

Customer Retention and Loyalty: A Study of the Indian Cellular Service Sector

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Abstract:

For the past few years, cellular service sector in India has been experiencing the highest growth rate in terms of subscribers and revenues. With the increasing demands of the customer, cellular service sector has become competitive. Despite this, most of the cellular service providers in India are primarily focusing on increasing their customer base and tend to overlook its capability to retain its customers and make them loyal. According to a Mobile Consumer Insights study conducted by The Nielsen Company to gauge consumer attitudes and behavior towards mobile operators in India that it seems that close to one in five (18%) Indian mobile phone subscribers would change their mobile operator, if Mobile Number Portability is introduced into the market.

Key Words: Portability, hyper-competition, telecommunication.

Introduction

A company should have a sense of how much is really being lost because of the customer churn and the scale of the efforts that would be appropriate for retention campaign. The mass marketing approach cannot succeed in the diversity of consumer business today. The marketing programs should help in target more specific groups of customers. According to The Nielsen Company India, Executive Director, Shankari Panchapakesan, “Consumers and the market will decide who the predominant player will be, with the significant developments in the industry of Mobile Number Portability. As the market grows and hyper-competition takes effect, retention of the right type of customers will become critical”.

In general, the longer a customer stays with a company, the more that customer is worth. But without doing the arithmetic that shows just how much a loyal customer is worth over the whole course of the customer life cycle, and without calculating the net present value of the company's present customer base, most CEOs gauge company performance on the basis of cash flow and profit. They rarely study the one statistic that reflects how much real value the company is creating.

In recent years, as the Indian economy has become increasingly service based, the slow shift from a product-focus toward a customer-focus has occurred in a range of industries. There is an increasing emphasis on building relationships rather than transactions.

Yet strangely, the metric that marketers used in India to evaluate and measure the success of marketing programs remains product-focused. Without adequate metrics the company cannot evaluate the effectiveness of an action with respect to organizational objectives. Brand equity is still the most commonly used measure of success for brands and companies alike. The fact that managers can measure brand equity (although the components of the measure differ across companies) may be one of the

reasons companies have continued to focus on brand building and other product-centered programs while merely paying lip-service to being customer-centered. Yet, if the goal truly is customer-centrism, both marketing efforts and marketing standards should reflect that goal. This focus on customer management and customer profitability instead of product profitability has been in response to a series of historical trends.

The word *telecommunication* was adopted from the French word *telecommuni-cation*. It is a compound of the Greek prefix *tele-*, meaning 'far off', and the Latin *communicare*, meaning 'to share'. The French word *telecommunication* was coined in 1904 by French engineer and novelist Édouard Estaunié. Telecommunication is the assisted transmission of signals over a distance for the purpose of communication. In earlier times, this may have involved the use of smoke, drums, semaphore, flags or heliograph. In modern times, telecommunication typically involves the use of electronic transmitters such as the telephone, television, radio or computer. Early inventors in the field of telecommunication include Antonio Meucci, Alexander Graham Bell, Guglielmo Marconi and John Logie Baird.

Telecommunication Industry in India

The telecommunications industry is one of the fastest growing industries in India. According to data released by Telecom Regulatory Authority of India (TRAI), the number of telephone subscriber base in India has reached 1289.12 million in 2025.

The first operational land lines were laid by the government near Kolkata in 1851. Telephone services were introduced in India in 1881. In 1883 telephone services were merged with the postal system. Indian Radio Telegraph Company (IRT) was formed in 1923.

After independence in 1947, all the foreign telecommunication companies were nationalized to form the Posts, Telephone and Telegraph (PTT), a monopoly run by the government's Ministry of Communications. Telecom sector was considered as a strategic service and the government considered it best to bring under state's control.

The first twist of reforms started in telecommunications sector began to flow in 1980s, when the private sector was allowed in telecommunications equipment manufacturing. In 1985, Department of Telecommunications (DOT) was established. It was an exclusive provider of domestic and long-distance service that would be its own regulator (separate from the postal system). In 1986, two wholly government-owned companies were created: the Videsh Sanchar Nigam Limited (VSNL) for international telecommunications and Mahanagar Telephone Nigam Limited (MTNL) for service in the metropolitan areas.

In 1990s, telecommunications sector got advantage from the general opening up of the economy. Also, instances of telecom revolution in many other countries, resulted in better quality of service and lower tariffs, led Indian policy makers to begin a change process finally consequential in opening up of telecom services sector for the private sector. National Telecom Policy (NTP) 1994 was the first attempt to give a comprehensive roadmap for the Indian telecommunications sector. In 1997, Telecom Regulatory Authority of India (TRAI) was created. TRAI was formed to act as a regulator to smooth the progress of the telecom sector. New National Telecom Policy was adopted in 1999 and cellular services were also launched in the same year.

Segments of Telecommunication Industry in India

The booming Indian Telecommunication sector can be broadly segmented into three segments:

- Services Industry
- Equipment Industry
- Mobile Value Added Services.

Services Industry:

In India, the services segment is highly regulated by Government. India has been geographically divided into Twenty three circles, which includes four Metros and Nineteen A, B, C class. This classification is done for effective management of the services. In addition of dividing telecom operation in circles, for effective management, telecommunication services have been divided into seven categories and operators have to obtain separate licenses to operate in each category. These categories include –

- Wire Line (Basic Services) Operators,
- Wire Less (Cellular) Operators,
- Public Mobile Radio Trunked Services,
- VSAT Services,
- Internet & Broad Band Services,
- NLD Services,
- ILD Services.

Equipment Industry:

Indian Telecommunication equipment industry consists of the enterprise equipment, carrier equipment and phones. In the 1990's Indian telecommunication equipment industry was largely dependent on import of the equipment with limited manufacturing facilities in India. After 1999, the Government started focusing on equipment manufacturing in India. Government promoted this industry with various favorable policy initiatives. Prominent among the policies are 100 percent FDI for telecom equipment manufacturers. Currently Equipment manufacturing is primarily concentrated in the Handset segment. Players like Nokia, LG, and Ericsson have already established their manufacturing facility in India.

Mobile Value Added Services:

Telecom service operators are looking at Mobile Value Added Services (MVAS) as the next wave of growth. A large chunk of revenues is expected to flow from VAS in the near future. It is expected that in next few years more than half of the revenue of the telecom operators would come from the value added services. MVAS include games, music, video/TV, information services/contest and ring tones/graphics. Starting from telegraphic and telephonic systems in the 19th century, the field of telephonic communication has now expanded to make use of advanced technologies like GSM, CDMA, and WLL to the great 3G Technology in mobile phones.

According to CRISIL research report on telecom sector, “India is the fourth largest telecom market in Asia after China, Japan and South Korea. The Indian telecom network is the eighth largest in the world and the second largest among emerging economies. At current levels, telecom intensiveness of Indian economy measured as the ratio of telecom revenues to GDP is 2.1 percent as compared with over 2.8 percent in developed economies”.

The Indian telecom industry has changed significantly over the last decade as all its segments have now

been opened up to competition. Without a doubt India continues to be one of the most dynamic and fastest growing major telecom markets in the world.

As per Telecom Subscription Data issued by telecom regulator TRAI, wireless subscriber base has increased to 1200.69 million in 2025. The rate of market expansion is being boosted by low tariffs, falling handset prices and the highly competitive market that has been created by the government and the regulator. Sweeping reforms by successive governments over the last decade have dramatically changed the nature of telecommunications in the country.

Services segment in India can be divided into two segments: Fixed Service Provider (FSPs), and Cellular Services. Fixed line services consist of basic services, national or domestic long distance and international long distance services. Cellular services can be further divided into two categories: Global System for Mobile Communications (GSM) and Code Division Multiple Access (CDMA).

GSM digitizes and compresses data, then sends it down a channel with two other streams of user data, each in its own time slot. It operates at either the 900 MHz or 1800 MHz frequency band. GSM (Global System for Mobile communication) is a digital mobile telephony system that is widely used in Europe and other parts of the world. GSM uses a variation of time division multiple access (TDMA) and is the most widely used of the three digital wireless telephony technologies (TDMA, GSM, and CDMA).

TDMA (time division multiple access) is a technology used in digital cellular telephone communication that divides each cellular channel into three time slots in order to increase the amount of data that can be carried.

An alternative multiplexing scheme to TDMA is CDMA (code division multiple access), which takes the entire allocated frequency range for a given service and multiplexes information for all users across the spectrum range at the same time CDMA (Code-Division Multiple Access) refers to any of several protocols used in so-called second-generation (2G) and third-generation (3G) wireless communications. As the term implies, CDMA is a form of multiplexing, which allows numerous signals to occupy a single transmission channel, optimizing the use of available bandwidth. The technology is used in ultra-high-frequency (UHF) cellular telephone systems in the 800-MHz and 1.9-GHz bands.

The GSM sector is dominated by Airtel, Vodafone and Idea Cellular, while the CDMA sector is dominated by RCOM (Reliance) and Tata Indicom. Opening up of international and domestic long distance telephony services are the major growth drivers for cellular industry. Cellular operators get substantial revenue from these services, and compensate them for reduction in tariffs on airtime, which along with rental is the main source of revenue. The reduction in tariffs for airtime, national long distance, international long distance, and handset prices has driven demand. Forthcoming services such as 3G and WiMax will further augment the growth rate. The various services under telecom sector includes Wireless Communication, Mobile Messaging, Data Transmission Services, Mobile Telephone Services, CDMA Cellular Telephone Services, GSM Services, Broadband Fixed Wireless Access Services and Residential Fixed-Wire line Communications. But focus of the current study is on wireless subscribers i.e. mobile phone users including both prepaid and postpaid subscribers

As a result, average-revenues-per-user (ARPU) of private operators is more than twice those of the state-owned service providers. There are approximately twenty five private companies providing Cellular Services in Nineteen telecom circles and four Metro cities, covering 1500 towns across the country. Both prepaid and postpaid users use various services which are provided by various service providers such as SMS (short message service), GPRS, downloading wallpapers, logos, ringtones, caller tunes, etc. The consumer behavior shift from the Internet to a more contextually sensitive mobile environment can

be characterized as a change from ‘sit and search’ to ‘roam and receive’. Customers expect convenient services that reach the customer in the right context, meet the consumers’ needs and mobile device capabilities personalized mobile services can be provided at the point of need.

Globally, mobile service content has evolved rapidly from text-based content, such as mobile yellow pages, into multimedia solution including e.g. games, route guidance, and mobile ticketing, which serve diverse customer needs.

Services marketing advances are behind the mobile market growth. The differences between growing and maturing markets are vanishing and even growing markets like China, India and Latin America have jumped directly to sophisticated mobile services. The focal point of the mobile market has shifted from volume to value and will be dominated by content-driven use of services in the future.

Companies which were led by a product- and technological innovation are confronting to manage relationships with customer who start and use the services via a mobile handheld device without personal contact with the services provider organization. Due to mobility, the roles of customer and provider have become reversed. The mobile channel presents a chance to manifest real loyalty, because it allows the customer to control what kind of content to receive, and when and where to receive it. Mobile services provides real-time, on demand access to content, which makes it more valuable to the customers.

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