Contractual Obligations between Mobile Service Providers and Users

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INTRODUCTION

The purpose of this chapter is to discuss the effect of contractual obligations between users and providers of mobile services on customer loyalty. One of the unique characteristics of mobile commerce that distinguishes it from most other goods and services is the employment of long-term contractual obligations that users have to accept to utilize the service. In terms of over-the-counter products, sold in one-time individual transactions in well-established markets, a strong body of knowledge exists that suggests that businesses may enhance loyalty through the improvement of quality and customer satisfaction levels. With respect to mobile commerce, however, this viewpoint may not necessarily hold true given the contractual nature of business-customer relationships.

In the case of mobile computing, it is suggested that loyalty consists of two independent yet correlated constructs that are influenced by different factors: repurchase likelihood and price tolerance. Repurchase likelihood is defined as a customer's positive attitude towards a particular service provider that increases the likelihood of purchasing additional services or repurchasing the same services in the future (e.g., after the contract expires). For example, when people decide to purchase a new mobile phone, they are free to choose any provider they want. In other words, repurchase likelihood is not affected by contractual obligations. In contrast, price tolerance corresponds to a probability of staying with a current provider when it increases or a competitor decreases service charges. In this situation, individuals have to break the existing contractual obligations. Currently, there is empirical evidence to suggest that the discussion above holds true in terms of mobile computing. However, there are few well-documented works that explore this argument in depth. This article attempts to fill that void.

This article will present implications for both scholarship and practice. In terms of academia, it is believed that researchers conducting empirical investigations on customer loyalty with mobile services should be aware of the two independent dimensions of the business-customer relationship and utilize appropriate research instruments to ensure the unidimensionality of each construct. With regards to practice, it is suggested that managers and marketers be aware of the differences between repurchase likelihood and price tolerance, understand their antecedents, and predict the consequences of manipulating each one. It is noted that overall loyalty is not the only multidimensional constuct in mobile commerce. Recently, it was emperically demonstrated that perceived value of short messaging services is a second-order construct that consists of several independent yet correlated dimensions (Turel et al., 2007).

Theoretical separation of the overall loyalty construct into two dimensions has been already empirically demonstrated in three independent mobile commerce investigations. First, Turel and Serenko (2006) applied the American customer satisfaction model (ACSM) to study mobile services in North America. By utilizing the original instrument developed by Fornell, Johnson, Anderson, Cha, and Bryant (1996), they discovered a low reliability of the overall satisfaction construct, and found that the correlation between two items representing price tolerance and one item reflecting repurchase likelihood was only 0.21 (p<0.01, N=204). Second, Turel et al. (2006) adapted the ACSM to study the consequences of customer satisfaction with mobile services in four countries (Canada, Finland, Israel, and Singapore), and reported that the correlation between price tolerance and repurchase likelihood was 0.20 (p<0.01, N=736). Third, Yol, Serenko, and Turel (2006) analyzed the ACSM with respect to mobile services in the U.S. and again found the same correlation to be 0.45 (p<0.01, N=1,253). All these correlations fall into the small-to-medium range, and two of them are beyond the lowest cut-off value of 0.35 for item-to-total correlation (Nunnally & Bernstein, 1994). The statistical significance of these correlations is explained by large sample sizes. Therefore, it is impossible to design a single unidimensional construct in mobile commerce research consisting of both price tolerance

Figure 1. The American Customer Satisfaction Model (adapted from Fornell et al., 1996)
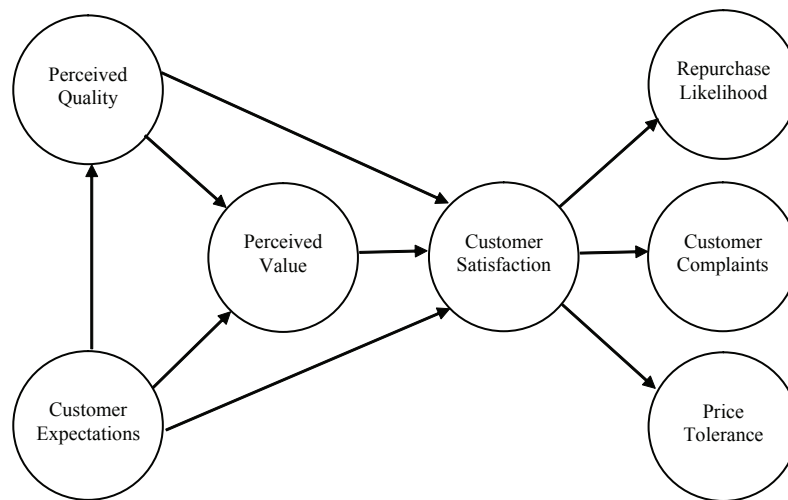
and repurchase likelihood. In all of these studies, most users had long-term contractual obligations with their respective mobile service provider that confirms the validity of the aforementioned conceptual discussion.

To better understand the customer loyalty concept in light of contractual obligations, this article briefly describes the American customer satisfaction model (ACSM), and then discusses the concepts of price tolerance and repurchase likelihood. Finally, it presents a summary which outlines implications for research and practice.

THE AMERICAN CUSTOMER SATISFACTION MODEL

The mobile telephony market continues to be one of the fastest growing service sector markets, creating a fiercely competitive industry environment (Kim & Yoon, 2005). As has happened in other, subscription-based mobile service industries, the nature of this competition has changed from the acquisition of new customers to the retention of existing customers and the luring away of competitors' customers. This last strategy is known in the industry as *outbound churn* or, more simply, as *churn*. Given the increasing penetration of mobile computing devices and the maturation of the market, avoiding churn and maximizing customer loyalty has become a primary concern for wireless providers. The first step in minimizing churn in a company's customer base is to understand its root causes.

The determinants of churn may be estimated by the adapted American Customer Satisfaction Model (see Figure 1). The original model suggests that satisfaction affects overall customer loyalty, where loyalty is a unidimensional construct that consists of price tolerance (i.e., the probability

of staying with the current provider if it increases prices or if a competitor decreases prices) and repurchase likelihood (i.e., the probability of purchasing the same service again). At the same time, several recent works suggest that these loyalty dimensions are distinct yet correlated because of the contractual nature of the customer-service provider relationship.

Customer loyalty is one of the major constructs in marketing, and a large part of a marketing manager's effort is aimed at creating and maintaining loyalty among an organization's customer base. The significance of loyalty comes from the positive impact it has on the operations of the company in terms of customer retention, repurchase, long-term customer relationships, and company profits (Caruana, 2004). In other words, loyalty is a primary factor in reducing churn.

The notion of switching costs affecting loyalty has been recognized and researched by several professional and academic disciplines, including marketing, economics, and strategy. "Switching costs are generally defined as costs that deter customers from switching to a competitor's product or service" (Caruana, 2004, p. 256). For managers and researchers, it is important to understand the concepts of switching costs and customer loyalty, and to clearly identify both their dimensions and their interaction.

PRICE TOLERANCE

Switching costs are generally defined as one-time costs facing the consumer/buyer of switching from one supplier to another (Porter, 1980; Burnham, Frels, & Mahajan, 2003). Several researchers have identified various attributes or types of switching costs (e.g., Thibault & Kelly, 1959; Klemperer, 1987; Guiltnan, 1989; Burnham et al., 2003; Hu & Hwang,

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