therefore useful for retaining one's customers. A long-term contract offers a good example in this respect. Although an early termination penalty is effective, too, such a strategy needs to be modified because it is likely to arouse customer complaints in the long term.

Strengthening the brand over those of the competitors is also a good strategy for retaining the existing customers, because the overall reliability of the brand reinforces the customers' loyalty to the provider. Put another way, strengthening the brand means strengthening the attractiveness of the current provider over the competitors, for which strategic means of strengthening the brand image, brand association, and brand preference are required.

The strategy of attracting the competitors' subscribers broadly divides into differentiation and strengthening the facilitating conditions. Differentiation in turn divides into the differentiation of the product, service, and image. The

differentiation of service performance is the most important factor for the high-speed Internet, as providers especially need to provide services that are at least equal to or better than their competitors through continued investment in speed and performance. It would also be desirable to achieve differentiation in all aspects of the service by differentiating the service itself. Effective advertising and promotion is also recommended to strengthen the company's image. Furthermore, not only absolute differentiation but also relative differentiation is important: that is, differentiation relative to the competitor is more efficient in terms of cost and effectiveness. The strategic approach is also effective in leading the customers to perceive that the service is giving more benefits at a lower price by continuing the differentiation of pricing.

Differentiation of the facilitating conditions is also a good strategy for attracting the competitors' customers. Attracting the competitors' customers should be done carefully because it might backfire. Lavishing free gifts or discounts extravagantly, for example, is likely to obtain no results because it might harm profits and accelerate overheated competition. Additional discounts might also bring about losses rather than gains for the same reason. Therefore differentiation should be based on gaining slight advantages over the competitor or on other means. A system which combines an additional discount, long contract, and point system is one example of this.

The strategies of strengthening the service value and extending the service line exemplify the strategy of extending the uses of a service. To that end, such TPS or QPS strategies as strengthening the service value through the IPTV and Internet phone, extending the service line with bundle packages with other telecommunication or mobile services such as HSDPA, and adopting the up-selling strategy are required. Because IPTV and the Internet phone, the core elements of the Triple (Quattro) Play service, are additional services that can be provided through high-speed Internet networks with high marketability, Korea's high-speed Internet providers should secure subscribers to those services in the initial stages and thereby link it to the existing customer strategies. Since it is hard to attract new subscribers, and up-selling by the existing customers are the key to creating profits, the providers need to concentrate their resources and capabilities on them. A bundle strategy of linkage with WiBro or HSDPA is also required. For this, the customer strategy of extending the high-speed Internet to wireless would be desirable.

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