

Loyalty Program as a Customer Retention Strategy: The Perspective of O2 Telefonica Limited, UK.

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Abstract:- The telecom sector, especially in the UK, is admittedly a competitive business environment. The evolution of the significance of loyalty programs as customer retention strategy, therefore, forms the basis of this study. This study was applied to 100 customers of O2 Telefonica based in Peterborough City and its outlying districts, representing 83.3% response rate. The study investigated the loyalty programs offered by O2 Telefonica to its customers. These include: Multi-buy loyalty; Percentage discount loyalty; Come back soon loyalty; Free delivery loyalty; Try for free loyalty system and Money off loyalty program. The study explored O2's loyalty programs and their successes. According to the results of this research paper, loyalty programs have significant positive effect on customer retention. Likewise, the order of major effects on retention is as follows: Money off loyalty with 40%, Come back soon loyalty with 20%, Free delivery loyalty with 16%, Try for free loyalty with 13%, Percentage discount loyalty with 7% and finally Multi-buy loyalty with 4%. Therefore, this paper suggests that any service provider that is able to build long-term customer retention akin to loyalty programs has to have strategic advantage in order to resplendently survive the ever-increasing competitive environment.

I. INTRODUCTION

The telecommunications sector in the UK has evolved over the years from a state owned monopoly system until around 1980's when competition entered the sector. As pointed out by Pyzowski (2011), the sector has now arrived at its maturity level. Against this reality, service providers that are far from satisfying their customers risk losing them to their business rivals. Kim (2019) is of the view that loyal customers are not easily swayed by competitors who masquerade with more appealing offers; rather they provide new referrals as they talk positively to the people around them such as among others friends, relatives and work mates to join the network.

Going by the latest statistics released by Ofcom (2018), the telecommunications sector remains inexplicably competitive because new and old customers have continued to display robust and latest exciting products with a view to attracting not only prospective customers but also retain them. Players abound in this sector include EE (Everything Everyone), O2 Telefonica UK, Vodafone, Virgin media, lebara, Hutchinson 3G (3 mobile UK) and lycamobile among others. Despite O2 being in second position, the company has steadily maintained its market share of 26%

as at 2018 since 2008 and in some cases even higher. At the moment, O2 Telefonica UK has about 25 million subscribers (Ofcom 2018), implying it has succeeded in continuing of attracting new members while holding on to already existing customers. The purpose therefore, of this paper as aptly elucidated above, is to scrutinize O2's loyalty programmes as a strategy for customer retention and evaluate key success factors of Telefonica O2 on the market and also how the firm has continued to earn high market share, notwithstanding the sparing reality that the industry is undeniably not only stiff but also competitive. As such, the paper will look at the current loyalty programs undertaken by O2 Telefonica Ltd, and how they have been implemented.

II. LITERATURE REVIEW

2.1 OPTIMISING PRODUCT SALE

Basera (2014) and Barnerjee et al (2013) state that the principal reason why companies are focusing on customer loyalty is that they are intent on utilization and maximization of product sales. This views as held by Zhang (2017) who emphasized that having loyal customers means having a reliable customer base with frequent purchases, ultimately resulting in higher profit margins. Literature is of the view that a loyal customer is most likely to spend as much as 67% than what a new customer can (Satyaraj 2018). Therefore, the information above suggests that as much as it is important to recruit new customers, service providers should not neglect to look after existing customers and keep them.

2.2 UPHOLDING STATUS-QUO OF BEING SOLE COMPETITOR

Another reason for loyalty programs is that they divert customers from competitors. According to Kotler and Armstrong (2012), companies implement loyalty programmes with a view to ensuring that the customer's attention is not swayed by the competitor's brands or purchasing their products. This means no matter how attractive competitor's offer may look, loyal customers are usually not easily swayed by such temptations. As a result, laggards are considered as partners in co-creation of values and they always cling to a brand that fulfills their needs. In view of this, Rafi and Zainal (2017) suggest that the purpose of customer loyalty programmes is solely to retain customers in order that value is derived from them.

2.3 FORMATION OF REFERRALS

Fahad and Bach, (2014) hold the view that it is advantageous to have loyal customers because they start making referrals to the community around them in the likes of workmates, friends and relatives with a view to persuading them to join the loyalty family. According to the duo, meeting customer's expectation needs requires a company to handle its customers well with commitment that is unparalleled.

2.4 LESS PRICE SENSITIVE

In their research, Sima and Elham (2015) put emphasis on companies creating deliberate effort in their marketing strategies in order to retain their customers. They argued that a retained customer does not respond negatively to unforeseen upward price changes. Further, Satyaraj (2018) contend that research overtime has shown that wooing new customers costs as much as 5 to 10 times more than the cost of retraining already existing customers for the company. Thus, a company that has the ability to offer high quality service will result in high level of customer retention, which will subsequently end up unprecedented profits for the firm. The implication is that a company which has strategic programmes by taking care of its customers is better positioned to earn sustainable competitive advantage than those who are just luring new customers to their companies.

2.5 MEANS TO ATTAIN CUSTOMER LOYALTY

Customer loyalty according to Li (2018) can be achieved through various means, common among them include, coupons, high value trade-ins, quality products, rebates, low interest rates and extended warranties among others. In mobile telecom sector, Barnerjee et al (2013) contend that customers are attracted to be loyal when the service provider consider factors such as customer care service, quality network, tariff rates and coverage area. Salihah (2019) brings another dimension that corporate image is another factor customers consider in the loyalty process. It was opined that in most instances, the image of the company dictates what customers expect in that a company perceived to have good corporate image has the power to influence the way customers look at their products and service positively.

2.6 LOYALTY MODELS

Pyzowski (2012) states that loyalty models abound in telecommunication sector according to customer behavior. These include:

2.6.1 PROMOTIONS

Kumar and Purkayastha (2013) state that only the companies that apply various marketing strategies can achieve competitive advantage to attract not only new customers but also keep them. According to Kim (2019), promotion has a cardinal role in determining profitability and the thriving of a company. Furthermore, promotions such as price reduction has power to aid companies meet their targets easily and is one of the greatness desirable techniques service providers have applied or used to attract new customers.

2.6.2 LOYALTY CARDS

Zhang (2019) states that customer's loyalty cards are structured as long-term marketing effort with a view to providing incentives to perpetual and all-weather customers who have demonstrated constant buying behavior. According to Muganda et al (2014), these cards create a bond between the service provider and the customer. Frequent customers and those who buy high value products are usually awarded more points. After the points are accumulated, cardholders are expected to redeem their points for colossal rewards. Kotler and Armstrong (2012) lament that some cardholders fail to redeem their loyalty points despite having accumulated them.

2.6.3 TIER SYSTEM

Fahad and Bach (2014) defined tier system as a small reward given to a new customer with the view of coming back after being satisfied. They argued that customers are expected to be in higher-level tier as long as they continue purchasing or buying their products. As such, they are expected to receive both short term and long-term rewards as long as they remain loyal to the organisation.

2.6.4 NON-MONETARY REWARD

According to Li (2018), non-monetary reward is sometimes referred to as corporate social responsibility. This is an award where the company gives back to the society or community in which it operates from with the view to alleviating the challenges the community faces. This kind of rewards according to Fahad and Bach (2014) usually comes through donations out of the profits the company makes. As a result, a strong bond or emotional attachment is made between the service provider and the customers in that society because of being part in solving the problems society faces.

III. HYPOTHESES

The aim of this paper is to evaluate the significance of loyalty programs undertaken by O2 Telefonica as customer retention strategy in UK's telecom sector. The paper will first look at the current loyalty programs and how they have been implemented. In order to answer the research objectives, the following hypotheses will be tested:

H1: There is a significant impact of multi-buy reward on customer retention

H2: There is a significant impact of percentage discount reward on customer retention.

H3: There is a significant impact of come back soon reward on customer retention.

H4: There is a significant impact of free delivery reward on customer retention

H5: There is a significant impact on try for free reward system on customer retention

H6: There is a significant impact of money off loyalty program on customer retention.

IV. RESEARCH METHODOLOGY

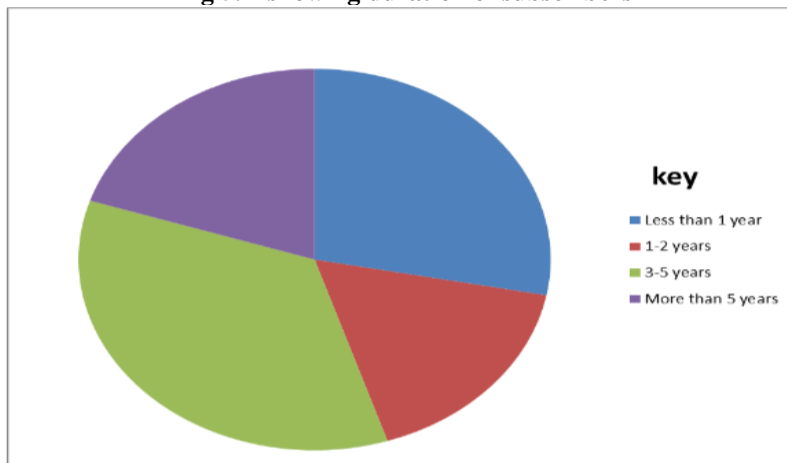
Data for this research paper was collected by administering the structured questionnaire. About 120 questionnaires were distributed to Peterborough city’s O2 Telefonica customers and its outlying districts and out of that, 100 questionnaires were properly filled in and was used as sample size. Therefore, the population of this research are

O2 Telefonica UK customers in this area and the participants are both male and female at least aged above 18 years. For secondary data, information was collected from O2’s Telefonica UK website as well as OFCOM website and other relevant company documents such as FAME reports, magazines and annual reports. Data collected was analysed using SPSS version 20. Furthermore, descriptive statistics were also applied in the analysis of data.

V. RESULTS AND DISCUSSION

5.1 DURATION OF SUBSCRIBERS ON THE NETWORK

Fig 5.1 showing duration of subscribers



Source: questionnaire

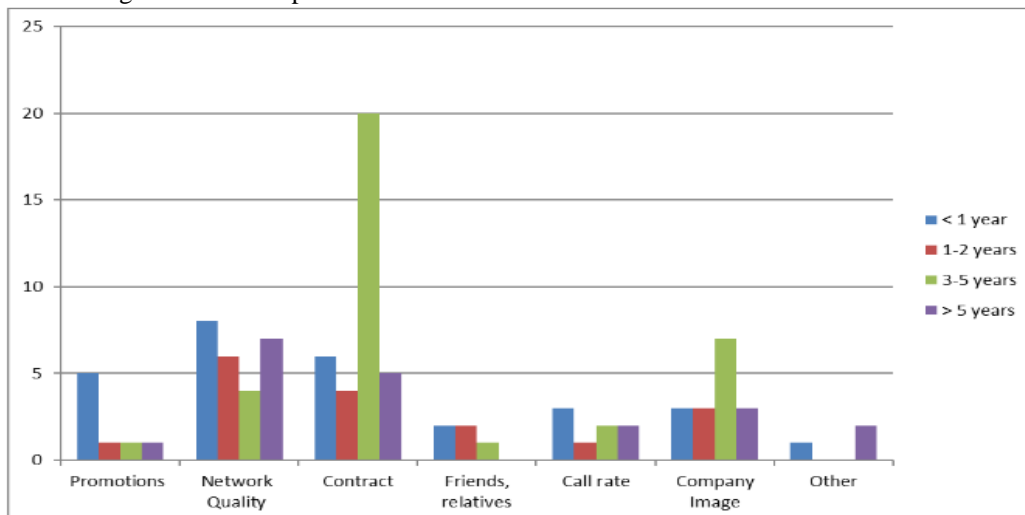
Discussion

The pie chart above illustrates the duration subscribers have been with the network. Those who have been with the network between 3 – 5 years represent 35%, followed by those with less than 1 year at 28%, the subscribers with more than 5 years on the network is represented by 20% while 17% is represented by those between 3 – 5 years. The

results suggest that O2 Telefonica has been able to recruit new subscribers while maintaining existing ones. This analysis is in agreement with the findings of Pzyowski (2012) who opined that only those service providers who are able to retain customers while at the same time are able to attract new ones can succeed in the mobile telecom sector.

5.2 CROSTABULATION OF FACTORS THAT AFFECT RETENTION OF CUSTOMERS AND CUSTOMER DURATION ON THE NETWORK

Fig 5.2 showing the relationship between factors that affect customer retention and duration of customers.



Source: questionnaire

Discussion

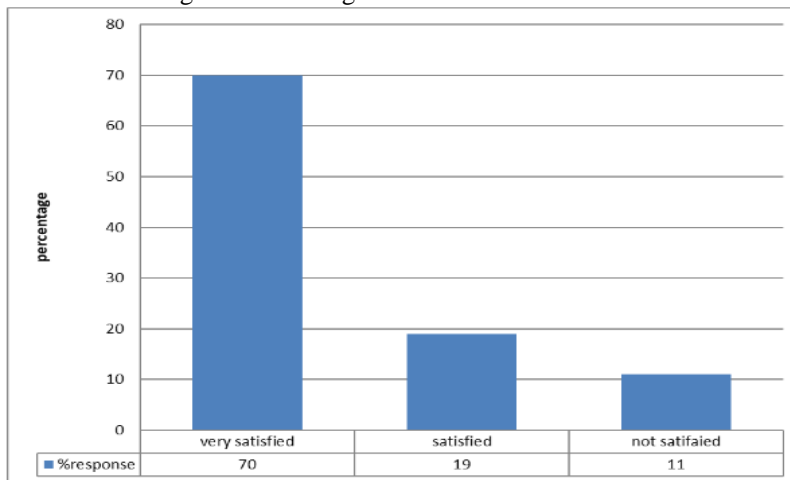
The results suggest that the customer who have been with the network less than a year are highly influenced by network quality, followed by contracts and finally promotions. As for the customers who have been with the service provider between 1 to 2 years, they are influenced largely by network quality, and then contracts. Furthermore, the catalyst for customers between 3 – 5 years appears to be influenced by contracts and company image. Lastly, the results suggest that the customers who have been with the network for more than 5 years are influenced firstly by

network quality, seconded by contracts and lastly the company image.

The results above suggest that there are many compiling factors that influence subscribers to belong to a particular network. In the case of O2 Telefonica, UK, the major contributing factors include network quality and contracts. This also shows that a service provider, which is able to provide better services such as good network quality and contracts, can easily attract customers.

5.3 NETWORK CUSTOMER SATISFACTION

Fig 5.3 Showing customer satisfaction levels



Source: questionnaires

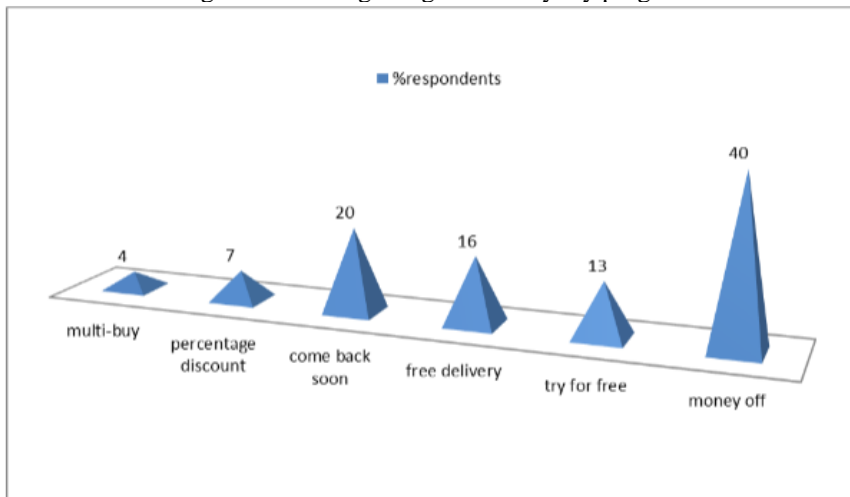
Discussion

The results above illustrate the satisfaction levels of subscribers. As can be seen, 70% of O2 Telefonica users are very satisfied with the network performance, 19% indicated to be satisfied while only 11% expressed not to be satisfied.

The results of this research suggest that there is a strong connection between quality network and customer satisfaction leading to retention of customers and loyalty. Both Satyaraj (2018) and Banerjee and Bose (2013) agree that one of the factors that affect positively in mobile telecom sector and help improve customer loyalty is quality of network.

5.4 LOYALTY POGRAMS OFFERED BY O2.

Fig 5.4 showing categories of loyalty program



Source: questionnaires

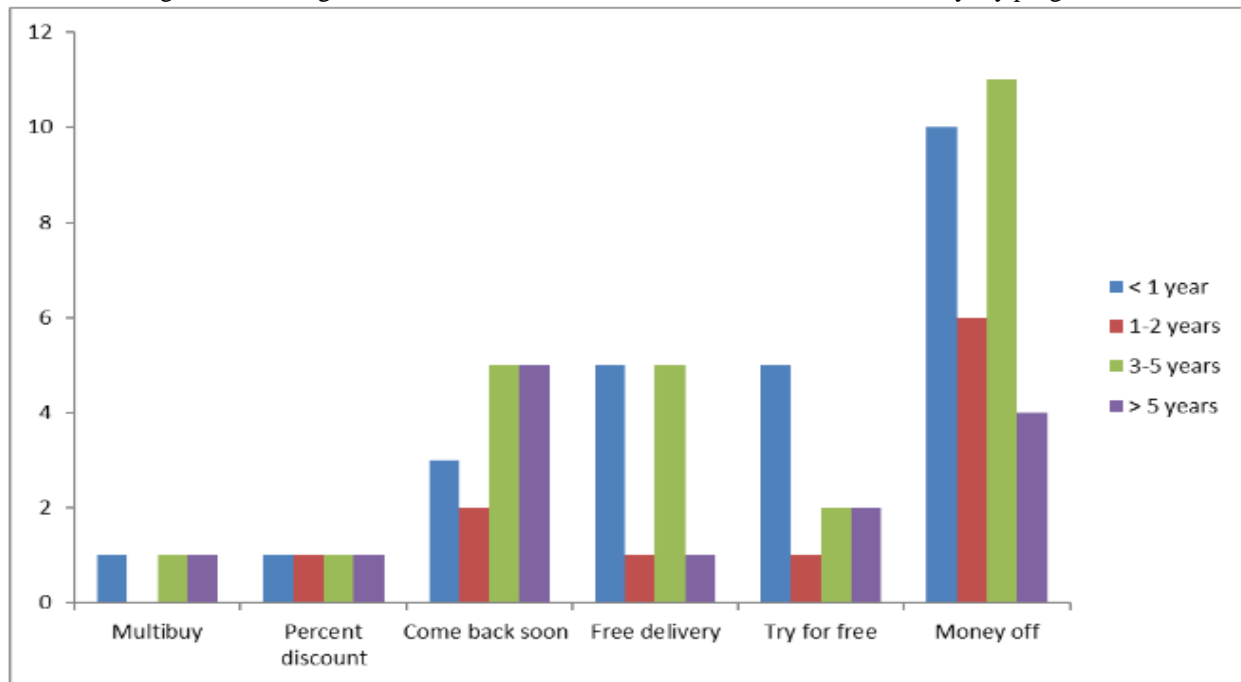
Discussion

The above results explain the categories of loyalty programs available for O2 Telefonica subscribers. The analysis of the results suggests that majority of O2 customers belong to money off loyalty program with 40% followed by come back soon loyalty at 20% while 4% was

the least loyalty program for multi-buy. As alluded by Zhang (2018), the whole purpose of loyalty programs is to gain competitive advantage over its rivals. Li (2018) also asset that service providers come up with several loyalty program ranging from short to long term with a purpose to not only attract new customers but also retain them.

5.5 CROSTABULATION: THE RELATIONSHIP BETWEEN CUSTOMER’S DURATION AND LOYALTY PROGRAMS

Fig 5.5 showing the duration customers have been with the network and loyalty programs.



Source: questionnaire

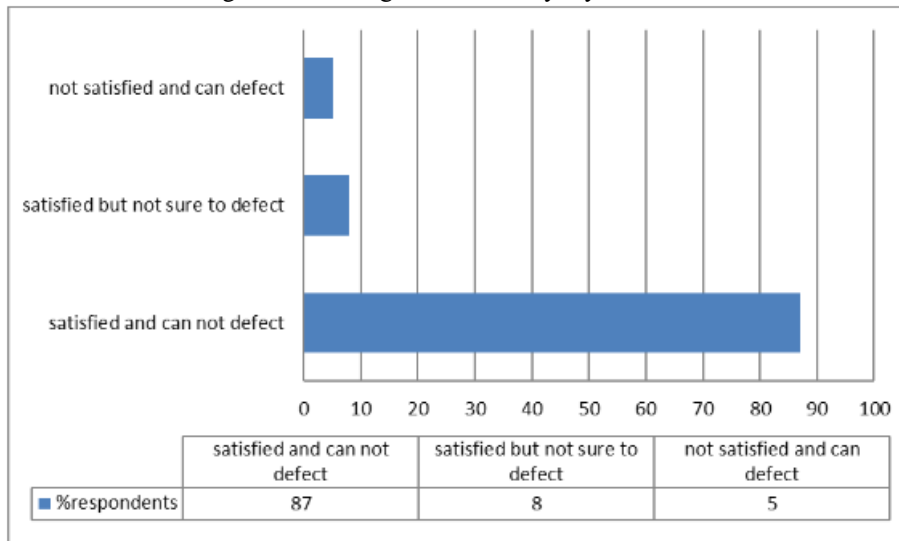
Discussion

The table above illustrates the relationship between loyalty programs and the duration customers have been with the service provider. The results of this research suggest that customers who have been with the service provider less than a year subscribed to money off loyalty seconded by try free and lastly free delivery. As for subscribers who have been with the network between 1- 2 years, they subscribed to money off, followed by come back soon loyalty. In the category of 3 -5 years money off was their highest option, seconded by come back soon and lastly free delivery. Lastly, customers with more than 5 years choose first come back soon seconded by money off loyalty.

The above analysis suggests that all the customers of O2 have at least subscribed to a minimum of two loyalty programs. It was however discovered that although many O2 Customer have subscribed to different loyalty programs some of them have never redeemed them. Arumugam and Arumnihil (2013) reaffirm that regardless of how successful you have designed your loyalty program, it is only successful once subscribers redeem it. Overall, the finding of the study suggest that customers are satisfied with the loyalty programs offered by O2 Telefonica UK.

5.6 SATISFACTION OF LOYAL CUSTOMERS VERSUS DEFECTION

Fig 5.6 showing customer’s loyalty satisfaction



Source: questionnaire

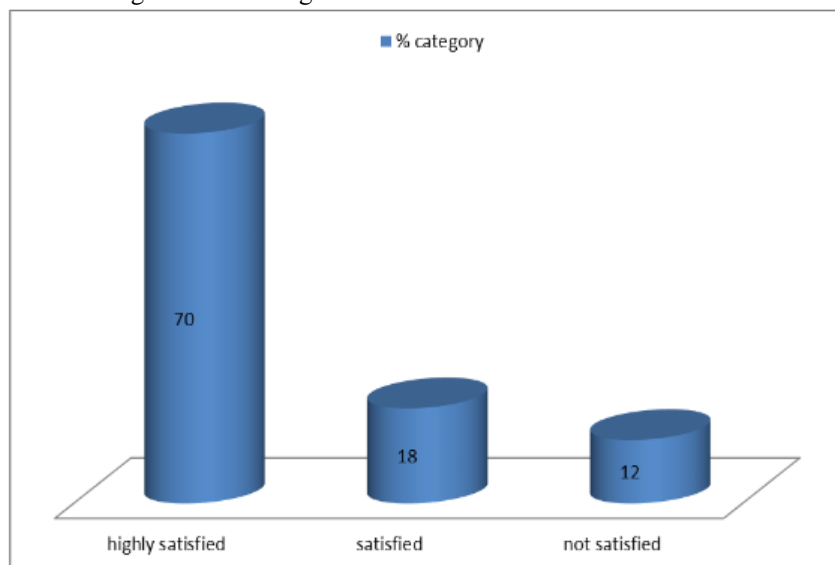
Discussion

The findings of the study indicate that only 5% showed to be dissatisfied and can defect to other service providers. At the same time, 8% are satisfied although they were not sure about their defection. Kotler and Armstrong (2012) argues that loyalty is never strong because once other service provider come up with better offerings, customers can easily defect.

The results above also indicate that 87% of O2 Telefonica Subscribers are satisfied to a point where they cannot defect to any mobile provider and are ready to recommend to other prospective customer to join the network. Banerjee and Bose (2013) argue that satisfied customers can bring fortunes to the network because of good will word of mouth they are able to spread to friends, workmates and family members to join the service provider.

5.7 CONTRACT SATISFACTION

Fig 5.7 indicating satisfaction level of customer’s contracts



Source: questionnaire

The results above look at the satisfaction levels of customers on contracts. The findings of the study opine that only 12% of subscribers are not happy. Further, 18% indicated to be satisfied while 70% are very satisfied.

VI. CONCLUSION

The mobile telecom sector in the UK has undergone tremendous growth and service providers are competing with each other by engaging into several marketing strategies such as loyalty programs to maintain their customers. According to the findings of the study, O2's loyalty programs have significant positive effect on customer retention in the UK. This paper therefore, contend that service providers that are able to build long term customer retention akin to loyalty programs are most likely going to survive in this ever-increasing competitive environment. This is because a well-designed loyalty program can provide competitive advantage to the firm and subsequently increase profitability.

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