Full Length Research Paper

Relationship marketing, word of mouth communication and consumer loyalty in the Ugandan mobile telecommunication industry

Peter Dithan Ntale*, Muhammad Ngoma and Andrew Musiime

Faculty of Marketing and Hospitality, Makerere University Business School, Plot M118, Port bell Road, P.O Box 1337, Kampala-Uganda.

Accepted 24 January, 2013

Relationship marketing and word of mouth have been relatively neglected in influencing consumer loyalty in the mobile telecommunication industry and there has been almost no academic research examining this issue in the Ugandan market hence rendering this research quite significant academically. Further, most of these studies have been in the context of developed nations. Given that there are fundamental differences in the industry dynamics, market structures, and customer needs between developed and developing countries of the world, the larger aim of this study is to develop a conceptual framework and after testing the framework further empirically examine the impact of various dimensions of relationship marketing, word of mouth on customer’s loyalty in the telecommunication industry of Uganda, as there could be no universal solutions for prescribing relationship exchanges (Palmer, 1997). Thus, the purpose of this paper is: to establish the relationship between relationship marketing, word of mouth communication and consumer’s loyalty in the Mobile Telecommunication Industry of Uganda. Results of this, will assist in better management of firm-customer relationships and in achieving higher levels of consumer’s loyalty which is currently desirable for any given mobile phone company to survive in this volatile competitive environment. Provide an insight into relationship marketing and word of mouth strategies with high level ability to increase consumer’s loyalty to a desirable level.

Key words: Relationship marketing, Word of mouth, consumer loyalty, Ugandan telecommunication industry.

INTRODUCTION

With complete liberalization of the telecommunications sector in Uganda in 2006, the telecommunications market has seen more operators being licenced. According to Uganda Communications Commission, by September 2009, there had been 38 licenced operators with five of those holding major licenses for infrastructure and service provision, allowing them to deliver mobile telecommunication services. The major license holders are MTN Uganda, Uganda Telecom, Airtel Uganda, Orange Telecom and Warid Telecom. The market has become increasingly competitive with tariffs and connection costs significantly dropping to US$ 0.0012 per second across all networks (New vision, Wednesday 29th September 2010) while US$0.0004 is being charged for calls within the same network (The daily Monitor, Tuesday 10th November, 2010). This price war has led to a significant increase in the promotional expenditure for these companies since it is the most available tactical strategy to compete in the already volatile market. According to Synovate Uganda, 2009, MTN spent US$ 12.7 million on promotional expenditure in 2011, Airtel spent US$ 9.4 million, Orange spent US$ 7.6 million while Uganda Telecom spent US$ 6.7 million on promotional activities. According to Synovate Uganda, an estimated 40% of this marketing spend is for sales promotions and the 60% is product and brand.

*Corresponding author. E-mail: Peter.ntale@gmail.com, mngoma@mubs.ac.ug, amusiime@mubs.ac.ug. Tel: +256 782 914570.
advertisement. Warid’s advertising spend grew by 29% from US$4.5 million in 2010 to US$ 6.7 million in 2011, MTN grew by 24% from US$10.2 million in 2010 to US$12.7 million 2011. Orange Telecom advertising spend grew by 28% from US$ 6.2 million in 2010 to US$ 7.9 million in 2011 while Airtel and UTL marketing spend also grew substantially. While Mobile Telecom companies have invested all this much on advertising and other promotional activities, market share has substantially reduced. MTN’s market share has dropped from 60% five years ago to 47.5%. Airtel’s market share dropped from 20.2% in 2009 to 17% in 2010. Warid’s Market share dropped from 15.7% in 2009 to 12.1% in 2010. Uganda Telecom’s market share dropped from 21.9% in 2009 to 16.3% in 2010.

While MTN Uganda boasts of a record of 7,600,000 subscribers by the end of October 2010, the UCC Market Survey October 2010 indicates only 1,000,000 subscribers have been loyal on this network for the past five years. Airtel Uganda recorded 4,000,000 Customers by the end of October 2010 while an internal record from their marketing department shows that the retention and loyalty drive which closed in August 2010 registered 450,000 loyal customers (Those who have used Airtel lines for the past five years). UTL registered 2,150,000 customers of which the UCC market survey report of October 2010 indicated 150,000 loyal customers. Surprisingly, while the individual companies continue to register increased sales volume in terms of telephone lines, the usage period for telephone lines acquired is less than five months, meaning that customers only respond because of the short term rewards that come from different promotional offers. Once the offer ends, the customer will switch to another network with better rewards and promotions. This leaves very small numbers of loyal customers on each individual network.

With increased promotional expenditure, cut throat competition as well as low consumer loyalty, there is a need to explore non-commercial strategies to increase consumer’s loyalty which will change the market positions of each individual mobile phone company. In an ever expanding and rapidly changing environment, companies cannot maintain attitudes characterized by attracting customers or expanding in new markets. The key success factor to survive in mature markets relies on sustaining long-term relationships with stakeholders (Garcia De Madariaga and Valor, 2007). The challenge all marketers face today is in finding ways of increasing customer loyalty and retention. Transforming indifferent customers into loyal ones and establishing a long term relationship with customers is critical for organizational success (Tuli et al., 2007). To compete in such over-crowded and interactive market place; marketers are forced to look beyond the traditional 4Ps of marketing strategy, which are no longer enough to be implemented for achieving competitive advantage.

While such market-led approaches have not significantly made a positive impact on consumer trust and satisfaction which has led to low customer’s retention and loyalty as indicated in aforementioned analysis, an investment into more customer-led approaches like relationship marketing and word of mouth would become a better alternative means for organizations to build strong and ongoing associations with their customers. The Mackinsey group in 2009 reported that, relationship marketing and word of mouth seek to acquire and retain customers by providing good quality customer services, and therefore has become one of the keys to success in acquiring strong competitiveness in the present markets because of their implications for access to markets, generation of repeat purchase, creation of exit barriers, and the view that it benefits all parties. The report further says that in the mobile phone market, the pass on rates for the key positive and negative word of mouth can increase a firm’s market share by as much as 10% or reduce it by 20% over a two-year period, all other things being equal. Relationship marketing is concerned with building customer’s loyalty by providing value to all parties involved in the relational exchanges (Peng and Wang, 2006) while customer’s loyalty is the final goal of relationship marketing. In an environment where there has been a reduction in consumer’s trust as well as a decrease in television, Radio and outdoor advertising, Word of Mouth offers a way to obtain a significant competitive advantage (International Word of Mouth Marketing Conference, 2005).

HYPOTHESES

Relationship marketing is referred to as a process of attracting, maintaining and enhancing relationships with customers and stakeholders (and, when necessary, terminating them) at a profit, so that the objectives of the parties involved are achieved through mutual exchange and the fulfillment of promises (Zineldin and Philipson, 2007; Das, 2009; Gronroos, 1994). Relationship marketing is one of the fastest growing areas in marketing research among business organisations. It is focused on improving the relationship with customers, as well as on maintaining and constructing their loyalty. Relationship marketing takes advantage of the generation of value for one given customer and attempts to initiate and maintain a long term relationship with him/her based on the better results obtained by the organizations (Gounaris et al., 2010). Marketing is shifting from a push to pull model and consumers are taking more control over what they view and how they view it. This shift in the marketing landscape means consumers are less likely to respond to mass media marketing strategies. To address this challenge, companies are turning to relationship marketing in order to develop more creative, innovative and cost-effective strategies for retaining and building loyalty with their customers (Eisingerich and Bell, 2007).
Relationship marketing brings stability and decreased uncertainty to the company by acting as a barrier to competitor entry and by keeping a stable, loyal and solid base of customers (Alexander and Colgate, 2000). For any business to maximize its long term performance in such aspects as customer’s retention and loyalty, it must according to Sin et al. (2005) build, maintain and enhance long term and mutually beneficial relationship with its target customers. The following hypothesis can therefore be formulated:

**H1:** Relationship marketing has a direct and positive relationship with Consumer loyalty.

Relationship marketing encourages post-purchase communication of the positive impressions of a company or its products among consumers, who consequently recommend these products and influence future buying decisions (Woisetschläger et al., 2011; Ladhari, 2007; Hong et al., 2011; Babin et al., 2005). Therefore, well maintained relationships with customers can therefore become effective promoters of the products and services of a given organization through positive word of mouth communication. Woo et al (2010), from 27 luxury hotels in Seoul-South Korea concluded that greater guest confidence and communication results in higher relationship quality which results in greater guest commitment whose end result is repeat purchase fuelled by positive word of mouth. This means that the effective use of relationship marketing strategies can increase repeat purchase and accelerate positive word of mouth. Hakanson and Snehota (1995) urges that relationship marketing contributes more to word of mouth communication. This is because if companies do improve on their trust with consumers, put up reliable communication mechanisms between the firm and its stakeholders, reciprocates to its customers, and fully services to satisfy its clients, and then customers and other stakeholders will not stop talking positively about the services and their service experience amongst each other. The long term success of a brand/product is not based on the number of consumers that buy frequently from the company but those whose positive word of mouth is so strong to spread to others and establish a strong business relationship between the new customes and the service provider (Zeithaml, Valarie A.; Rust, Roland T.; Lemon, Katherine N.).

**H2:** There is a direct and positive relationship between relationship marketing and word of mouth.

One of the reasons that customer loyalty is considered a valuable service is the idea of word of mouth marketing. Since word of mouth is considered one of the strongest marketing methods, this empirical test proves that word of mouth helps acquire and maintain customer loyalty and enlarge their existing consumer base. Indeed, Brown et al. (2005) in their empirical study on word of mouth facets in restaurants confirmed that there is a strong relationship between word of mouth and customer’s loyalty. In their study, they found out that, positive word of mouth was directly correlated to customer’s repeated purchase which transformed into consumer loyalty. They were also quick to add that the effect of positive or negative word of mouth on consumer’s loyalty differed substantially from industry to industry. Whereas the relationship between word of mouth and customer’s loyalty was proved to be positively strong in restaurants, this positive relationship could not be guaranteed in other business areas. However, the positive and strong relationship has also been empirically tested in this study. Liyander and Stradvick (1995) recommends that developing a positive word of mouth with customers is important as it contributes to removing doubt hence ensuring loyalty. This view is as well shared by Hakanson and Snehota (1995) who recommended that word of mouth may function as switching barriers by causing customer excitement thereby preventing the customers from breaking the relationship even when the quality is lower compared to others service providers. It has been suggested by Ndubisi (2004) that loyal customers are valuable communicators of favorable word of mouth about organizations or products to which they feel loyal. As evangelists, they can attract new customers for the organization and may even increase their own consumption collectively to the benefit of its sales, revenue and profits. Loyalists can also serve as useful sources of new product ideas.

**H3:** Word of mouth communication is positively related to consumer loyalty.

DATA COLLECTION METHODS AND RESEARCH METHODOLOGY

This study used a cross-sectional survey design. It focused on customers randomly selected from five major mobile phone companies in Uganda. Quantitative research methodology approach was used. The target population was identified as mobile phone users in Uganda. According to Uganda Bureau of Statistics abstract for June 2011, the mobile phones users were 1,659,600. Sample sizes of 400 customers were selected based on Krejcie and Morgan (1970)’s tables. Primary data was obtained through self-administered questionnaires and personal interviews with the respondents. Secondary data was collected from a review of relevant literature from academic journals, market survey reports from Uganda Communications Commission (UCC), Ministry of Information and Communications Technology (MOICT) and other independent bodies. Simple random sampling was used in the study which gave an equal chance of each member within a sample to be selected hence ensuring objective representation. Relationship marketing constructs were measured by the use of an instrument developed by Sharma and Patterson (2000), Pressey and Mathews (2000), Sin et al. (2002). These measures relationship marketing on commitment, communication, trust, reciprocity and satisfaction. Consumers were required to express their relationship encounters with the mobile phone companies they are currently using. Word of mouth was measured by Bado (2009).
This tool looks at a holistic extant measure of word of mouth. Customer’s loyalty was measured using tools developed by Anderson et al. (1994). This looked at dimensions of repeat purchase, referrals and retention. The Cronbach’s coefficient showed satisfactory alpha values of 0.78 indicating that the instruments used were good.

RESULTS

Relationship marketing and word of mouth

The findings revealed a significant positive relationship between relationship marketing and word of mouth ($r=0.460^{**}$, $P=0.000<0.01$). Relationship marketing and its constructs (trust, commitment, communication, reciprocity and satisfaction) were significantly related to word of mouth (Table 1). Satisfaction as a relationship marketing construct contributed more to the strength of relationship between relationship marketing and word of mouth. This was followed by communication, reciprocity, trust and commitment. This was consistent with earlier researchers (Hakanson and Snehota, 1995), Woo et al (2010).

Word of mouth and customer loyalty

Findings in this study revealed that a significant positive relationship exists between word of mouth and customer’s loyalty ($r=0.594^{**}$, $P=0.000<0.01$). This implies that positive word of mouth in practice, will lead to customer’s loyalty. This was consistent with earlier researchers like Brown et al. (2005) and Lyander and Stradvick (1995), Mazzarol et al. (2007) all confirmed that word of mouth and customer’s loyalty were positively related.

Relationship marketing and customer’s loyalty

According to the findings, all the variables indicates that a significant positive relationship existed between relationship marketing ($r=0.526^{**}$, $P=0.000<0.01$), and customer’s loyalty (Table 1). This means that customers will be loyal if there is trust, commitment, communication, reciprocity and satisfaction between them and the service providers. Similar studies like (Bell and Eisingerich, 2007; Alexander and Colgate, 2000, Mahajan et al 2009) have all yielded similar results.

Respondents of different sexes did differ significantly on their perceptions about trust ($t=2.762$, sig=0.000). Female respondents had the highest mean score (3.96) as compared to their male counterparts. This means that women are more likely to trust mobile telephone service providers than men. This is consistent with Kahraman and Ndubisi (2005) who argued that women tended to be more trust worthy to their service providers than men.

Respondents of different marital status differed significantly on their perceptions about trust ($t=0.205$, Sig=0.873) and word of mouth ($t=0.779$, Sig=0.437). Single respondents had the highest mean score of 3.82 for trust and 3.56 for word of mouth (Nelson, 2006).

Conclusions

In general, this study looked at relationship marketing, word of mouth and customer’s loyalty in selected mobile telecommunication companies in Kampala. In particular, the study examined the relationships between the study variables. All the relationships were strongly significant positive related. It is evident that from the study that relationship marketing when emphasized in the trading relationships, word of mouth will be spread widely about the products/services which will lead to repeated purchase hence consumer’s loyalty. Therefore, the greater the relationship marketing, the stronger the positive word of mouth and the higher the consumer loyalty levels.

This research demonstrates that businesses operating in an intensely price based competitive environment, dependent on high economies of scale and with low levels of staff-customer interaction are bound to suffer shocks in their market positions and profitability unless huge investments are made in more relational strategies like building trust, commitment, communication, reciprocity and satisfaction as well as encouraging and strategizing on spreading positive word of mouth by the satisfied customers to others.

RECOMMENDATIONS

Mobile phone companies should endeavor to create lock in systems, switching barriers in their trading relationship with consumers. Through working on several relationship parameters and ensuring a strong positive word of mouth, customers will find it difficult to keep on switching from one network to another. They will be locked onto a single network which will increase profitability of the company over time due to the loyalty of such customers. Lockin systems and switching barriers will always make it difficult, expensive and risky for customers to change from one network to another.

In order to increase consumer’s loyalty, mobile phone companies should build collaborative relationship with customers that rely on quality which are characterized by high levels of trust, commitment, communication, reciprocity and satisfaction. This will encourage repeat purchases and finally customer retention. Consumers have always valued opinions expressed directly to them. Marketers may spend millions of dollars on elaborately conceived advertising campaigns, yet often what really makes up a consumer’s mind is not only simple but free.

Rapid improvements in information technology to allow telecom companies and their frontline staff to track
customer characteristics more easily and respond with appropriate marketing offers. Businesses are no longer restricted to marketing at segment level, but can now tailor offers to individual customers. Mobile telecom companies in Uganda can also benefit from new information technologies to develop an image of each customer behavior and responding with the marketing offers that correlates with the consumers preference.

It is very important that both management and marketing staff understand the dimensions of relationship marketing as these will ultimately underpin the strength of relationship development between service provider and customers (Ward and Dagger, 2007). In this competitive environment, understanding the nature of these relationship marketing constructs is vital for implementing effective relationship marketing strategies. Organisations must undertake relationship marketing activities at an appropriate level to remain competitive and those different levels applied to different services. This study suggests that marketers should not expect customers’ relationships to strengthen automatically due simply to duration or frequency of contract. The strategic factors affecting relationship marketing or increasing relationship strength in terms of competitive advantage-differentiation, key industry success factors, market share and increased profitability must be accounted for in in-service quality. Relationship marketing forms the bridge between the organization and its customers within the organization using it in reinforcing linkages, responding to customer needs and serving market micro-segments (Berry, 2002).

**REFERENCES**


<table>
<thead>
<tr>
<th>Correlation</th>
<th>Relationship marketing</th>
<th>Word of mouth</th>
<th>Customer loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship marketing</td>
<td>1.000</td>
<td>.460**</td>
<td>.526**</td>
</tr>
<tr>
<td>Word of mouth</td>
<td></td>
<td>1.000</td>
<td>.594**</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td></td>
<td></td>
<td>1.000</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed).
Zineldin M, Philipson S (2007) "Kotler and Borden are not dead: myth of relationship marketing and truth of the 4Ps", J. Consumer Mark. 4:229-241