

## **The Impact of Customer Retention Strategies in the South African Cellular Industry: The Case of the Eastern Free State.**

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### **Abstract**

*In recent years, the South African cellular industry has registered a tremendous rise in number of subscribers, with some networks experiencing more than 30% increase in subscriptions. This research study explores the strategies that have been employed by the cellphone companies in South Africa in order to retain subscribers. While previous research has focused on customer retention strategies that are employed across different service industries this study evaluates the retention strategies that have been adopted by the cellular industry, where players are battling to retain customers or recruit new ones. The evaluation is based on the perceptions of the customers of the five cellphone network providers that operate in South Africa. The paper concludes that though there are many customer retention strategies that are employed in the South African cellular industry, the most effective are those related to quality of service, affordability of service and provision of customer support services.*

**KEY WORDS:** Cellular industry; Customer satisfaction; Customer retention strategies; Perceived value; defection; Prices, Service quality; South Africa

### **INTRODUCTION**

Today's competitive environment maximizes customer retention probability so as to sustain the company's protection against inroads competition. Customer retention is needed to achieve this goal. Ramakrishnan, (2006:1) defines customer retention as the marketing goal of preventing customers from going to the competitor. Customer retention is the way in which organizations focus their efforts on existing customers in an effort to continue doing business with them (Mostert et al., 2009:120). However, customer retention can also mean the number of customers who stay with the provider in the course of an established period, such as a year (Dawes, 2009: 232). Customer retention is a key factor in determining the success of businesses today. Fluss (2010) notes that competitors are always on the lookout to steal customers through better deals. Fluss has observed that annual customer attrition rates range from 7% in industries that have high exit barriers such as banking and insurance, to almost 40% in the mobile phone industry. It can, therefore, be concluded that customers in the cellular industry keep on switching network providers for better deals.

Customer retention has a direct impact on long term customer lifetime value, which is a more profitable avenue for firms that seek to pursue growth and sustainability or those that seek to protect themselves from market shrinkage resulting from a contracting economy (Gee et al., 2008). Supporting this argument, Lombard (2009) notes that today the pressure on companies to retain customers is fuelled by the market where customer acquisition is slow. Customer retention is important when loyalty is decreasing and sales cycles are aggravating the business environment. Under these circumstances, losing an important customer to a competitor would impact significantly on the organisation's profitability and growth.

Existing literature on the customer retention strategies employed within the service sector worldwide indicates that different service industries adopt different customer retention strategies. In the banking industry, for instance in New Zealand, there has been a reevaluation of customer retention strategies in order to limit defection through enhancement of professionalism. Research in New Zealand showed that younger customers have a higher tendency of switching banks in search of greater convenience. In the case of the USA the customer retention strategies that were adopted by banks have led to new technological innovations, including the provision of online banking services. Research in the South African fast foods industry has shown similar results. In the South African fast foods industry, customer retention has tended to focus on the evaluation of customer- management relationships as the major strategy for retaining customers.

While significant research has been done on a wide range of service industries, as highlighted above, evidence from existing literature on this subject suggests that similar research has not been done in most developing countries. This is particularly so with the cellular industry in South Africa. It is for this reason that the current research study focuses on customer retention strategies that are employed in this industry. There has been a remarkable increase in subscriptions in the South African cellular industry, with Cell C registering a 34% increase in subscriptions between 2007 and 2008. Previously, Vodacom and MTN were regarded as the only giants in the cellular industry, but currently, Cell C is growing twice as fast as the two giant networks. There is a possibility that the 34% increase that Cell C has recorded in subscriptions is partly resulting from subscribers who are switching from Vodacom and MTN. Rich (2000) argues that for an organization to be attractive to customers who switch to its products there is always a reason that influences the customer's decision. Some researchers have argued that customer defection is indirectly seen in some organizations, as customers do not completely withdraw from their relationship with the organization but rather become inactive (Karamura et al., 2005).

The purpose of the current study is to investigate the customer retention strategies that different players in the cellular industry in South Africa employ and evaluate the effectiveness of these strategies. In line with this aim the study seeks to:

- identify the customer retention strategies that are employed by the cellphone network providers in South Africa,
- evaluate the effectiveness of the strategies
- explore the benefits and setbacks associated with different customer retention strategies and determine the impacts of these benefits and setbacks on the South African cellular networks, and
- recommend the best strategies that work for the South African cellular industry

The remaining part of the paper includes the literature that was reviewed in this study, the methodology that was employed in the study, the results of the study, as well as a discussion. Some recommendations and conclusions are drawn on the customer retention strategies that are pursued by players within the South African cellular industry.

#### ***CURRENT RETENTION STRATEGIES FOR THE CELLULAR INDUSTRY***

At global level, considerable research has been done on the cellphone industry, especially in countries like Austria, UK, Spain, Italy, Greece and Pakistan. However, most of this research has tended to focus on service satisfaction and service quality. For instance, studies that were conducted in Greece, where the mobile cellphone market has reached its mature stage (Blery et al., 2009:30), revealed that service quality perceptions positively influenced behavioural intentions and willingness by customers to recommend cellphone networks to prospective customers. These studies also indicated that service quality is an important factor, which contributes to the organization's ability to retain loyal customers, and thus contributing to improved organizational performance. In addition the studies showed that prices were negatively associated with repurchase intentions. The aim of these studies was to investigate whether service quality and perceived price had any influence on customers repurchasing intentions.

Similar studies have been done in Pakistan. Research on customer retention strategies in the Pakistan cellular industry is arguably more advanced compared to that undertaken elsewhere in the developing world, where only little research has been done on this subject. Based on existing literature, Pakistan is the only country where intensive research has been conducted around the topic and is considered as the leading country with regard to research on customer retention strategies in the cellular industry. Studies in Pakistan revealed that between 2003 and 2006 the number of cellphone subscribers in this country increased by 150%. The number of subscribers rose from 0.6 million in 1995 to over 98 million in 2009, while the cellular franchises increase from 618 to 1748 between 2003 and 2009 (Khan, 2010:164).

The studies also revealed that the high penetration rate of the cellphone industry in Pakistan has shifted the focus of the mobile industry to network coverage, upgrading of networks, service quality and competitive pricing, thus attracting and retaining customers, in some cases even exceeding customer expectations regarding service quality, and consequently staving competition. A study that was conducted by Iqbal et al., on cellphone services in Pakistan reported that cellphone service providers should keep their promises with customers and provide services that are based on customer perceptions rather than customer satisfaction, as that will lead to high customer loyalty ([www.wbiconpro.com](http://www.wbiconpro.com)).

A comparative study on churn management in the Pakistan cellular industry was based on two network providers namely, Ufone and Telenor. The findings of the study showed that Ufone on the one hand depends on customer retention on individual basis and relies mainly on loyalty enhancement programs. The programs are based on provision of incentives such as talkies packages and zero line rent. Telenor on the other hand focuses on customer acquisition and infrastructural development, as well as use of specialized software to track customers' history through outsourced surveys that are conducted periodically to measure service levels and customer perceptions (Jahanzeb & Jabeen, 2007:10). The main finding of the study is that Ufone outmatched Telenor in implementing effective customer retention strategies.

### **RESEARCH METHODOLOGY**

This study involved an empirical investigation and relied on primary data that were collected using a set of quantitative and qualitative methods. This two-pronged approach, generally referred to as the mixed method approach or triangulation, involves a combination of qualitative and quantitative research approaches, techniques, methods, language or concepts in a single study (Johnson & Onwuegbuzie, 2004:17). The research was conducted through street surveys that were conducted on cellphone users who were found in two randomly selected towns in the eastern Free State, namely Phuthaditjhaba and Bethlehem. Computer generated random number tables were used in the selection of the two towns. A questionnaire was used to collect the data. The New Dictionary of Social Work (1995:51) defines a questionnaire as a set of questions on a form, which are to be completed by respondents in respect of a research project. In this study, questionnaires were used due to their cost effectiveness, and also due to the fact that they are easy to analyze. The added advantage was that most respondents were already familiar with questionnaire surveys. This is because in South Africa, the collection of household census data is done through such surveys. There were other reasons for using questionnaires as well. First, questionnaires offer respondents greater anonymity, thus encouraging respondents to disclose their true feelings and attitudes more readily. Second, the use of questionnaires can reduce bias.

Fieldworkers were hired to collect the data from cellphone users of all age and racial groups, as well as socio-economic backgrounds. The aim was to target all cellphone users, regardless of their demographic characteristics. Prior to the survey fieldworkers were trained on how to use the questionnaire. A pre-test survey was done to check whether the field workers were clear on how the questionnaire should be completed. The ethical issues that were considered in this study include informed consent and prevention of violation of the privacy of respondents. Accordingly, respondents were informed of their right to voluntary participation, the objectives of the study, as well as the procedures of filling in the questionnaires. Hakim (2000:143) advises that informed consent is a necessary condition rather than a luxury or an impediment. Strict confidentiality was assured by maintaining the anonymity of the respondents.

Though a total of 500 questionnaires were distributed only 429 questionnaires were completed and returned. Statistical Package for Social Scientists (SPSS), version 17.0, was used for data analysis. Kerlinger (1986: 223) defines analysis as categorizing, ordering, manipulating and summarizing data to obtain answers to the research questions. Kerlinger (1986) further explained the purpose of analysis as the reduction of data to an intelligible and interpretable form so that the relations of research problems can be studied and tested and conclusions drawn from the data. SPSS, in particular ANOVA and the calculation of frequency values, provided the best way of doing this. In addition, some of the data was analyzed qualitatively as the questionnaire that was used also contained open ended questions.

The questions whose responses were coded and analyzed by ANOVA are as follows:

I am happy with the service provider because of its network coverage

- Agree 1
- Disagree 2
- Strongly agree 3
- Strongly disagree 4

The customer care services are helpful and supportive in handling queries.

- Agree 1
- Disagree 2
- Strongly agree 3
- Strongly disagree 4

The prices are reasonable as they carry a lot of incentives e.g. free minutes and talking points.

- Agree  1
- Disagree  2
- Strongly agree  3
- Strongly disagree  4

The network provider keeps in touch with its customers by providing them with information on new developments.

- Agree  1
- Disagree  2
- Strongly agree  3
- Strongly disagree  4

My network keeps its promises.

- Agree  1
- Disagree  2
- Strongly agree  3
- Strongly disagree  4

My network offers value for money.

- Agree  1
- Disagree  2
- Strongly agree  3
- Strongly disagree  4

Are the adverts clear for you to understand?

- Agree  1
- Disagree  2
- Strongly agree  3
- Strongly disagree  4

Do you think the adverts communicate the uniqueness of the product?

- Agree  1
- Disagree  2
- Strongly agree  3
- Strongly disagree  4

Do you think the adverts clarify the benefits of the product?

- Agree  1
- Disagree  2
- Strongly agree  3
- Strongly disagree  4

Do you think the adverts emphasize on the slogan of the company?

- Agree  1
- Disagree  2
- Strongly agree  3
- Strongly disagree  4

**RESULTS**

Results from this study indicate that most of the cellphone users are young people in their mid-twenties, with 51.2% of them being females. The study reveals that most of the cellphone customers are on prepaid rather than contract accounts. Only 14.6% of the respondents are employed. The other important issue that has been revealed by this study is that most respondents use MTN (50.1%) followed by Vodacom (35.9%). Respondents cited a number of benefits that they get from their networks. The number and percentages of the respondents who cited these benefits are shown in Table 1.

Table 1: The number and percentages of respondents who derive benefits from their cellphone network providers

Type of benefit	Number of respondents	% of total
Cellphone banking	218	46.1
Talking points	258	54.6
Bulk purchases	90	19.0
Callbacks	167	35.3
Balance checks	132	27.9
Airtime easily available	139	29.4

N= 429

As shown in Table 1, with the exception of talking points, the number of respondents who benefit from their networks is less than 50%. This suggests that the majority of respondents do not consider cellphone banking, bulk purchases, callbacks, balance checks and easy availability of airtime as benefits at all.

The level of customer satisfaction varied enormously amongst cellphone network providers, ranging from 62.6% for Vodacom to only 4.9% for 8.ta (Table 2). This is because 8.ta is only a newcomer to the cellular industry, while Vodacom is already well established. Interestingly, MTN, which has the largest market share in the industry, has the second lowest level of satisfaction, suggesting that customer defection could threaten the viability of this company.

Table 2: Number and percentage of respondents who are satisfied with their networks

Network provider	Number of respondents who are satisfied	% of total
Vodacom	296	62.6
MTN	74	15.6
CellC	77	16.3
Virginmobile	103	21.8
8.ta	23	4.9

N= 429

The relationship between businesses and their customers is the linchpin of business viability. When asked which best methods could be adopted by cellphone network providers to maintain an amicable relationship with their customers, the majority of respondents considered the quality of service and customer satisfaction as the best methods, as shown in Table 3. The highest number of respondents singled out quality of service and customer satisfaction as the most critical factors that affect the quality of the business-customer relationship.

Table 3: Respondents who reported satisfaction with network provider

Network provider	Number of respondents who are satisfied	% of total
Service quality	306	64.7%
Customer satisfaction	253	53.5%
Incentives	93	19.7%
Inform customers about new product development	134	28.3%
Lower their switching costs	77	16.3%
Visit customers to find out whether the network is performing as promised	76	16.1%
Learning about the culture of customers	69	14.6%
Reasonable prices	171	36.2%
Handling complaint	111	23.5%

N= 429

However, as shown in Table 3, customers are sensitive to prices, since a significant proportion of the respondents consider reasonable prices as an important factor in determining favourable customer relationships.

By charging high prices networks might induce their customers to switch to their competitors, particularly where customers do not have a steady source of income. The results from ANOVA are presented in Table 4. As noted in Table 4, with respect to effectiveness of advertisements done by different network providers, at 95% confidence interval ( $p = 0.05$ ), significant differences exist between the perceptions held by customers of different networks. Similarly, at 90% ( $p = 0.1$ ), the perceptions held by the customers of different network providers are significantly different with respect to the handling of queries and costs incurred when customers switch from one network to another. It can be argued that apart from these differences there is homogeneity in the perceptions that are held by the customers of the cellphone networks that operate in the eastern Free State.

**Table 5: ANOVA results**

Question	Parameter	Network selected (Q16)				ANOVA results		
		Vodacom	MTN	CellC	Virginmobile	DF	F Value	Pr > F
Question 17	Mean	3.150	3.197	3.063	3.053	(3, 418)	0.840	0.474
	Std Dev (n)	0.484 (153)	0.602 (218)	0.619 (32)	0.848 (19)			
Question 18	Mean	3.188	3.257	3.156	2.895	(3, 419)	2.110	0.098*
	Std Dev (n)	0.557 (154)	0.678 (218)	0.515 (32)	0.809 (19)			
Question 19	Mean	3.078	3.206	3.129	2.947	(3, 417)	1.910	0.127
	Std Dev (n)	0.58 (153)	0.643 (218)	0.428 (31)	0.97 (19)			
Question 20	Mean	3.162	3.092	3.125	3.000	(3, 418)	0.640	0.588
	Std Dev (n)	0.588 (154)	0.602 (217)	0.554 (32)	0.882 (19)			
Question 21	Mean	3.163	3.128	3.156	3.105	(3, 418)	0.120	0.948
	Std Dev (n)	0.59 (153)	0.66 (218)	0.448 (32)	0.737 (19)			
Question 22	Mean	2.935	2.930	2.833	2.947	(3, 412)	0.200	0.893
	Std Dev (n)	0.666 (153)	0.664 (214)	0.592 (30)	0.97 (19)			
Question 26	Mean	3.097	3.119	3.094	2.789	(3, 419)	1.640	0.180
	Std Dev (n)	0.569 (154)	0.633 (218)	0.466 (32)	1.032 (19)			
Question 27	Mean	3.148	3.169	3.125	2.889	(3, 420)	1.340	0.260
	Std Dev (n)	0.494 (155)	0.593 (219)	0.492 (32)	0.963 (18)			
Question 28	Mean	3.007	3.023	2.933	2.722	(3, 411)	3.240	0.022**
	Std Dev (n)	0.407 (152)	0.404 (215)	0.365 (30)	0.575 (18)			
Question 29	Mean	3.113	3.075	3.167	2.833	(3, 406)	1.580	0.193
	Std Dev (n)	0.512 (150)	0.546 (212)	0.531 (30)	0.985 (18)			
Question 31	Mean	1.252	1.215	1.094	0.842	(3, 421)	1.960	0.120
	Std Dev (n)	0.778 (155)	0.745 (219)	0.641 (32)	0.602 (19)			
Question 34	Mean	2.340	2.105	2.231	2.412	(3, 371)	2.450	0.063*
	Std Dev (n)	0.827 (141)	0.864 (191)	0.815 (26)	0.712 (17)			

\* Significant at the 0.1 level \*\* Significant at the 0.05 level

Another important issue that was revealed by this study is that access to information about products plays a central role in customer retention. When asked about where they learnt about the cellphone network they used, the majority of the respondents indicated that they got information about their network from television (Table 5), even though many respondents got this information from more than one source.

Table 5: Number of respondents who got information about their network from different media

Media	% of respondents who got information about their network from media	% of total
Television	341	72.1%
Newspaper	112	23.7%
Radio	147	31.1%
Billboards	69	14.6%
Internet	42	8.9%

N= 429

There is a close relationship between the number of respondents who got information about their networks from specific media types and the number of respondents who have regular access to those media, with a correlation coefficient of 0.98. Two main conclusions can be drawn from this relationship. First, television is the dominant media from which cellphone customers get information about their networks. This suggests that cellphone network providers in South Africa would be most effective in reaching the target market by using television and radio for advertising. Consequently, any information that is meant to enhance customer retention should be advertised through these media. Second, internet is the least accessible, and therefore the least effective media for advertising information that is meant to enhance customer retention. Unlike television and radio, that are normally household based media, access to internet is individually based and only those who have a stable source of income use it. Overall, electronic media is more effective in disseminating information for customer retention than other media.

### **DISCUSSION**

This research study reveals that cellphone network companies in South Africa provide their customers with a number of “benefits” in order to retain them. These include cellphone banking, talking points, bulk purchases, call backs, balance checks and availability of airtime. The results of this study indicate that for cellphone networks to determine if their customer retention strategies are effective they need to check if these strategies are appreciated by their customers. For instance, cellphone networks that are spending money on improving balance check facilities might shift their future investments to cellphone banking because balance checks are not really viewed as a benefit by cellphone users. Thus, cellphone network providers need to fully explore the benefits and setbacks of individual retention strategies. The results also demonstrate that, out of the six benefits explored and tested only two are the most viable in retaining customers.

As noted above, the perceptions held by customers about the quality service offered by cellphone networks are hardly influenced by the benefits that cellphone companies purport to offer. This means that in the cellular industry investing in the provision of these benefits may not directly add value to customer retention. However, customer retention remains an important element of business performance in the industry. Lombard (2009:72) argues that nowadays the organization sees customers as valuable assets rather than just sources of revenue that need to be nurtured and protected for exploitation. Perception plays an important role in determining the value that customers attach to the services rendered by players in the cellular industry. Perception is the process by which an individual selects, organizes, and interprets the information he or she receives from the environment (Sheth and Mittal, 2004:129).

Findings from this study demonstrate that customers’ perceptions are central to the evaluation of benefits provided by the cellphone companies, indicating that service experience is a subjective personal reaction that is based on the feelings that are felt by customers when consuming or using a service (Chen and Chen, 2009:2). Cook (2000:5) posits that every service experienced is sent into the mind of a customer, while Petzer and Steyn, (2006:281) warns that service failure leads to a negative customer experience, which in turn results in an unfavourable perception of the organization by the customer. The customer’s perception of quality has a significant influence on the perception of value (Terblanche and Boshoff, 2010:2). Since customers perceive service quality through every aspect of their contact with the company, attention should also be paid to the service delivery system (Payne et al., 1995:183). However, customers can still defect even when satisfied.

This is due to reasons such as another supplier’s marketing competitiveness, or customers being persuaded by friends, or the desire to test something new or mere coincidence (Gummesson, 1999:184). Evidence from this research clearly shows that in the eastern Free State the capacity of cellphone companies to retain customers is based not only on perceived value but also on the company’s competitive marketing capacity. Chen and Chen (2009:4) define perceived value as the customer’s overall assessment of the utility of a product based on the customer’s perception of what is received and what is given. They also argue that a perceived value is a better predictor of repurchase intentions than either satisfaction or quality. For the perceived value that is associated with the benefits offered by cellphone companies to play a more effective role in customer retention these companies need to focus on the major retention drivers, including service quality, customer service and affordability. As noted above, the established fact that customers are prepared to pay higher prices for quality instead of low prices for compromised quality (Onyaso et al, 2008:3) may not wholly apply in the eastern Free State, suggesting that the key drivers cited above need to be understood within the context of the prevailing socio-economic environment.

Affordability appears to be a more important dynamic than service quality *per se*. This is due to the fact that the eastern Free State is characterized by some of the poorest regions in the Free State province. This is particularly the case with the Maluti-a-Phofung, where Phuthaditjhaba is located. The region is characterized by poverty and high unemployment rates, both of which are a setback to customer retention. The fact that about 85% of the cellphone users, who took part in this study, were unemployed provides a strong case to argue for tariff reduction among cellphone companies.

ANOVA showed that though customers in the eastern Free State generally perceive the services provided by the five different networks to be the same they notice significant differences between the effectiveness of the marketing strategies employed by different service providers. Therefore, in order to retain customers the cellphone networks need to effectively advertise their service and provide customer support services, as well as provide information about the level to which their products are affordable. In this regard, electronic media seem to be more effective than other media. Under these circumstances effective use of advertisement and promotional schemes can enhance customer loyalty and customer retention or even win back lapsing customers. Bogomolova (2009:2) suggests that returns on investment will be higher if organizations focus their marketing capabilities on retaining lapsed customers, while Stone et al., (2000:106) point out that customer loyalty is the basis for strengthening the purchasing behaviour and state of mind of frequent customers. Effective marketing strategies can enhance customer loyalty and reduce defection, which is the transfer of customer's brand loyalty to another supplier (Lovelock and Wright, 1999:125).

### CONCLUSION

The purpose of this research study was to identify the customer retention strategies that are employed by the cellphone network providers in South Africa and to evaluate the effectiveness of the strategies from the viewpoint of the customers. The study explored the benefits and setbacks associated with different customer retention strategies and determined the impacts of these benefits and setbacks on the South African cellphone networks with the view to recommend the best strategies that work for the South African cellular industry. A number of important conclusions have emerged from this study. First, findings of the study indicate that though there are many retention strategies that have been adopted by cellphone network providers in South Africa, the most effective are quality of the service provided, provision of customer support services and the capacity of the network to provide the services at an affordable price. Second, as a result of high levels of poverty and unemployment within the eastern Free State, cellphone companies should consider affordability of their products as an option for customer retention. Though provision of quality services and benefits is necessary it is not a sufficient condition for customer retention. Third, it can also be concluded that in the eastern Free State effective customer retention can be better achieved not just by enhancing the quality of the service provided but through effective marketing. ANOVA indicates that in the eastern Free State the perceptions of customers of the five cellphone companies are significantly different regarding the effectiveness of the marketing strategies employed by different service providers.

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