



AN ANALYSIS OF THE IMPACT OF WORD-OF-MOUTH ON CONSUMER SWITCHING DECISIONS IN INDIAN CELLULAR MOBILE SERVICES

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Abstract

Customer retention is one of the critical challenges faced by service providers in a hyper competitive environment. India's cellular mobile service sector is experiencing severe customer churn after the implementation of mobile number portability in January, 2011. There are various factors that affect consumer switching decisions such as customer satisfaction, perceived value, customer loyalty, service quality, switching cost, alternative attractiveness, customer support service, corporate image, trust etc. But the impact of Word-of-Mouth (WOM) on consumer switching decisions has not been widely explored till date. WOM is considered to be the most powerful marketing tool which can be used for customer acquisition and retention. This paper discusses about WOM, its role in consumer purchase decisions and analyses how WOM, customer satisfaction and customer relationship management impact consumer switching decisions.

Keywords: *Consumer behavior, Word-of-Mouth (WOM), Customer satisfaction, Customer Relationship Management (CRM).*

Introduction

Cellular mobile services were started in India during August 1995. Driven by various policy initiatives, it has shown phenomenal growth over the last decade. The number of subscribers went up from 13mn in 2003 to 988mn in August 2015. Today India is the second largest mobile network in the world with a wireless tele-density of 78%.

India's mobile service sector is hyper competitive with the presence of 13 operators and has one of the lowest call tariffs in the world. The introduction of Mobile Number Portability (MNP) in January 2011, a facility that allows the customers to switch their service provider without changing their numbers, made this sector even more competitive. After the introduction of MNP, till August 2015, over 172million customers (17.4%) switched their service providers all over India. So MNP has triggered the customer's propensity for rapidly switching service providers which places significant challenges on customer retention for the mobile service providers in India.

Indian mobile service market is continued to be dominated by prepaid subscribers which accounted for more than 95% of the total mobile subscriber base. Prepaid customers are price sensitive, low spend and enjoying the freedom of no commitments or contracts which presents a greater challenge to the service providers. Further, due to intense competition, the Average Revenue per user (ARPU) per month has come down from Rs.434 in 2005 to Rs.118 in 2015. With the increase in operational expenses, license fees etc, and with the declining ARPU, operators find it hard to be profitable.

Consumer switching refers to customers abandoning a product or service in favour of a competitor. Customer churn, the number or percentage of regular customers who abandon their relationship with their service provider, is an important issue in a highly competitive telecom industry as it lowers future revenue streams and reduces profitability of mobile operators. In mobile services, the cost of customer acquisition is approximately 4 to 5 times that of customer retention (Fornell & Wernerfelt, 1988). To arrest the customer churn, it is important to gather basic information about the switching process and to understand why customers switch from one service provider to another. There are various factors that affect consumer switching decisions such as customer satisfaction, customer loyalty, service quality, perceived value, switching cost, alternative attractiveness, customer support service, corporate image, trust etc. But the impact of word-of-mouth (WOM) on consumer switching decisions has not been widely explored till date. This paper discusses about WOM, its role in consumer purchase decisions and analyses how WOM, customer satisfaction and customer relationship management impact consumer switching decisions.

Literature Review

Word of Mouth (WOM)

Historically, the term "word of mouth" (WOM) was used to describe interactions (mostly verbal) among customers. Arndt (1967) defined WOM as "the oral, person-to-person communication between a perceived non-commercial communicator and a receiver concerning a brand, a product, or a service". WOM may be positive or negative. Positive word of mouth (PWOM) involves relating pleasant, vivid or novel experiences and recommendation to others whereas negative word of mouth (NWOM) involves behaviour such as defamation, relating unpleasant experiences, rumour and private complaining (Anderson, 1998). WOM may be uttered before or after a purchase. When operates in the pre-purchase phase it is called 'input WOM', whereas if it happens after the purchase it is called 'Output WOM' (Buttle, 1998). WOM possesses the



flexibility of interpersonal communication (Day, 1971). It vanishes as soon as it is uttered. WOM may be offered with or without request. It may or may not be sought by the listener. But for authoritative information, it may be sought from opinion leaders (Buttle, 1998). WOM may happen in many domains such as customers, suppliers, employees, influentials, recruitment and referral markets (Christopher et al., 1991).

Offline vs Online WOM

WOM communication may be offline or online. When it happens through internet (online), it is termed as electronic WOM (eWOM). Hennig-Thurau et.al., 2004, defined eWOM as “any positive or negative statement made by potential, actual, or former customers about a product or a company via the Internet”. Though eWOM increases speed and ease of communications, it is usually unsolicited, lacks reliability and flexibility provided through face-to-face communications and the recipient need to not necessarily willing to pay attention to it. But many firms encourage customer reviews through their websites, which allows customers to share their informations far more easily than ever before.

In India, majority of the WOM communication occur offline because of lower internet penetration (24%). But with the ‘Digital India’ initiative from Government of India and with the increasing use of electronic communication media such as internet, e-mail, sms and other social networking sites such as whatsapp, facebook, twitter etc among customers, it is likely that eWOM will play a bigger role in consumer purchase decisions.

Role of WOM in Decision Making

Consumer purchase decision is a complex, multistage process which comprises of five stages such as problem/need recognition, information search, evaluation of alternatives, purchase decision and post purchase behaviour (Kotler, 2003). Informational influence occurs when someone else provides information to the consumer to help them make a purchase decision. The sources of Influence may be (i) Experiential sources of influence (eg.own personal experience) (ii) Interpersonal sources of influence (eg.Opinions of friends, colleagues, relatives, or others) & (iii) External sources of influence (eg advertising, articles, reviews, or other activities of a company). (Keaveney et.al, 2001).

When faced with a purchase decision, consumers first engage in internal search, by examining information from memory based on past experiences and product-relevant knowledge (Bettman, 1979). Customers prefer this information especially when there is more perceived risk associated with the purchase decision, but the preferences for the sources of information may vary with goods/services (Murray,1991).

WOM been identified as a primary source of informational influence in consumer purchase decision making (Tax et.al, 1993). WOM communications is found to have a very strong influence on purchase decisions than other sources of influence in service context as it is perceived to be more reliable, credible and trustworthy by consumers than firm-initiated communications (Mangold, 1988; Arndt, 1967; Murray, 1991). WOM influences expectations and perceptions during information search phase of the buying process and influences attitude during the pre-choice evaluation of alternative service providers (Buttle, 1998). WOM is influential not only in generating awareness about products/services but also in actual purchase decisions. Murray (1991) observed that WOM reduces the risk associated with buying decisions. WOM is found to influences consumer’s brand choice decisions & brand switching behaviour (East et.al, 2008). PWOM encourages brand choice whereas NWOM discourages brand choice. Keaveney (1995) found that PWOM is the main source of information for finding a new service provider and 50% of service provider replacements were found to be with the influence of WOM. So it can be inferred that WOM referrals influences consumer’s behavioural intentions such as switching or repurchase intentions.

Why people seek or deliver WOM?

Literature review reveals that there are various reasons for seeking or delivering WOM communication, such as risk associated with buying decisions, customer’s involvement in purchase decision, lack of confidence or experience or knowledge in the purchase process, reduction of discomfort due to cognitive dissonance or even to express the satisfaction levels of the product/service consumption.

Debrun & Lilien, 2008, observed that customer with deep involvement or who perceive a high risk in purchase decisions or having little expertise in the product category will seek WOM. Perceived risk is referred as consumer's perceptions of the uncertainty and adverse consequences of purchasing a product or service (Bauer, 1967). Different products are associated with different degrees of perceived risk. Perceived risk is multi dimensional in nature which may be financial, functional, social, psychological, time and security. Functional risk refers to the risk that the functional attributes of the product do not satisfy the needs. Financial risk means financial loss due to ‘bad’ purchase. Social risk refers to the negative consequences arising from the social environment of the consumer (eg. not accepted by friends). Psychological risk relates to lower self



perception when customer has made a bad choice (Wangenheim & Bayon, 2004). WOM referrals are often sought to reduce the risk associated with buying decisions (Murray, 1991). This will be highly relevant for high risk or intangible-dominant products such as services which are difficult to evaluate prior to consumption. WOM may even be sought when an advertising message generates uncertainty about a product/service (Buttle, 1998).

Consumers with little prior experience with a product/ service, or having little confidence in their own abilities to judge a product/service will find the decision-making process difficult. They may prefer to seek advice from others perceived as knowledgeable (Furse et al. 1984). Information obtained from such experts, who possess more product or purchase related information, is considered to be highly influential in purchase decisions (Gilly et al. 1998).

WOM plays an important role in consumer's post-purchase decision making too. WOM is often sought as a strategy to reduce the discomfort caused by post purchase conflict or cognitive dissonance (Festinger, 1962; Buttle, 1998). Cognitive dissonance occurs due to difference in Consumer's expectations and the product's perceived performance (Kotler & Armstrong, 2013). WOM is often used as vehicle for expressing satisfaction or dissatisfaction with a product experience and often being considered as an important post purchase complaining option. (Tax et.al, 1993).

Factors affecting WOM Effectiveness

Literature review reveals that there are several factors that affects the reception and acceptance of WOM recommendations such as source credibility, source similarity, tie strength (Brown et.al, 2007), richness of the source (Daft and Iengle, 1983), frequency & consistency of occurrence (Oliva et.al, 1992, Westbrook 1987), the richness and strength of the message and its delivery (Sweeney et.al, 2008), receiver expertise & the risk of the category of products or service recommended (Wangenheim & Bayon, 2004).

Source credibility refers to the degree to which the receiver perceives the source to be believable. Source expertise and source bias are the elements that affect the credibility of an information source. Source expertise refers to the perceived competence of the source providing the information. Source bias or the source trustworthiness is the possible bias that may be reflected in the source's information. Greater the expertise of the recommender, the greater will be the attention of the receiver. The knowledge of the recommender generates belief and trust in the information, reducing its uncertainty and thus enhancing its influence. Source similarity or homophily is the similarity of members' characteristics such as age, gender, education, or lifestyle. The more similar the communicator source characteristics, the greater will be the WOM influence. Tie strength is the strength of the interpersonal relationships such as closeness, intimacy, support and association. The stronger the tie strength, the greater will be the influence. This may be due to the frequency and perceived importance of social contact among strong-tie individuals. The media used to communicate information determines the richness of the source. Face to face communication is considered to be the richest source as it allows for immediate feedback and clarification, observation of multiple cues (eg facial and body language, tone of voice) and is more personal. Electronic media are quite low in richness, so it is expected that eWOM will be less influential than offline WOM. A single instance of WOM is unlikely to influence a loyal customer, whereas frequent and consistent occurrence of WOM referrals, especially from multiple sources may have a strong impact on the receiver (Bone, 1995). WOM will be more influential if the message is delivered in a powerful, enthusiastic fashion as it can be recalled easily. WOM is considered to be more vivid and is likely to be more easily remembered. Receiver's expertise or prior knowledge influences WOM effectiveness. When the receiver possesses greater knowledge, he processes information in a faster and easier way. But experts mostly seek lesser information, and pay lesser attention to WOM, which reduces the importance of WOM (Gilly et.al, 1998). When the receiver possesses lesser information, the greater will be the perceived risk associated with buying & the greater will be the cognitive effort to find information. The higher the risk associated with the buying decision, the greater will be the cognitive effort to find information to make a decision. WOM is most important in high risk, high involvement contexts and for more complex services.

Customer Satisfaction

The expectation disconfirmation model explains how consumers become satisfied or dissatisfied. If a product/service performance exceeds customer expectations (positive disconfirmation), it will result in customer delight; if it meets customer expectations, it will result in customer satisfaction; if it is below customer expectations (negative disconfirmation), it will result in customer dissatisfaction (Hayden, 2009). Both satisfaction and delight leads to PWOM whereas customer dissatisfaction may lead to NWOM (Oliver, 2015). Swan and Oliver (1989) found that PWOM increases with satisfaction. Higher levels of customer satisfaction lead to greater customer loyalty or lower customer churn.



A dissatisfied customer may take any combination of punitive actions such as exiting the relationship (exit option), voice dissatisfaction such as complain to and seek redress from the supplier/ service provider (voice response), utter negative WOM (private responses), write to consumer affairs programme (third party responses) etc. (Hirschman, 1970; Kotler, 2003). When experienced with minor dissatisfaction, customer's responses will be minimal. Mostly they neither complain nor utter NWOM. When highly dissatisfied, consumers tend to complain regardless of other factors in the situation. Dissatisfaction may even lead to greater WOM than satisfaction (Richins, 1983). Further, Customer dissatisfaction may even lead to greater consumer switching intentions (Bansal and Taylor, 1999). So it can be inferred that customer satisfaction influences WOM referrals and consumer's intentions to stay or switch the service provider.

CRM (Customer Relationship Management)

Reinartz et.al, 2004 conceptualised CRM as "A systematic process to manage customer relationship initiation, maintenance, and termination across all customer contact points in order to maximize the value of the relationship portfolio". CRM is the overall process of building and maintaining profitable customer relationship by delivering superior customer value and satisfaction (Kotler & Armstrong, 2013). CRM system consists of a software package, system or technology which is used to integrate and manages all aspects of customer interactions within the organisation.

The need and ability to resolve customer problems in a satisfactory manner is critical for firm's survival. Empirical research shows that only 4% of the customers ever complain which means that company will never hear from the majority of its customers. So company should set up systems that encourage customers to complain (Kotler & Armstrong, 2013). Encouraging complaints gives the company a chance to rectify the complaints and win back customers who may also generate PWOM, enhancing its goodwill. If complaints are discouraged, they may tell others about their unsatisfactory experiences and may not repurchase the product in the future. Responding to customer complaints promptly in a courteous manner may avert NWOM and may even create PWOM (Richins, 1983). Buttle (1998) inferred that excellent service recovery following a service failure is having more likelihood to generate delight than with 'right first time' service delivery. Complaint handling process is likely to contribute to word of mouth positively if well handled and negatively if poorly handled (Tax et al. 1993).

CRM systems helps companies to gather customer data and their feedback regarding services from all touch points (any point of contact that a customer or prospect has with the company), including phone inquiries, web applications, e-mail, or in-person transactions. This data can be used for improving the service by resolving service quality issues, offering customised tariff packages, providing loyalty schemes etc. Further, customer data analysis can give greater insight into customer behaviour. With the help of proper CRM, company can make two way communications with its prospective customers during the pre-selling, selling, consuming and post-consuming stages (Baran et.al, 2008). According to Winer (2001), CRM helps companies to adopt a proactive customer service approach rather than the reactive approach. Proactive approach means not waiting for the customer to contact the firm, but aggressive in establishing a dialogue with the customer prior to complaining. Reactive approach means respond to customer problems when they reports it. Thus, CRM enables firms to manage customer complaints in an effective manner which leads to customer satisfaction and greater WOM. So it can be inferred that CRM affects both customer satisfaction and WOM.

Hypotheses and Theoretical Model

From the literature review, it can be inferred that proper CRM may lead to greater customer satisfaction and both customer satisfaction and CRM influences WOM referrals. Further the analysis of the purchase behaviour reveals that WOM is likely to have an influence in consumer switching behaviour. Accordingly, the following hypotheses are proposed.

- H1: Customer Relationship Management positively influences Customer satisfaction
- H2: Customer Relationship Management positively influences WOM referrals
- H3: Customer satisfaction positively influences WOM referrals
- H4: WOM referrals influences Consumer switching decisions
- H5: Customer satisfaction influences Consumer switching decisions

Based on the above hypotheses, the following theoretical model is proposed

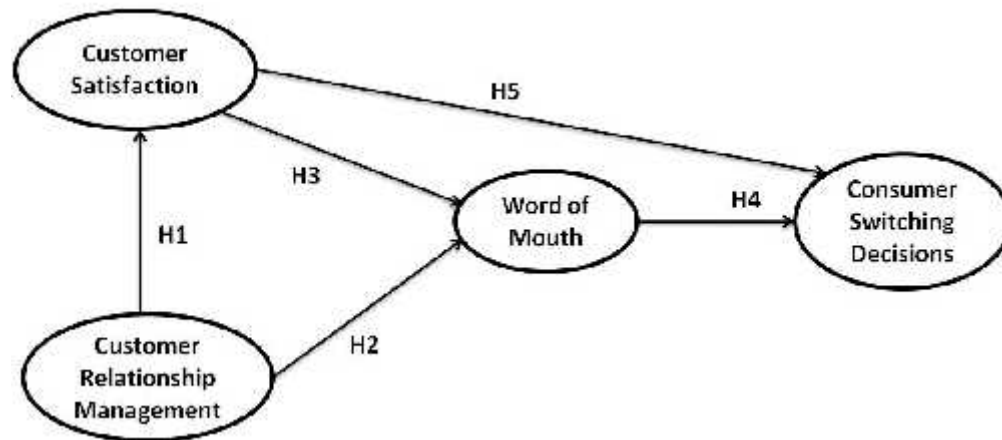


Figure 1: Conceptual model and hypotheses

Conclusions and Future Scope

Consumer switching is one of the main concerns for service providers in Indian Cellular Mobile service sector. This conceptual study focuses on building theory on the impact of WOM on consumer switching decisions. Literature review reveals that WOM communication is highly influential in consumer's pre-purchase and post purchase behaviours. It is found to have a strong influence in moulding customer expectations and perceptions of service providers and even influences the attitude towards switching. Customer satisfaction plays a major role in determining the magnitude and direction of WOM referrals and consumer switching decisions. Through effective CRM, companies can cater to customer needs in a better way which enhances satisfaction, promotes word of mouth and even help in arresting customer churn. The proposed theoretical model can be tested empirically and the findings can be used by managers in developing customer retention strategies. Although the study is proposed in cellular mobile services, it can be extended to other service sectors too.

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