Chapter XXII
When Customer Satisfaction Isn't Good Enough:
The Role of Switching Incentives and Barriers Affecting Customer Behavior in Korean Mobile Communications Services

Moon-Koo Kim
Electronics and Telecommunications Research Institute, Korea

Myeong-Cheol Park
Information and Communications University, Korea

Jong-Hyun Park
Electronics and Telecommunications Research Institute, Korea

ABSTRACT

In communications services, the continued competitiveness and growth of a company depends vitally on customer value. In Korea's maturing mobile market currently also going through a period of transition, an intense competition is under way among carriers. As the market nears the point of saturation, carriers are focusing on winning over competitors' subscribers, at the same time on retaining their existing customers. Understanding the factors that influence customers' switching behavior, therefore, is crucial for Korean mobile carriers' quest for successful customer strategies. Customer satisfaction is the widely acknowledged primary determinant of customer behavior. Even so, there are cases in which satisfied customers do not behave according to expectations. Some satisfied customers switch their suppliers, while others stay with their existing suppliers, even if they are dissatisfied with them. In sum, customer satisfaction does not appear to be the sole and the only determinant of customer behavior. This study is an attempt to explain the relationship between customer satisfaction and customer behavior using switching incentives and switching barriers. The role of switching incentives (subsidies toward handset replacement, attractiveness of alternative carriers, etc.) and switching barriers (burden of having to change numbers, burden of losing benefits provided by the current carrier) is investigated empirically using the results of a consumer survey.

INTRODUCTION

When a market matures, the supply of new customers gradually dwindles, and companies are forced to fight harder to retain existing customers and win over the customers of competitors. In a market nearing the point of saturation, retaining existing customers or winning over competitors' customers is a more efficient approach, both in terms of resources and cost, than developing entirely new customers. Suppliers also compete for shares of existing customers in situations where a new product or service replaces existing products or services, rather than creating its own market. Hence, knowledge of customer loyalty and switching behavior is key, both for markets in the maturity phase and those undergoing a transitional phase. Knowing which factors influence customer behavior in a transitional or mature market helps expand our theoretical understanding of consumer behavior. This knowledge can also practically assist businesses with navigating through these market phases.

The Korean mobile communications service industry is exhibiting classical signs of a maturing market, with the number of mobile subscribers remaining stagnant ever since the mid-2000s. The industry is nevertheless in a transitional phase, as 3G HSDPA services are progressively replacing 2G services that have so far dominated the market. The competition for shares of subscribers has become particularly fierce among Korean mobile operators, following the introduction of number portability and unified mobile prefix in 2004. Its three suppliers are faced with the need to both retain their shares of the Korean mobile communications service market and seize the lead in new service areas. They are currently concentrating their organizational resources in efforts to retain customers and win over competitors' customers. As of the end of 2007, over 40% of Korean mobile subscribers have switched their carriers at least once (information published at the website of the Korean Ministry of Information and Communication).

It is the consensus in the prior literature on factors influencing customer retention and switching that customers stay with incumbent suppliers mainly due to the satisfaction felt about their services. In other words, customer satisfaction, as it positively affects customer loyalty, incites consumers to remain with their existing suppliers (Rust et al., 1993; Caruana, 2002). Customer satisfaction has proved a fundamental solution to prevent subscriber desertion, also in mobile communications services (Kim et al., 2004). However, there are cases in which customer behavior cannot be entirely explained by customer satisfaction alone. For example, some customers who are not satisfied with their current mobile service, nevertheless choose to stay with the existing carrier. Some customers switch to a new provider, even if they are satisfied with their incumbent provider. These are clearly cases in point suggesting that customer satisfaction is not a one-size-fits-all explanation for customer behavior.

Switching barrier is a concept introduced to explain cases of customers staying with incumbent suppliers, despite a low level of satisfaction. In recent years, this concept has been widely used in many empirical investigations of customer behavior in service industries, including mobile communications service. Concretely, switching barrier refers to the economic or non-economic cost switching entails, having the effect of dissuading customers from leaving the incumbent supplier, in spite of dissatisfaction; in other words, locking in customers.

There is, however, no equivalent concept to explain cases where satisfied customers, nevertheless, switch suppliers. Attempts to explain the phenomenon of customer desertion occurring in situations in which customers are satisfied have been surprisingly few. The phenomenon has been largely overlooked in favor, for instance, of lock-in among dissatisfied customers, a subject of much attention, both theoretical and empirical. Richard (1997) found that the ability to retain customers is crucial for service firms, as customer deser-