

**CUSTOMER RETENTION STRATEGIES ADOPTED BY MOBILE
TELECOMMUNICATIONS COMPANIES IN KENYA**

BY

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DECLARATION

This Management Research Project is my original work and has not been submitted for examination in any other University.

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This Management Research Project has been submitted for examination with my approval as a university supervisor.

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DEDICATION

To my parents Paul Osero and Jane Nyarangi, who taught me from a tender age the virtue of hard work and shaped me to who I am today. They saw my capabilities and made me understand that the sky is my limit and I can make it in life through hard work and determination.

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ABSTRACT

A number of authors have stated that focusing on customer retention is less expensive than acquisition focus and can be more profitable. The telecommunications industry is very competitive and companies within this industry have to apply the right methods and knowhow to differentiate from each other to gain a competitive advantage. The objective of this study was to determine the customer retention strategies adopted by companies in the mobile telecommunications industry in Kenya.

This study took the form of a survey. A census survey of the 4 mobile phone companies in Kenya was done. The managers were targeted for the study. Primary data was collected using semi-structured questionnaires. The questionnaires were administered using drop and pick later method. These were accompanied with letters of introduction from the university and from the researcher. Data was analysed using descriptive analysis (percentages, mean and standard deviations) with the aid of SPSS.

The study found that the most used retention strategies were customer loyalty (mean = 4.75), number of subscribers on the network (mean = 4.25), price (mean = 4.00), and special offers and discounts (mean = 3.50). These strategies were found to be effective. The study concludes that these results are consistent with most of the literature on customer retention strategies. The study recommends the need to have better customer relationship management programs in order to enhance customer satisfaction and loyalty. It is also recommended that the firms allocate bigger budgets for customer retention given the fierce competition for customers in the industry.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Organisations today exist in a turbulent environment. The turbulence emanates from both internal and external environmental factors. Thus, there is heightened competition in most of the industries. The telecommunications industry has seen more turbulence as players compete to sustain their market positions as others scramble to expand their markets. This has seen a scramble for customers as firms churn out strategies to remain relevant in the market. As competition heightens, the economy continues to boom due to the fact that more strategies are devised to ease communication.

Various management authors such as Drucker (1973) and Zineldin (2000) have reaffirmed the importance of a customer to an organisation as well as the importance of devising strategies to retain them. Thus, management theorists such as Lowendahl (1997) have devised theories specific to customer retention. Such theories explain the need to retain customers as well as the process of customer retention.

The sole purpose of a business Drucker (1973) once claimed was “to create a customer”. However, keeping the customer has become regarded as equally, if not more important, since Dawkins and Reichheld (1990) reported that a 5 per cent increase in customer retention generated an increase in customer net present value of between 25 per cent and 95 per cent across a wide range of business environments. This finding generated a huge amount of interest and activity in academic and business communities, as researchers and consultants attempted to examine and verify these claims. There was a growing recognition that customers, like products, have a life-cycle that companies can attempt to

manage. Customers are acquired, retained and can be grown in value over time. They climb a value staircase (Gordon, 1998) or value ladder (Christopher et al., 1991) from suspect, prospect and first-time customer, to majority customer and ultimately to partner or advocate status.

1.1.1 Customer Retention Strategies

Zineldin (2000) defines customer retention as a rate – percentage of the customers at the beginning of the period which are still remaining customers at the end of the period. Dawes (2009) defines retention simply as a number of customers who stay with the service during the set period of time. Newell (2000) describes customer retention as the return on customer relationship marketing. Swift (2001) in his definition highlights that the retained customer has to be also loyal and profitable. Later, in this paper, we assume that retention of the customers and their loyalties have unidirectional dependency. This means that loyal customer is retained customer while retention of the customer does not always demonstrate loyalty of that customer.

Fill (2005) describes customer retention as a phase where deep relationships have been established and parts meet individual and joint goals. Jones et al. (2007) highlight that retention can also be caused by the situation when customers are locked in the relationship with the service provider because of the switching barriers (for instance lack of alternatives, price benefits). Thus, customers in such situations come back not because of the deep relationships with the service provider as Fill (2005) states. There are a number of customer retention strategies that firms can use. These include price, products, customer care, special offers and discounts, additional services, customer satisfaction and the use of other clients (Colgate et al., 2007).

There is an opinion that customer retention is a strategic orientation of the relationship marketing which is focused to keep and learn existing customers (Zeithaml, Bitner, 2002). Heskett, Sasser and Schlesinger (1997) define retention as active relationships between customer and service provider which create revenue from the sale of the initial product or service. Revenue becomes more profitable with time as existing customers become easier to serve (Heskett, Sasser and Schlesinger, 1997). Gummesson (1999) defines the customer retention as a rate, as Zineldin (2000) does, but also mentions that it is a measure of the customer loyalty. Based on the above mentioned definitions the study defines, within this paper, retention of the customers as a stable repurchase behavior provided by the customers of the service company.

1.1.2 The Telecommunications Industry in Kenya

The telecommunications industry in Kenya is still in growth phase, with organic subscriber expansion remaining solid, as seen from the entry of two new players in the market in 2008: France Telecom and Econet joining the already existing players Safaricom and Zain. The Kenyan mobile content industry is characterised by deteriorating marginal revenue, stiff price competition, and dominant market leader among others. On the flip side, the opex environment is one of Africa's most favourable, making it possible for operators to push the boundaries of the mobile business model (Research and Markets, 2008).

Safaricom, founded in 1997, is a leading provider of converged communication solutions, operating on a single business driver that has a peerless understanding of voice, video and data requirements. Its products and services include Pre and Postpay phone services, M-pesa money transfer, 3G Data Bundle Packages, Corporate Advantage Hybrid, Corporate

Direct Connectivity, Dedicated APN, Multiple Top-Up, Safaricom Broadband 3G, Safaricom Virtual Office, Vehicle Tracking, WiMAX Broadband, Postpaid BlackBerry Offer, and Toll Free Service. Safaricom is currently a public company operating in the telecommunications industry with 2000 employees.

Zain was launched in Kenya in 2004 as Celtel and rebranded to Zain in 2008. It is part of the Zain Group. The company offers a host of value added services including: Prepaid plans International roaming, Local and international text messages, 24-hour customer care centre, Internet access, Directory enquires, SMS information services, Mobile Top up, and Me2U. The company was founded in 1983. It was formerly known as Mobile Telecommunications Company KSC and changed its name to Zain in September 2007. Zain is headquartered in Safat, Kuwait. The company was recently bought by Bharti Telecoms from India and immediately focused on acquiring new customers by being the first in the market to lower the calling and sms charges by half (Research and Markets, 2008).

In 2008, Orange became the commercial brand for Telkom Kenya, the country's historical operator, following France Telecom's acquisition of 51% of its capital in December 2007. Telkom Kenya therefore joined a worldwide community of 115 million Orange customers and became the first integrated operator in the country, proposing fixed and mobile telephony alongside Internet services (Research and Markets, 2008)

Econet Kenya is owned by a joint venture. Essar Communications has a joint venture with the Vodafone Group, called Vodafone Essar, which is one of India's largest cellular service providers, with over 55 million subscribers. Essar owns 'The MobileStore',

India's largest national retail chain of mobile phone stores. It has a major presence in the telecom infrastructure space with one of the largest investments in telecom towers. Essar operates India's second largest outsourcing services business operating under the Aegis brand, with 31 centres in the Philippines, Costa Rica, USA and India. Essar Global Limited (EGL) is a diversified business corporation with a balanced portfolio of assets in the manufacturing and services sectors of Steel, Energy, Power, Communications, Shipping Ports & Logistics, Construction and Mining & Minerals. Essar employs more than 50,000 people across offices in Asia, Africa, Europe and the Americas. The company currently has 273 employees.

1.2 Statement of the Problem

There are various studies which state that focus on customer retention is less expensive than acquisition focus and can be more profitable (Wiegran and Koth, 1999; Vandermerwe, 1997; Heskett, Sasser, Schlesinger, 1997; Payne and Frow, 1999). Yet, the research by Payne and Frow (1999) highlights that some organizations spend only one quarter of their marketing budgets on the retention of the customers. Reichheld and Sasser (1990) stress the importance of customer retention through highlighting that retaining of 5 additional percent of the company's customers can increase profits by almost 100 percent. Mentioned authors also emphasize that 5 percent decrease in defection can lead to 85 percent increase in profits for banking sphere companies, 50 percent increase in profits for insurance companies, 30 percent increase in profits for auto service companies (Reichheld and Sasser, 1990). Heskett, Sasser and Schlesinger (1997) highlight successful retention strategy experience of the MBNA credit card company. MBNA called each of its clients who stopped using their card service and additionally collected feedback from its defected customers in order to adjust the service processes. After eight years of such

strategy MBNA increased its profits by sixteen times and company dropped from being thirty-eight to fourth within its industry without any acquisitions (Heskett, Sasser and Schlesinger, 1997).

The competition in most industries and markets is highly competitive. Therefore it is of great importance for companies to ascertain the right knowledge and implement effective and efficient marketing strategies (Armstrong & Kotler 2004). The telecommunications industry allows no exceptions, it is very competitive and companies within this industry have to apply the right methods and know how to differentiate from each other to gain a competitive advantage. Currently, there are price wars among the firms in the industry especially Safaricom, Zain, Yu and Telkom-Orange. Each of these companies is coming up with strategies that help them retain the customers they have as well as to attract others into their networks. This has seen prices go down by over 50 percent.

To the knowledge of the researcher, there are very few studies in Kenya on customer retention. For instance, Siboe (2006) studied customer retention strategies adopted by internet service providers in Kenya. Jerono (2008) studied the impact of relationship marketing practices on customer retention in the banking sector in Kenya. Studies on telecommunications industry in Kenya are numerous. For instance, Kharemwa (2009) studied the factors that determine customer loyalty of mobile telecommunications operators in Kenya. Omido (2009) studied customer perception and expectation of quality service in the mobile communication industry in Kenya with a specific focus on Safaricom customers. Owino (2009) sought to determine customer attitude towards Orange mobile services in Nairobi. Odhiambo (2003) did a study to investigate the determinants of customer satisfaction of mobile phone subscribers in Nairobi. Kyengo

(2009) did a study to determine the extent of adoption of blue ocean strategy by mobile content providers in Kenya. As shown, none of the studies has focused on customer retention strategies in the telecommunications industry. This constitutes a gap in literature that the present study sought to bridge.

1.3 Objectives of the Study

The objective of this study was to determine the customer retention strategies adopted by companies in the mobile telecommunications industry in Kenya.

1.4 Significance of the Study

The study will be important to the management of various mobile phone companies included in the study. The results will give an insight into the extent to which the companies have integrated customer retention strategies into their operations. As such, it would help in reinforcing the use of various customer retention strategies for better performance.

The results of the research can be used by marketers especially in the telecommunications sphere in order to better understand what influence customers' behaviour and why they return to the service provider. Also restaurants' managers can use the findings of the study as a tool to increase the retention rates by adjusting relevant service elements within their firms.

The study will be important to the industry players for purposes of establishing to what customer retention strategies have been adopted. It will also go a long way in contributing to the body of knowledge in both strategic management and marketing.

The study will also be useful to those interested in carrying out more studies as far as the application of customer retention strategies is concerned. Thus, future researchers will find this study a useful guide as it forms a basis upon which other studies will be done on other industries in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

As competitive pressures within the communications market continue to intensify, Communication Service Providers (CSPs) are forced to devote more resources to defending their customer base against poaching. Given the increasing number of players in the market (traditional telecom, cable, broadband phone providers) and the increasing number of options (wireless, fixed PSTN, VoIP), CSPs are being forced to devote more resources to their customer retention strategies. As a result, increased focus has been placed on customer service both as a competitive strategy and a survival strategy, perhaps more intensively here than in any other industry.

There are a number of customer retention strategies that firms can use. These include price, products, customer care, special offers and discounts, additional services, customer satisfaction and the use of other clients (Reichheld, 1990; Reichheld, 2003; Colgate et al., 2007; Ahmad and Buttle, 2001; Roos, 1999; Anton et al., 2007; Jones et al., 2007; White, Lemon and Hogan, 2007; Lemon, White and Winer, 2002; Keaveney, 1995; Dawes, 2009; Berne et al., 2001; Yi and La, 2004).

2.2 Theories of Customer Retention

The theories reviewed here are the value creating process (Lowendahl, 1997), loyalty theory (Reichheld, 1996) and customer bonding theory (Turnbull and Wilson, 1989).

2.2.1 Value Creating Process Theory

One of the theories is the value creating process. This process involves three processes. The first process is the ability of the firm to sell a credible promise to the client. In the

service industry, credibility is essential as it is difficult for customers to evaluate the services. The credibility of the promise made by the firm is affected by the firm's reputation, its ability to present documented success from previous projects, and also by the professionals assigned to the project. In the first process, also the negotiation of the contract takes place as well as the evaluated efforts employed to develop appropriate levels of expectations in the client firm. Service providers need to only make promises which they can keep (Lowendahl, 1997).

In the second process, the set of activities required to deliver the promises are viewed, involving both the client and the professionals assigned to the project. Here, the firm looks at both the actual quality of what is delivered, the perceptions of the quality by all relevant client firms' representatives as well as the efficiency of the delivery (Lowendahl, 1997). In the third process, learning from the project and institutionalising this learning to the extent it can be used for both improved service quality and improved efficiency with future clients is viewed. Lowendahl (1997) argues that this process is commonly neglected by firms. Another theory is the three level framework of retention strategies. The framework displays three levels and each successive level ties the customer a bit closer to the firm. Furthermore, at each level, a greater level of customization of the services is required.

At level 1, the customer's primary tie to the firm is through financial incentive and this can be for instance customers wanting lower prices for high amount purchases or lower process for those customers who have been with the firm a longer time (Berry and Parasuraman, 1991). At level 2, the strategies tie the customers to the firm through both financial and social incentives. The customers are perceived as clients meaning that they

are individuals whose needs and wants, the firm tries to understand. The services provided by the firm are customised and marketers here find new ways to stay in touch with their customers, hence developing social bonds with them. Further, Zeithalm and Bitner (1996) argue that social bonds are essential and common among the professional service providers and their clients as well as care providers. At level 3, the strategies employed by firms are the most difficult to imitate. Other than financial and social bonds, it also includes structural bonds which are created by providing services that are highly customized and frequently designed right into the service delivery system for that client (Zeithalm and Bitner, 1996).

2.2.2 The Loyalty Effect Theory

The second theory is that proposed by Reichheld (1996). The author advocates a three-pronged approach for managing a customer retention programme. The author claims that firms that are successful at retaining their customers maintain teams of customers, employees and investors that share the same vision of a long-term relationship. The author reminds firms to be aware of the different “loyalty coefficients” – the economic forces needed to move different kinds of customers – when recruiting new customers. The easiest to win, according to Reichheld (1996), is likely to be the one who will be the quickest to defect. Reichheld (1996) acknowledges that not all customers want to have long-term relationships. Those who do, however, inherently spend more, pay promptly and require less service. The author argues that employees who lack loyalty are not likely to be able to build an inventory of loyal customers. Long-serving employees, according to Reichheld (1996), generate seven economic benefits: they reduce aggregate hiring costs; they restrain training expenditure; they are generally more efficient; they are much better at finding and recruiting the best customers; they retain customers by producing better

products and value; they are sources of customer referrals; and they are sources of employee referrals.

Unloyal investors, according to Reichheld (1996), fail to support long-term relationship programmes. These are the short-term investors who are a hindrance to building long-term relationships with customers because of their insensitive attitudes towards short-term business volatility. Short-term investors demand consistent high annual return on investment. This restricts a firm's ability to make long-term investment in technology and employees. Reichheld (1996) argues that firms that successfully retain their customers continuously and consistently search for initiatives that offer their customers a better value proposition than their competitors. The author's work, nevertheless, offers a useful observation, at least from the perspective of the practitioner, and is particularly relevant for our research since it includes data from the financial services industry.

2.2.3 Customer Bonding Theory

The third theoretical position is that of Turnbull and Wilson (1989), which emerged from their work on industrial marketing. They argue for a strategy of protecting existing profitable customer relationships through social and structural bonding. Social bonds are positive interpersonal relationships between representatives of the buyer and seller. Structural bonds are relationships built upon joint investments, which often cannot be retrieved when the relationship ends. Buyers and sellers also form structural bonds through interdependencies founded upon their relative resources. Bonding and interdependencies have also been the subject of other studies. These conceptualise relationships between and amongst firms in terms of activity links, resource ties, and actor bonds (Håkansson and Snehota, 1994), and in terms of maintaining multi-level

bonding (Turnbull et al., 1996). Turnbull and Wilson (1989) claim that structural bonding is stronger than social bonding and is essential for keeping profitable industrial customers.

Customer bonding has also been cited by Berry and Parasuraman (1991) as a strategy for retaining service customers. They argue that there are three levels of bonding: financial, social and structural. Financial bonding occurs when the customer is tied to the selling firm primarily through price incentives. Social bonding is introduced on top of the financial bond. At this second level the selling firm regards the buyer as a client and the marketing mix now goes beyond price to include personal communication. The third and highest level occurs when all financial, social and structural bonds are deployed. At this level, the customer is not only regarded as a client but also as a partner. The seller works closely with its partners to develop services that are tailored to their needs.

2.3 Concept of Customer Retention

A number of marketing scholars have begun to explore the link between the practices of customer management and shareholder value (Doyle, 2000; Payne et al., 2001; Gupta et al., 2004). In particular, the connections between customer retention and shareholder value have been subject to scrutiny. Gupta et al. (2004), for example, found that a 1 per cent increase in customer retention had almost five times more impact on firm value than a 1 per cent change in discount rate or cost of capital. As a result of this research, the business case for marketers to focus on the management of customer retention is becoming more clearly established. However, the mainstream marketing literature offers very little guidance on specific managerial practices that are associated with high levels of customer retention (DeSouza, 1992).

Customer retention has been shown to be a primary goal in firms that practice relationship marketing (Coviello et al., 2002). While the precise meaning and measurement of customer retention can vary between industries and firms (Aspinall et al., 2001) there appears to be a general consensus that focusing on customer retention can yield several economic benefits (Reichheld, 1996; Buttle, 2004). As customer tenure lengthens, the volumes purchased grow and customer referrals increase. Simultaneously, relationship maintenance costs fall as both customer and supplier learn more about each other. Because fewer customers churn, customer replacement costs fall. Finally, retained customers may pay higher prices than newly acquired customers, and are less likely to receive discounted offers that are often made to acquire new customers. All of these conditions combine to increase the net present value of retained customers. Lindgreen et al. (2000), for example, compute that “it can be [up to] ten times more expensive to win a customer than to retain a customer – and the cost of bringing a new customer to the same level of profitability as the lost one is up to 16 times more.”

The notion that companies should engage in planning if they want to achieve desired business outcomes is deeply embedded in modernist management literature. Kotler (2003), for example, writes that “successful companies... practice the art of market-oriented strategic planning”, with the clear implication that failure can be traced to artlessness in planning disciplines. Most marketing management texts contain material on the development and implementation of marketing plans. Although critics of the strategic planning school such as Mintzberg (2000) promote a more fluid and emergent approach to strategy, Miller and Cardinal's (1994) review of management research finds that formal planning processes – involving executive responsibility and budgeting – are generally associated with better business performance.

There has been very little specific research into the development and content of customer retention plans, per se (DeSouza, 1992). However, there have been some reports indicative of the relative weight attached to customer retention budgets. According to Weinstein (2002) “most companies spend a majority of their time, energy and resources chasing new business”. He suggests that “80% or more of marketing budgets are often earmarked for getting new business” (Weinstein, 2002). This is in line with Payne and Frow's (1999) finding that only 23 per cent of marketing budgets in UK organizations is spent on customer retention. Aspinall et al. (2001), in contrast, found that 54 per cent of companies reported that customer retention was more important than customer acquisition.

2.4 Main Perspectives Customers Retention

There are various researches which investigate the retention of the customers' problem (Reichheld, 1990; Reichheld, 2003; Colgate et al., 2007; Ahmad and Buttle, 2001; Roos, 1999; Anton et al., 2007; Jones et al., 2007; White, Lemon and Hogan, 2007; Lemon, White and Winer, 2002; Keaveney, 1995; Dawes, 2009; Berne et al., 2001; Yi and La, 2004). Some of the authors look at the retention of the customers from the switching barriers scope (Colgate et al., 2007; Ahmad and Buttle, 2001; Roos, 1999; Anton et al., 2007; Jones et al., 2007; White, Lemon and Hogan, 2007 etc.).

Colgate et al. (2007) in their work, research customers who decided to stay with their present service provider after serious consideration of switching to another service provider. Colgate et al. (2007) conducted a big empirical research which covered big variety of service industries (banks, insurance companies, doctors, electricity companies, dentists, mobile phone companies, fitness centers, hairdressers, Internet service providers,

telephone companies, airlines, credit card companies, auto mechanics, video stores, and opticians) but not the restaurant service industry. The final reasons to stay according to the Colgate et al. (2007) are categorized into the switching barriers and affirmatory barriers. Research of Colgate et al. (2007) gives the understanding of broad categories which influence the customers' retention (for instance, satisfaction), but does not specify these categories. Indeed, if the customer answers that he or she is satisfied with the current service provider this will not help us to understand deeper the satisfaction with which factors makes customers come back.

White, Lemon and Hogan (2007) propose marketers of the non-contractual services to highlight customers' flexibility to leave when they want and to highlight customers' possible regret if they leave service in order to increase customer retention. Thus, among the strategies that highlight possible regret of the customers if they defect can be strategies that create different kind of switching bonds.

Han, Back, and Barrett (2009) research relationships between consumption emotions, customer satisfaction, switching barriers and customer retention. They identified next switching barriers for the restaurant customers: switching costs, relational investment, lack of alternatives, preference. Authors state that these switching barriers significantly related to repurchase intentions, and they explain why customers come back even when they experience low level of satisfaction or unfavorable emotions at the restaurant. Han, Back, and Barrett (2009) highlight that there are positive relationship between customer satisfaction and customer retention, also customer satisfaction highly influenced by emotional factors such as comfort and annoyance (Han, Back, Barrett, 2009).

Another researcher who looks at the customers' retention from the scope of switching barriers is Roos (1999). Roos (1999) defines switching determinants as pushing (what makes customers to switch to another provider) and pulling (what makes customers come back). The pushing determinants according to the Roos (1999) are price, range of goods, product mix, location, failure of system, design, policy (terms of payment), variation (a natural need of people for variation). While pulling determinants are variation, location, range of goods, habit, pleasure and policy (Roos, 1999). Jones et al. (2007) propose three switching costs dimensions: social, lost benefits and procedural. The behavioral outcome of creating these types of costs according to the Jones et al. (2007) could be repurchasing intentions and Negative Word of Mouth (if customers are locked in the relations they do not want to be involved in by the switching costs they can start generating Negative WOM). Social switching costs Jones et al. (2007) relate to the potential loss of friendship with the service provider. This type of switching costs is associated with the "People P" of the 8 Ps Model. Lost benefits switching costs Jones et al. (2007) relate to the economical loses of the customer such as special offerings and price. Procedural switching costs Jones et al. (2007) relate to the time and efforts needed to find and adapt to a new service provider.

Anton et al. (2007) analyze how poor service quality, unfair pricing, low perceived commitment, anger incidents and satisfaction affect the switching intentions of the customers in the car insurance industry. Their research concludes that direct impact of the poor service quality and low commitment on the switching intentions of the customers is not significant and weak (Anton et al., 2007). At the same time they positively influence the customer dissatisfaction which directly influence the customer switching intentions (Anton et al., 2007). The service quality according to the Anton et al. (2007) is founded

on such dimensions as the service outcome, interaction between service and customer, and physical environment qualities. Commitment, according to Anton et al. (2007), are willingness to invest, shared information, loyalty and commitment to the customer, or perceived desire to continue. The unfair pricing and anger incidents according to Anton et al. (2007) strongly affects switching intentions of the customers both directly and indirectly through satisfaction. The anger incidents according to Anton et al. (2007) are related to the customers' experience when they become upset and lose confidence in the firm. There could be lots of factors generating lose in the firm's confidence.

Lemon, White and Winer (2002) state that when customers decide whether or not to come back they consider not only current and past evaluations of company's performance (service quality, satisfaction) they also evaluate future expectations (future benefits and future regret). Authors state that firms should put more emphasize on customer expectations of future benefits in order to achieve retention and suggest to marketers to take into consideration how marketing mix elements (for instance, pricing strategy) influence customers' current usage levels and expectations of future use when developing marketing strategy (Lemon, White, Winer, 2002).

Keaveney (1995) defined reasons of switching behavior of the customers within the service industries: price, inconvenience, core service failures, failed employee responses to service failure, ethical problems, involuntary factors, competitive issues and service encounter failures. In his model are present such elements of 8 Ps Model like "Product", "Price", "People", "Physical environment" etc. Also Keaveney (1995) stated that six of the eight causes of switching behavior can be controlled by the service provider.

Ahmad and Buttle (2001) emphasize that the Marketing Mix model is the tool of traditional marketing approach which is directed to acquisition of the new customers, at the same time it can be used to achieve higher rates of customers' retention. Ahmad and Buttle (2001) propose three types of potential retention increase strategies for three types of consumers: consumers of fast moving consumer goods (FMCG), consumers of services, businesses as users of physical goods and services. In all strategies they propose adjustment of particular elements which can be associated with Marketing Mix Model. Berne et al. (2001) see retention of the customers as a function of the customer satisfaction while customer satisfaction is a function of the service quality (SQ-CS-CR model). Also he adds to this model variety seeking determinant which influences the customer retention directly (Berne et al., 2001).

Another important view on the customer retention was highlighted by the Yi and La (2004). Their study research the impact of the loyalty factor on customer satisfaction and repurchase intention (Yi, La, 2004). The authors concluded that for loyal customers satisfaction has a direct impact on repurchase intentions, when for non-loyal customers adjusted expectations (expectations formed after consumption) play leading role in forming repurchase intention (Yi, La, 2004). Therefore, researchers highlight that when failure happens; repurchase intentions of loyal customers are less affected than repurchase intentions of non-loyal customers (Yi, La, 2004).

Looking for the loyalty measurement tool we have directed our attention at the research of Reichheld (2003). The author has presented the set of questions directed to the loyalty measurement and identified one question which was the most effective tool of loyalty measurement among other questions (Reichheld, 2003). Reichheld (2003) justified the

correctness of his question by the notion that those customers, who recommend the service, are highly likely to be the loyal customers.

2.5 Other Perspectives on Customer Retention

The research of Fruchter and Zhang (2004) analyze strategic use of targeted promotion for acquisition and retention of customers. Authors stress that choice of strategy: defensive targeted promotions for retention and offensive promotions for acquisition depends on market share of a company. Fruchter and Zhang (2004) highlighted that for companies with larger market share offensive promotions targeted on acquisition generate less “bang on sales” than defensive promotions. Therefore, researchers state that if market share of company increases it should spend more on customer retention; if market share of company decreases it should spend more on customer acquisition. This research highlights when marketers should put emphasize on retention or acquisition, but it doesn’t provide retention increase strategies and reasons for retention (Fruchter and Zhang, 2004).

Lee and Heo (2009) highlight that Corporate Social Responsibility (CSR) activities can increase satisfaction/retention rates of customers in hotels and restaurants. Lee and Heo (2009) have found that positive CSR activities increase hotels’ customers’ satisfaction. Hogan, Lemon and Libai (2003) discuss changes of the customer’s value during the product life cycle. Authors stress the value of retained customer (free positive WOM) and impact of the lost customer on company’s profitability (Hogan, Lemon and Libai, 2003).

Kumar (1999) highlights that relationship oriented service firms have higher level of trust and more repeated service encounters with their clients, therefore, such firms get higher

level of profitability and lower expenses over time. Desai and Mahajan (1998) argue that affect-based attitudes (appeal to feelings, wishes, emotions, etc.) can play a strategic role in helping brands to acquire, develop, and retain customers.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The study took the form of a survey. A survey seeks to gather relevant information in a flexible way and enables the researcher to acquire a rich and in-depth understanding of the research topic among the participants used in the study (Holme and Solvang, 1997). Given that this study sought to visualise the companies' customer retention strategies, a survey method would be appropriate for the study.

3.2 Population

The population of this study was the 4 mobile phone companies in Kenya. These are Safaricom, Zain, Econet, and Telkom-Orange. All these 4 mobile phone companies were studied hence a census survey of mobile phone companies in the telecommunications industry in Kenya. The management was targeted for the study.

3.3 Data Collection

The study used primary data. These were collected using questionnaires addressed to the managers of the four companies. The questionnaires were structured and administered using drop and pick later method. The 5-point Likert type questions were used to rank responses on the customer retention strategies as well as effectiveness of those strategies. The questionnaires were accompanied with letters of introduction from the university and from the researcher.

3.4 Data Analysis

The analysis of the data collected was done using the statistical package for social sciences (SPSS) software. The data was coded, edited and entered into the SPSS. The

analysis was done through the use of descriptive analysis (percentages, mean scores, and standard deviations).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the data analysis, results of the study and discussion of results. Three questionnaires were administered to the four companies. The companies were Safaricom, Zain, Essar, and Orange-Telkom. All the twelve questionnaires were collected within the two week period given for the respondents to fill in and return, suggesting 100% response rate.

4.2 Sample Characteristics

This section presents the results of the analysis on characteristics of the sampled companies. The results for the companies' ages, number of customers, number of employees, and number of customer care centres are shown in Table 1.

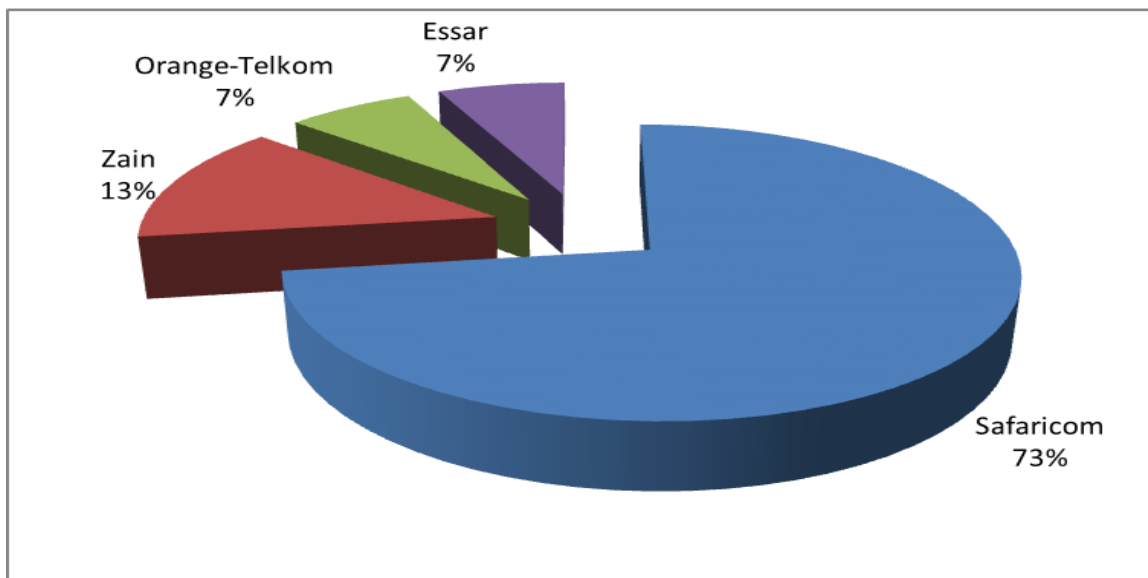
Table 1: Characteristics of Sampled Firms

Company	Age	Customers	Employees	Care centres
Safaricom	10 years	16 million	2470	30
Zain	12 years	3 million	700	11
Orange-Telkom	18 months	1.5 million	2100	23
Essar	2 years	1.5 million	400	1

Table 1 show that in terms of the ages of the companies surveyed, Zain was the oldest at twelve years, Safaricom was ten years old, Orange-Telkom was 18 months old while Essar was two years old. It should be noted that the age of Orange-Telkom is counted from the times the France Telecom-led consortium acquired a 51% stake in state-owned Telkom Kenya Limited. These results reveal that Zain was the oldest in the industry while Orange-Telkom was the youngest company in the industry.

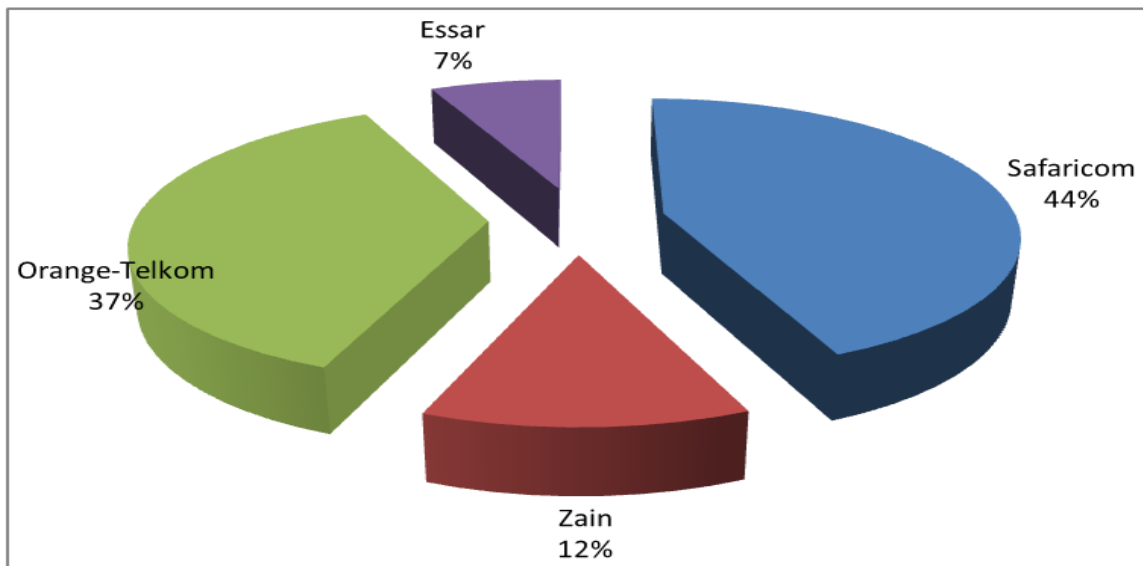
Table 1 show that at the time of the study, Safaricom had 16 million subscribers, Zain had about 3 million subscribers, while Essar and Orange-Telkom had about 1.5 million subscribers each. These results therefore reveal that Safaricom was the market leader in terms of the subscriber base (73%) followed by Zain (13%). The results show that the companies with the least number of subscribers were Essar and Orange-Telkom (7% market share each). These results can also be observed from Figure 1 in terms of market shares.

Figure 1: Market Share in Terms of Number of Subscribers



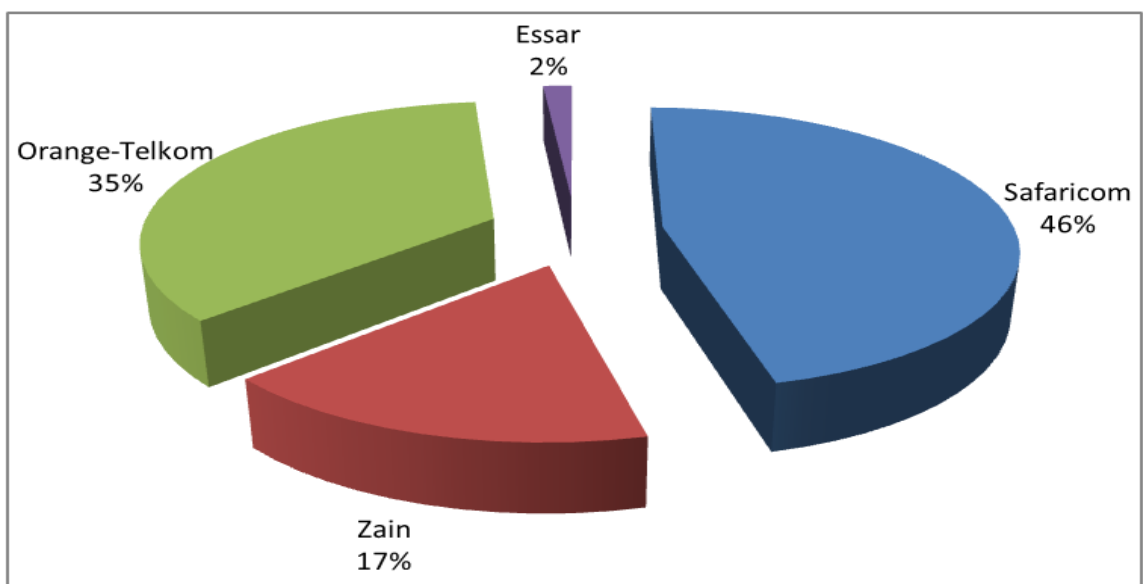
In terms of the number of employees, Table 1 shows that Safaricom had 2470, Orange-Telkom had 2100, Zain had 700 while Essar had about 400 employees. These results show that Safaricom had the highest number of employees in the industry (44%) while Essar had the least number (7%). This can be attributed to the fact that Safaricom has the highest number of mobile subscribers thus require a large number of employees to efficiently manage them. These results are also summarised and presented in Figure 2.

Figure 2: Distribution in Terms of Number of Employees



On the number of customer care centres, Table 1 shows that Safaricom had about 30 centres in the country, Orange-Telkom had 23, Zain had 11 while Essar had only one care centre. These results reveal that Safaricom had the highest number of care centres (46%) in the country while Essar had the least (2%). This can also be attributed the number of subscribers each of the firms need to manage. The results are also presented in Figure 3.

Figure 3: Distribution of Customer Care Centers



4.3 Customer Retention Strategies

This section presents the analysis of customer retention strategies adopted by firms in the mobile telecommunications industry. The results are shown in terms of minimum, maximum, mean scores, and standard deviations. These results are shown in Table 2.

Table 2: Customer Retention Strategies

	Min	Max	Mean	Std. Dev
Customer loyalty	4	5	4.75	0.45
Number of subscribers on the network	2	5	4.25	1.36
Price	3	5	4.00	0.74
Customer satisfaction	3	5	4.00	0.74
Quality of products/services offered	3	5	3.75	0.87
Perceived switching costs	2	5	3.75	1.36
Quality of customer services	3	5	3.50	0.90
Service reliability	3	4	3.50	0.52
Special offers, discounts, etc	2	5	3.50	1.17
Location of the premises	3	4	3.33	0.50
Additional services offered	2	5	3.25	1.14
Payment process	1	5	3.00	1.65

The study found, as shown in Table 2, that the most used retention strategy was customer loyalty (mean = 4.75). This is because most of the customers have been using a specific network for a longer period of time. The fact that they are loyal to the network makes it a retention strategy in itself as less will switch to other networks and abandon the one that they have always been loyal to. This is the reason why most of these firms have several loyalty programmes to keep the customers. For instance, most of them have reward systems for customers. Safaricom has the Bonga points, Zain has Rewardz, Orange-Telkom has Ziada, while Essar does not currently have any reward system.

According to Table 2, the second most used strategy to retain customers in the industry is using the number of subscribers on the network (mean = 4.25). For instance, Safaricom has 16 million subscribers. Given the higher rates for cross-network calls, a customer

would decide to stay with Safaricom than to switch to another network as most of his/her callers are on the same network. Thus, these numbers themselves act as a significant influence on whether a person makes a switch to another network or not.

Price was the third strategy that most of the companies in the industry used. According to Table 2, price had a mean score of 4.00. A look into the industry practice shows that indeed most of these companies are using pricing to retain customers. For instance, Zain launched a serious price cut in both call rates and SMS rates recently. This was followed by a massive cut in the rates among all the firms in the industry as each one of them competes to be the cheapest provider. The calling and SMS rates for each of the companies can be observed from Table 3.

Table 3: Calling and SMS Rates in the Mobile Industry

Company	On-net Call	Off-net Call	On-net SMS	Off-net SMS
Safaricom	2/= to 4/=	3/= to 5/=	3.5/=	3.5/=
Zain	3/=	3/=	1/=	1/=
Essar	3/=	3/=	0.5/=	3/=
Orange-Telkom	1/=	4/=	2/=	2/=

According to Table 2, another strategy used included customer satisfaction (mean = 4.00). Most of the mobile companies carry out customer satisfaction surveys and the results of such surveys are used to enhance the services provided so as to retain the customers. The study also noted that quality service (mean = 3.75) was used as a strategy to retain customers. In terms of quality of services offered, the companies have invested in new technology to enable the customers to get better services. For the products they sell such as laptops and mobile phones, the customer give customer at least 1 year warranties on the products just to assure the buyers of the quality of such products.

The study revealed that perceived switching costs (mean = 3.75) were employed as retention strategies in the industry. On perceived switching costs, most of the customer still find it difficult to invest in another new line because of the costs that may be involved such as the initial cost of buying the line, the cost of a new mobile phone, and the cost of informing the family, friends, or clients of the new line.

The study noted that another strategy used was ensuring quality customer service (mean = 3.50). On the quality of customer services, it can be observed that most of the firms are investing heavily in customer care centres. For instance, Safaricom has numerous care centres in major towns in Kenya with state of the art technology to boost the service. Zain and Orange too are investing heavily in customer care centres. Essar is also planning to invest more in customer care centres within the years.

The study found that the companies also moderately used service reliability (mean = 3.50) to retain the customers. Service reliability has been enhanced by the new technology that the firms are investing in in terms of communication masts and partnerships with engineering firms. For instance, the recent partnership between Safaricom and Huawei to provide next generation convergent billing solution will boost reliability in terms of reducing network complexity and shortening time for launching new services.

The other strategy that was used by the companies was special offers and discounts (mean = 3.50). The mobile firms are churning out several special offers, discounts, and promotions to entice the customers and make them stay within the network. For instance, Safaricom is currently running a promotion dubbed *Masonko na Safaricom* and special

offers dubbed *Masaa Ya Kubamba*. Zain is running an offer called *Club 20* as well as a promotion where prizes are won dubbed *Angukia Milioni na Zain*.

Another strategy that was used by some of the firms was addition or value added services other than the voice and SMS. For instance, Safaricom offers the Internet on phone; and value added services such as MMS, Voice SMS, Okoa Jahazi, Kipokezi, Semeni, Get it 411, 191 Directory Services, Security 911, Skiza Tunes, Premium Rate Services, DSTV Mobile, Mxit, and M-PESA. Essar (Yu) has Internet on the phone; and value added services such as Peperusha, Facebook on SMS, yuZone Infortainment, Kasha, DSTV Mobile, Yu cash, Dunda, imoved, and MMS. Zain has Zap, MMS, Internet on phone, Zain 911, Infoline, Z-lifetyle, Premium Rate Services, DSTV Mobile, and Ziki. Lastly, Orange-Telkom has hello-tunes, Internet, and DSTV Mobile. It was noted that most of the respondents would recommend the products to the friends and families.

This section concludes that there are a number of ways in which the firms in the industry retain the customers. The main ways including customer loyalty, number of subscribers, pricing, and offers and promotions.

4.4 Effectiveness of Customer Retention Strategies

This section presents the results on the effectiveness of customer retention strategies employed by the various telecommunication firms in Kenya. The results are shown in Table 4 in terms of the frequencies and percentages.

Table 4: Effectiveness of Customer Retention Strategies

	Frequency	Percentage
Low extent	3	25.0
Moderate	3	25.0
Large extent	3	25.0
very large extent	3	25.0
Total	12	100.0

The study found that 25% of the respondents were of the opinion that the strategies were not effective, while 25% said they were moderately effective. Further, 50% of the respondents cited that the strategies were, to a large or very large extent, effective. This leads to the conclusion that the strategies were effective in retaining customers in the industry.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of research findings, conclusion of the study, recommendations for policy and practice, limitations of the study, and suggestions for further research.

5.2 Summary of Findings

The objective of this study was to determine the customer retention strategies adopted by companies in the mobile telecommunications industry in Kenya. These results revealed that Zain was the oldest in the industry (12 years) while Orange-Telkom was the youngest company in the industry (18 months). The results showed that the companies with the least number of subscribers were Essar and Orange-Telkom (7% market share each) while Safaricom had the highest number of subscribers (73% market share). These results showed that Safaricom had the highest number of employees in the industry (44% share) while Essar had the least number (7% share). The study found that Safaricom had the highest number of care centres (46% share) in the country while Essar had the least (2% share).

The study found that the most used retention strategy was customer loyalty (mean = 4.75). The second most used strategy to retain customers in the industry is using the number of subscribers on the network (mean = 4.25). Price was the third strategy that most of the companies in the industry used with a mean score of 4.00. The other strategy that was used by the companies was special offers and discounts (mean = 3.50) through several special offers, discounts, and promotions to entice the customers and make them stay within the network. Further, it was noted that the other strategy that was used by

some of the firms was addition or value added services other than the voice and SMS such as Internet, MMS, DSTV Mobile and other entertainment features. The study found that 25% of the respondents were of the opinion that the strategies were not effective, while 25% said they were moderately effective. Further, 50% of the respondents cited that the strategies were, to a large or very large extent, effective.

5.3 Conclusion

Several methods were used to retain customers in the mobile telecommunications industry. The study concludes that there are a number of ways in which the firms in the industry retain the customers. The main ways include customer loyalty, number of subscribers, pricing, quality services and goods, customer care services, and offers and promotions. These results are consistent with most of the literature on customer retention strategies. The study also concludes that these strategies were effective in retaining customers in the industry.

5.4 Recommendations for Policy and Practice

The study recommends need to have better customer relationship management programs in order to enhance the customer satisfaction and loyalty. This can be done through better means of communication about existence of products and services.

The study recommends that the firms need to device better ways of communicating the loyalty programmes so that the customers are aware of the full details regarding to programmes.

It is also recommended that the firms allocate bigger budgets for customer retention given the fierce competition for customers in the industry. This can enhance more promotions and offers as well as better services for the customers.

5.5 Limitations of the Study

The study faced a number of limitations. First, it took a number of visits to the companies in order to get permission from the management to carry out the research. This delayed the whole data collection process.

Given that the time allocated for data collection and analysis was so short, there were logistical problems that may have influenced the outcome of this study. The limitation of time made the researcher work overtime on the project so as to see its completion.

The other limitation of this study stems from the study design. The companies in the industry are used but the period covered is a point in time. Results may have been different if a longitudinal survey would have been carried out to establish the evolution of customer retention strategies over time.

5.6 Suggestions for Further Research

The study suggests that future studies should focus on extending the period under study so as to cover longer periods than were covered here. If the data for longer periods can be availed then such a study can be undertaken.

There is need to replicate this study to other industries in Kenya especially the service sector to establish how customers in these industries are retained. This will add on to the body knowledge of customer retention practices in Kenya.

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APPENDICES

Appendix 1: Letter of Introduction

The Human Resources Manager
Safaricom/Zain/Essar/Orange Telecom
NAIROBI

TO WHOM IT MAY CONCERN

I am an MBA student in the School of Business, University of Nairobi. In partial fulfillment of the requirements of the degree of Master of Business Administration (MBA), I am conducting a census survey on **Customer Retention Strategies Adopted by Mobile Telecommunications Companies in Kenya.**

I therefore wish to request your permission to carry out the census survey and document my findings.

Your permission will enable me to complete the MBA Project and also document the strategic path that your company has taken and the way forward.

I look forward to your favorable response.

Yours faithfully

MOMANYI L. MONYANGI

Appendix 2: Research Questionnaire to the Managers

Section 1: Bio-data

1. How long has the company been operating in Kenya?

.....

2. How many customers does the company currently have?

.....

3. How many employees does the company currently have?

.....

4. How many customer care centres does the company have?

.....

Section 2: Customer Retention Strategies

5. To what extent from 1 to 5 (5 means very large extent; 1 means very low extent) do you think that the following attributes influence your customers' decision to continue to use your services?

Attribute	1	2	3	4	5
Quality of products and services offered					
Additional services offered					
Location of the premises					
Price					
Quality of customer services					
Number of subscribers on the network					
Service reliability					
Payment process					
Special offers, discounts, etc					
Perceived switching costs					
Customer satisfaction					
Customer loyalty					

6. What strategies does the company use to retain the customers?

.....
.....

7. How likely do you think that the customers would recommend your company's services and products to a friend or colleague? Where is 1 "not at all likely", 5 is "neutral" and 10 is "extremely likely".

[1 2 3 4 5 6 7 8 9 10]

Section 3: Effectiveness of Customer Retention Strategies

8. To what extent do you believe that the customer retention strategies employed by the company are effective?

Very low extent ()

Moderately low extent ()

Neutral ()

Moderately large extent ()

Very large extent ()

9. What should be made to ensure effectiveness of the customer retention strategies employed by the company?

.....
.....

End of Questionnaire