Regional Perspectives of the Determinants of Customer Churn Behaviour in Various Industries in Asia, Latin America and Sub-Saharan Africa

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Abstract: This desk-study explored the propensity for a customer to churn in various industries in Asia, Latin America and Sub-Saharan Africa in order to determine its extent and effects to business growth. The major finding of the study was that customer churn was prevalent in all the regions with the negative impact on business growth being quite apparent. Most of the empirical studies were conducted in the services sectors focusing on business to customer scenario. The major determinants of customer churn included core service failures, attraction to competitors, service encounter failures, pricing, inconvenience, switching costs, and attraction to competitors, and lack of loyalty programmes, poor service quality, and better offers from competitors with superior technology. Firms adopted various strategies in order to reduce customer attrition including use of churn prediction models, identification of customer churn high impact factors, data mining models, loyalty programmers, simulation techniques, improved offers, improving service quality and use of logistics regression models to analyses customer data enabling churn management. The study drew heavily on earlier published papers on the determinants of customer churn in the three regions and thus is very much an analytical contribution to the debate on the determinants of customer churn. Future research should focus on gathering field-based evidence on the determinants of customer churn on business to business scenario in Zimbabwe in order to evaluate if the factors are differentiated from those in a business to customer scenario.

Keywords: Customer churn, customer loyalty, customer satisfaction, customer retention, industry.

INTRODUCTION

Every function in the organization must tie their focus, objectives and performance metrics to customers. Unfortunately, many companies take a myopic internal focus that leads them to focus more on their internal activities and processes than on how their efforts create customer value Bobbier [1]. As Peter Huber explains, not adopting a customer-centric view is naïve, foolish, and dangerous. In this rapidly changing, complex and very competitive business environment marketers are seeking ways to connect and engage with their customers in order to build longstanding relationships and achieve customer loyalty.

Customer’s decision to terminate the relationship with a provider is a major concern for firms. The considerable increase of business competition over the last decades has given rise to a phenomenon of customer switching behavior and, thus, high customer churn rates, which has serious consequences for the financial performance of the firms and therefore, for the economy. Several researchers have mentioned that customer churn is the main reason of profitability losses due to losses on current and potential revenues, marketing costs, and brand image [2]. Businesses have increasingly become aware that the retention of existing customers implies a lower cost compared to the recruitment of new customers [3]. However, customers are increasingly becoming more refined in their expectations of the business products and services.

In today’s highly competitive, dynamic and intense service environment, marketers are seeking ways to connect and engage with their customers in order to have long standing relationships and achieve customer loyalty. According to Kandampully, Zhang and Bilgihan [4], creating and sustaining customer loyalty enable companies to establish enduring mutually beneficial relationships with customers. The aforementioned authors further assert that loyal customers become attached and committed to a company, hence they are not easily attracted by competitors’ offerings but rather, they are even more inclined towards paying premium prices, expressing greater buying intentions and resisting switching.
However, achieving loyalty in itself is not sufficient, as research [5-7] has established that even loyal satisfied customers can still defect to the competitor. As such, ascertaining the key determinants, which make customers want to switch between service providers, is particularly important to cement producers. It, therefore, is imperative that firms acquire knowledge about factors attributed to customer churn. Having such knowledge will enable them to prioritize customer retention initiatives with business strategies that aim to modify and improve service offerings, design new products and redirect advertising and promotional activities so that fewer customers leave the organization. Thus, in order to retain existing customers, it becomes pertinent to identify reasons why customers are likely to defect. Consequently, managing customer churn is critically important for companies to be profitable and to ensure their survival in this fiercely competitive service environment.

Previous research on customer loyalty and defection [8-11], identified pricing, switching costs, quality concerns and complaints management as the key factors that led to customer churn. Despite the strategic role of customer churn management, studies such as Hejazinia and Kazem [12], Miranda-Gumucio and Gil-Pechuan [13], Nimako and Ntim [10], Rahman [11], Shapiro and Varian[14] and Yang and Chiu [15] that address its relevance , a regional comparative of customer churn has not been examined. This is despite the fact that an appreciation of the determinants of customer churn allows marketers to create effective marketing strategies and offer promotional incentives that will entice customers to stay with the supplier.

The current desk-based research sought to make a systematic and critical comparative analysis of the determinants of customer churn in various industries in Asia, Latin America and Sub-Saharan Africa. The paper is divided into the following, Section 1.1 provides research questions. The research methodology and design adopted for the study are presented in section 2.0. Section 3.0 provides the findings of the study while section 4.0 presents conclusion and recommendations.

Research Questions
• How can customer churn be characterised in the various industries in Asia, Latin America and Sub-Saharan Africa?
• What are the major determinants of customer churn in the various industries in Asia, Latin America and Sub-Saharan Africa?
• How do firms in the various industries in Asia, Latin America and Sub-Saharan Africa respond to growing customer churn?

RESEARCH METHODOLOGY AND DESIGN
The study used a qualitative approach [16]. Literature review on the determinants of customer churn in various industries in Asia, Latin America and Sub-Saharan Africa was used to address the research problem. In the study, the focus was on factors perpetuating customer churn in the various industries and a critical evaluation on whether these determinants were differentiated in the three regions of Asia, Latin America and Sub-Saharan Africa. It builds and draws heavily on earlier published papers on the determinants of customer churn in the three regions and thus the study is very much an analytical contribution to the debate on the determinants of customer churn.

DISCUSSION
This section is divided into two parts. Section 3.1 examines the theory and objectives of customer churn and its implications on business growth. Section 3.2 provides the methodological approaches to factors affecting customer churn by other researchers in the three regions of Asia, Latin America and Sub-Saharan Africa while the different response strategies to mounting customer churn in the three regions are presented in section 3.3. Section 4.0 will focus on conclusions and recommendations.

Theory on Customer Churn
According to Yang and Chiu [15], customer churn refers to the tendency of a customer to discontinue a service. Simply put, customer churn or customer defection is the loss of clients or customers to the competition. In this paper, a customer will be considered to have churned if he/she has not made any contact with the cement producer in past 90 days from the date of survey, generally, high churn rates result in loss of potential revenues and loss of market share. Thus, to ensure business survival, growth and defense of their customer bases, managers ought to manage customer churn successfully.

The push-pull mooring (PPM) theory, developed by Lee [17], is used to explain customer migration or switching intentions within various industries in Asia, Latin America and Sub-Saharan Africa. According to the PPM theory, negative factors at the source drive customers away whilst the positive factors at the destination lure clients towards them. The push and pull factors work hand in hand with mooring or moderating factors in influencing consumer switching behaviour [10]. Situational factors, which could be either positive or negative in their influence (directly or indirectly) on a customer’s switching intentions, are referred to as the mooring effects [10]. These mooring factors, such as switching costs, make the switching decision either an easier one or a more difficult decision for customers [18].

Regional Overview of the Determinants of Customer Churn
Customer churn is a persistent global phenomenon and a challenge on both the cost and revenue sides of a business.
Determinants of Customer Churn in Asia

Thamsaranasakul [20] carried out a study whose objectives were to identify the high impact factors that cause customer churn of Mobile Service Provider Industry in Bangkok Thailand. The research results revealed that demographic profiles and some of marketing mix factors or Company Responsiveness factors were the main causes. The collected data was analyzed by using descriptive statistics. Hypotheses were tested by using t-test, and one-way ANOVA at 0.05 levels of significance research results revealed that there are relationship between demographic profiles and some of marketing mix factors or Company Responsiveness factors.

Akamal [20] focused on exploring the drivers of Customer churn in Pakistan telecom industry. The findings suggest that customer churn is caused by price, voice quality, spam messages, network quality, international roaming and hidden charges.

Another research was conducted in India by Rajeswari and Ravilochanan [8], they claimed that churn rates are dramatically higher in the prepaid segment and repeated efforts of incentivizing have failed to reduce churn rates. The authors stressed on the need of developing a proactive strategy to address churn and identification of factors which fuel the defect rate in the prepaid segment. They also addressed the consequences of excessive churn rates, and mentioned that consumer churn have adverse consequences on companies. Telecommunication companies loose a great deal of revenue and price premium, attrition lead to higher cost of sales which yield decreasing profit levels. Excessive churn rate tends to reduce referrals and lack of network consequence future fuel consumer churn.

Findings obtained from a study by Keramati, Jafari-Marandi, Aliannejadi, Ahmadian, Mozaffari and Abbasi [21] put forward customer dissatisfaction, switching cost and customer status as the key factors that influence customer churn. Equally, Rahman (2016) identified customer dissatisfaction with voice quality, price and network coverage as the main drivers of customer churn within the Pakistan mobile telecommunications industry.

In India Jain [22] in Pre-paid Customer Churn Prediction Using SPSS noted that given the dynamic nature of pre-paid mobile phone subscribers and the ease with which they can stop using their phone services without giving any notice, combined with the increasing influence of their group of close friends/family/peers, the task of managing churn has become of prime importance to CSPs. The model takes as input data of customer demographics, social network behavior, and call usage and tariff plan. The model has been compared with FOAK (First of a Kind) assets that make use of social networking based highly sophisticated churn prediction models, and it yielded 95% accuracy with C5.0 modeling technique. Then, additional input variables that can further increase the model accuracy and explain more its variability have been enlisted Another conclusion is to offer such plan packages as “flex-pay” package that can tie post-paid kind of services to relevant pre-paid customers so as to increase their stickiness with their service provider.

Determinants of Customer Churn in Latin America

Carneiro [23] studying customer defections from a major Brazilian newspaper publisher with the objective to identify variables (relationship-related, geographic, socio-demographic and loyalty-related) that might be associated with customer defection and to determine the profile of most likely to be defectors. The finding were that applying a logistic regression model to analyze the data,a firm may allocate in a much more efficiently manner its efforts towards customer churn reduction instead of spreading such efforts uniformly across its customer base and, moreover, it might better define which types of customers to target in the first place.

In Peru Springer, Kim, and Azzarello [24] developed a hazard modeling approach to predict customer churn and to study the nature of the empirical link between customer churn and factors such as customer service experience, failure recovery, and payment equity. The authors applied the model to the churn prediction problem at a continuous service provider, a direct-to home satellite television firm based in the country. The empirical results show that the prediction of customer churn is significantly improved when heterogeneity is added to the customer churn rates and to the response parameters. Significant links were found between churn rates and variables capturing customer service experience, failure recovery efforts, and payment equity. Results also show important differences in the magnitude and significance of the response parameters across latent classes. For a wire line company with 5 million customers that means an estimated 1.32 million people and $2 billion in revenue walk out the door each year. Reducing churn by 50 basis points thus would be worth roughly $240 million in lifetime value after 18 months and roughly $410 million after 30 months. If one includes operating expenses that could be avoided, the value would reach roughly $320 million and $490 million, respectively.

According to Moss [4] Colombia Leads Large Latin American Economies for Mobile Churn in the previous 12 months, just 20 percent of cell phone users in Colombia have changed their provider, followed by 19 percent in Brazil and Mexico, 17 percent in Chile and Peru, and just nine percent in Argentina. Across Latin American countries, only 20 percent or less of cell phone users have switched their service provider in the last 12 months. But when presented with various scenarios of improved offers, the percentage of
people who say they would switch rockets to between 35 and 59 percent. This was supported by European research firm GFK Consumer Choices presented roughly 4,900 mobile phone users in the six aforementioned countries GFK interviewed a total of 4,911 people aged between 14 to 65 years old via online surveys conducted in Argentina, Brazil, Chile, Colombia, Mexico and Peru. Fieldwork was carried out in July 2015 and the data weighted according to sample distribution of age, gender and region, with a number of scenarios of different improved packages, it found that the percentage of ‘loyal’ users, who would not switch in any of the presented scenarios, is low (5 to 16 percent) – while the percentage of ‘mercenaries’, who would switch in any of the scenarios presented, ranged from a third to over half.

Peru has the highest percentage of ‘mercenaries’, standing at 59 percent, followed by Colombia (53 percent), Brazil (52 percent) and Mexico (50 percent). Even Chile (37 percent) and Argentina (35 percent) have well over a third of cell phone users saying they would switch provider in any one of the package scenarios presented. Findings show there is potential for high levels of churn, given the right offer. To retain their existing users and win users from competitors, service providers need to offer packages that maximize profit for the user. The first providers who go in with improved offers backed by good quality service are likely to make significant gains.

Market research firm Synovate Argentina had conducted a market survey on mobile phone users so as to more accurately spot these users and to greatly improve the success rate of retention. The study found that 48% of users believed that the network quality was the primary factor that drove their choice of telecom operators. That is to say, a user is most likely to give up a network if he finds the call is not clear, network coverage is not wide enough, web pages are often hard to open or his twitter is slow to update.in support a study by Hejazinia and Kazem [25] in the same country ranks service quality as the most significant determinant of customer churn, followed by customer dissatisfaction, better offers from competitor with superior technology, switching costs and advertising respectively.

Determinants of Customer Churn in Sub-Saharan Africa

In Sub-Saharan Africa, Abaidioo [26] carried out a study to find out the extent of customer churn in MTN Ghana, the causes and effects of customer churn and to develop a predictive model for churn for the company. The findings were that the propensity for a customer to churn was found to be 1.03 times which is extremely high, it was also noted that Data Mining Techniques customer service calls, day call and international calls were the major characteristics exhibited by the churners.

Oyeniyi and Adeyemo [27] also carried out at study titled Customer Churn Analysis in Banking Sector of Nigeria the problem was customer churn had become a major problem, in order to detect early warning signs in customer's behavior such as reduced transactions; account status dormancy and take steps to prevent churn. The study presented a data mining model that can be used to predict which customers are most likely to churn .The methods obtained showed the methods can determine patterns in customer behaviours and help banks to identify likely churners and hence develop customer retention modalities.

In Kenya Kairanga [28] proposed churn predication model in managing customer churn in telecommunication company since acquiring new customers is more expensive than retaining existing customers, churn prevention can be regarded as a popular way of reducing the company's costs. In this study, Cox proportional hazard model and decision tree model are compared with conventional model. Both models are tested on a selection of pre-paid customers from the database provided by Safaricom Limited. Current conventional prediction used by Safaricom Limited was improved significantly by using Cox proportional hazard and decision tree as they both performed better on the ROC curve. Decision tree model selected gave probability of churn which is an improvement from conventional model that only gives binary results of churn and not churn. Also, where the decision tree yields approximately 50 percent probability of churn conventional model gave varying churn status.

In Zambia Banda [29] noted that the pattern of churn changes over time, arising from different factors that may be known or unknown, and the complexity of these factors makes churn management challenging. This study proposes a model that uses system dynamics, a simple yet aggressive approach that gives important insights into managing customer churn in the telecommunication industry. The data used was collected through surveys and interviews from seven hundred mobile subscribers in six districts of Zambia, the three Mobile Network Operators (MNOs) and Zambia Information Communication & Telecommunications Agency (ZICTA). The model uses factors that led to customer churn between 2010 and 2015, and allows for a simulation of a forecasted customer churn rate when mobile network operators take action and when they do not. The results of the survey show that on average, MNOs on the Zambian telecommunication sector experience annual churn rates between 3.73 and 9.14 percent. The model shows that if the MNOs apply recommendations suggested in this model, annual churn rate can reduce to about 1.02 percent after twenty iterations and churn rate has the

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potential to soar to about 86 percent within the same period if MNOs do not take action.

Customer churn in Zimbabwe

Literature on customer churn is very scarce in Zimbabwe except for a distant research titled Customer Retention Strategies: A Panacea to Reducing Attrition in the Zimbabwean Airline Industry carried out by Mandina and Karisambudzi [30] for Midlands State University. The authors took a post-positivism approach in order to uncover the truth about the effectiveness of customer retention strategies in reducing attrition in the Zimbabwean Airline industry. Findings revealed that customer retention strategies if fully implemented, result in effective retention as customers want airlines to provide efficient frequent flyer programs, practice service recovery and fulfil the promises made to customers through reliable schedules and lucrative in-flight services as well as the need to settle claims on time. The industry may continue to take advantage of the current frequent flier retention strategies and also explore other strategies like promise fulfillment and service recovery in maximizing retention.

Another research was done by Bhasera [30] in Masvingo Urban, Zimbabwe. The researcher noted that concentration on customer acquisition has since seen its prevalence slowly fading into thin air as firms are now battling to retain customers who have become highly sensitive to various marketing stimuli in highly competitive markets. This study therefore sought to examine the extent to which the three major Fast Food retailers in Masvingo use loyalty programs as the means and end for harnessing customer retention in highly competitive markets such as perfect competition. The major findings indicated that retailers in this sector least use loyalty programs to retain customers and that there is need for firms in perfect competition markets to use loyalty programs so as to maximize customer retention.

Response strategies to mounting customer churn in the three regions

Firms’ Response to Customer Churn in Asia

In India, Jain [31] advised the use of SPSS in pre-paid Customer Churn Prediction and noted that given the dynamic nature of pre-paid mobile phone subscribers and the ease with which they can stop using their phone services without giving any notice, combined with the increasing influence of their group of close friends/family/peers, the task of managing churn has become of prime importance to CSPs.

Identification of the high impact factors that cause customer churn was proposed by Thamsaranasakul [19] as a strategy to manage customer churn in Mobile Service Provider Industry in Bangkok Thailand.

In India Rajeswari and Ravilochanan [8], stressed on the need of developing a proactive strategy to address churn and identification of factors which fuel the defect rate in a business adventure. They also addressed the consequences of excessive churn rates, and mentioned that consumer churn have adverse consequences on companies.

Firms’ Response to Customer Churn in Latin America

Findings show there is potential for high levels of churn, given the right offer. To retain their existing users and win users from competitors, service providers need to offer packages that maximize profit for the user. The first providers who go in with improved offers – backed by good quality service – are likely to make significant gains[32].

In Peru Springer, Kim, and Azzarello [33] developed a hazard modeling approach to predict customer churn and to study the nature of the empirical link between customer churn and factors such as customer service experience, failure recovery, and payment equity.

In Argentina, Hejazinia and Kazem [10] noted the need to improve service quality to manage customer churn thus ranked service quality as the most significant determinant of customer churn That is to say, a user is most likely to give up a network if he finds the call is not clear, network coverage is not wide enough, web pages are often hard to open or his twitter is slow to update.

Use of logistic regression model to analyze customer data enabling a firm to allocate resources in a much more efficiently manner its efforts towards customer churn reduction instead of spreading such efforts uniformly across its customer base and, moreover, it might better define which types of customers to target in the first place[23].

Firms’ Response to Customer Churn in Sub-Saharan Africa

Oyeniyi and. Adeyemo [27] proposed the use of data mining model to predict which customers are most likely to churn through detecting early warning signs in customer's behavior such as reduced transactions, account status dormancy and take steps to prevent churn. The results obtained showed the methods used can determine patterns in customer behaviours and help Nigerian banks to identify likely churners and hence develop customer retention modalities.

Bhasera [30], indicated that firms in perfect competition markets to use loyalty programs so as to maximize customer retention. The researcher noted that concentration on customer acquisition has since seen its prevalence slowly fading into thin air as firms are now battling to retain customers who have become highly sensitive to various marketing stimuli in highly competitive markets.
Abaidioo [34] in Ghana made use of churn prediction model added with the user experience evaluation so as to more accurately spot these users and to greatly improve the success rate of retention. A way to manage customer churn is to predict which customers are most likely to churn and then target incentives to those customers to induce them to stay. This approach enables the firm to focus its efforts on customers who are truly at risk to churn, and it potentially saves money that would be wasted in providing incentives to customers who do not need them.

Simulation techniques were also employed to forecasted customer churn rate when mobile network operators take action and when they do not was proposed by in Zambia [29] which gives important insights into managing customer churn in the telecommunication industry, the researcher also noted that the pattern of churn changes over time, arising from different factors that may be known or unknown, and the complexity of these factors makes churn management challenging.

CONCLUSIONS AND RECOMMENDATIONS

The study was more of an analytical contribution to the debate on the determinants of customer churn rather than anything definitive. The determinants of customer churn were varied among the three regions of Asia, Latin America and Sub-Saharan Africa. Most empirical studies on customer churn were undertaken in the services sector focusing on B2C scenario. In Asia, involuntary switching, core service failures, attraction to competitors, service encounter failures, pricing, inconvenience, employee response to service failures and ethical problems were the major determinants of customer churn. In Sub-Saharan Africa, higher prices, switching costs, attraction to competitors and lack of loyalty programmes for customers induced customer churn. Customer dissatisfaction, better offers from competitors with superior technology, switching costs and advertising were the major determinants of customer churn in Latin America. Various strategies were adopted in order to deal with customer attrition including customer churn prediction models, identification of customer churn high impact factors, developing a proactive strategy to address churn, identification of factors which fuel the defect rate in a business adventure, data mining models, loyalty programmes, improved offers, hazard modeling approach to predict customer churn, improved service quality and logistic regression model to analyze customer data enabling a firm to allocate resources efficiently to manage customer churn. The study drew heavily on earlier published papers on the determinants of customer churn in the three regions and thus the study is very much an analytical contribution to the debate on the determinants of customer churn. Future research should focus on gathering field-based evidence on the determinants of customer churn on B2B scenario in order to evaluate if the factors are differentiated from those in a B2C scenario.

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