

CHAPTER I

INTRODUCTION

1.1. Object Overview

Mobile Service Provider (MSP) is a Company that offers transmission services to user of wireless devices such as smartphones, and tablet PCs through radio frequency signals or RF rather than end-to-end wire communication (Tech Target, 2011). A mobile service provider sometimes called as a wireless service provider (WSP), mobile carrier, or wireless carrier (Tech Target, 2011).

Currently in the 21st Century we now live in, ICT or Information and Communications Technology is a tool which had been a part of people's life for quite some time therefore cannot be separated from public life as it has become one of the essentials parts on people's daily lives such as for example but not limited to the capability to communicate without the limitation of time and space, the capacity to gain access to the latest and up to date information on a whim, and etc (Rayana, 2015).

By this year according to Worldometers.info Indonesia current population is currently estimated around $\pm 274,750,328$ (Worldometers.info, 2020), and according to Statista.com current mobile phone user in Indonesia by 2019 is estimated around ± 193.4 million (Statista, 2015). Owning a mobile phone was an expensive affair in the early days, because it was a status symbol and people were in the minority to afford a mobile phone, now it is neither a status symbol nor luxury electronic gadget. It is a basic need of a person. Everyone is so attached to their mobile phones that it is difficult to pull on without it. Without it, people may find themselves incomplete, in any case that some may forget to carry it their whole day exercise of business, and personal or social may get disturbed (Ian Ball, n.d.). As the numbers of users keeps growing by the years the Mobile Service Provider operator in Indonesia actually has decreased in few past years. Now Mobile Service Provider in Indonesia is dominated by four big companies which are Telkomsel, Indosat Ooredoo, XL Axiata, and 3 (Tri).

As the number of the available Mobile Service Provider in Indonesia decreases it makes the competition much tighter and competitive, Telkomsel for one is one of the providers in Indonesia whose has the most subscribers, which followed by Indosat Ooredoo at the second place, 3 and XL Axiata at third and fourth places respectively (Buol, 2017).

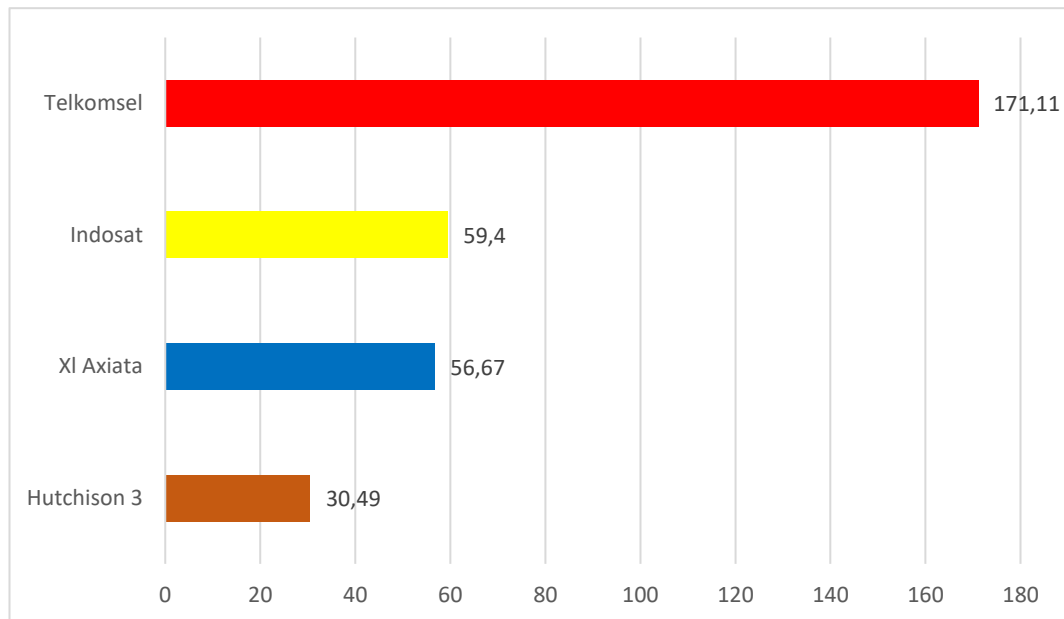


Figure 1.1. Breakdown of the mobile subscribers in Indonesia in 2019 by service provider (in millions)

Source: Statista, 2020

As shown in the data above in 2019, Telkomsel's held the highest subscriber count amounted to approximately 171 million which is significantly more than its rivals, Indosat which stands at 59 million, XL Axiata amounted at 56 million, and Hutchison 3 at 30 million.

According to Harpur it was reported the two providers, Telkomsel and XL Axiata both have networks which covers over more than 70% of the country by 2017. By the last decade Indonesia's mobile market has displayed solid growth over 2011 to 2016 with penetration increasing from 103% in 2011 to 148% in 2016. This strong growth has been driven by a major increase in subscribers from the market leader Telkomsel, followed by increases from Indosat, and 3 Indonesia. Growing use of mobile broadband has been the major driver. Mobile broadband subscribers

have grown significantly over the years in Indonesia and the penetration rates now stands at 50% of the overall population. Growth is predicted to taper off over toward 2021 and the market has now reached a higher state of maturity (Harpur, 2017). A user of mobile Internet is not only the adopter of a mobile technology but also a subscriber of a mobile Internet service provided by a provider in return for prescribed fee (Kim, Gupta, & Jeon, 2013). As the mobile telecommunications market is growing increasingly more dynamic and also more competitive, mobile service providers have acknowledged that the best core marketing strategy to pursue is to retain existing customers by satisfying their needs through the delivery of superior value for the customers (Karjalainen, et al., 2012).

1.2. Background

In this era where almost everything in the world is now interconnected by technology, the usage of Internet and Mobile Services is a thing that grows rapidly. Generation Z, Gen-Z, Post-Millennials or some people might say i-Generation is the Generation on which the oldest of them which born in 1997 is now some are already in or just graduated from their bachelor studies. This generation is the one to grow up with the convenience of smartphones, tablets etc. Majority of Generation Z are online or using their devices in minimum of 1 hour a day and half of them are online for about 10 hours a day (Nola Media Group, 2018).

As most of Gen-Zs grew up with technology by their side which advances more by the years, nowadays mobile phone or smartphone are the one mostly used by Gen-Zs according to surveys made by Mediakix a global news media company, 98% of the whole population of Gen-Z's own a smartphone and half of them connected online for 10 or more hours a day which most of them spent on social media and entertainment (Mediakix, 2018).

The student population now are mostly consisted of Gen Z, which most of them all highly aware of using digital tools in every aspect and purpose in life, especially of buying or purchasing goods and services. Furthermore, according to Lab42 survey Gen Z is less likely to be motivated by any kind of "loyalty"-program while most of older generation especially Gen-X's and millennials said loyalty

offers most likely influence their purchasing decision (Jonathan Pirc, 2017). In the endeavor to foster the loyalty of Gen Z's, it is important for mobile service providers to understand the key drivers of customer loyalty. Visioncritical asserted that the key to winning Gen Z may depend more on customer experience, or instant gratification, hence understanding the way Gen Z's judge said worthiness and value of product and services is necessary to help mobile service providers create a differential superior offer to may gain competitive advantage over their competitors in the market (Claveria, K, 2019).

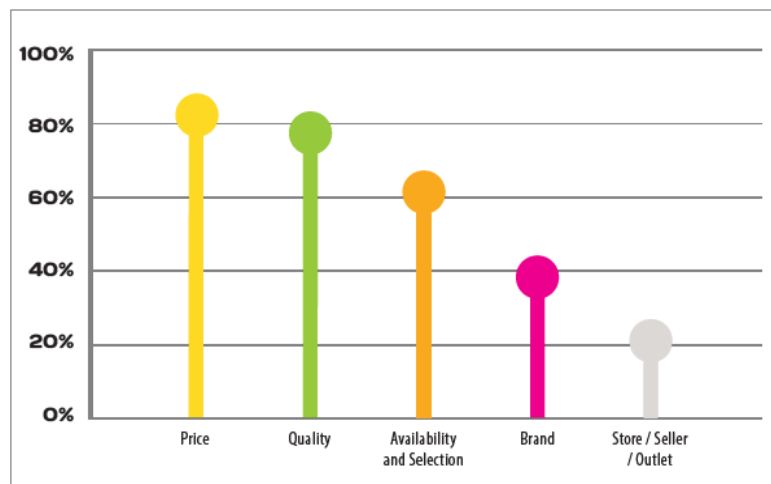


Figure 1.2. Most Important Factors when making a purchase within Gen Z

Source: daVinci Payments, 2019

According to the survey results conducted by Swift Prepaid Solutions (now daVinci Payments) it is found that as Generation Z exhibit much greater price sensitivity and very much lower loyalty towards brand than prior generations. More than 80% of those interviewed for the survey said that price is the most critical factor when making a purchase, 83% said value-added rewards and surprises inspire greater loyalty and 82% said when earned rewards come paired with a special offer it can encourage them to spend the reward (daVinci Payments, 2019). In the survey it was concluded that Price is the main deciding factors of purchase in Gen Z's customer and also the value which comes with it for the customer itself as nowadays for a generation which depended on technology their whole lives comparing and

finding knowledge and information for a more value bringing and worthy alternatives is just a few steps away.

Competition between Mobile Service Providers in Indonesia is getting tighter by the years, it is can be seen from how tight competition among mobile service providers between product, price and also marketing strategy. As all of the four big Mobile Service Providers in Indonesia offers the exact same product such as Sim Cards (Pre/Post-Paid) and etc. Practitioners and academicians believe that loyalty is the most important factor in maintaining the existence of a company (Rachmawati, 2020). The ability to retain existing users and strengthen loyalty appears to be critical in gaining competitive advantage (Lopez-Miguens & Vazquez, 2017). The thing most Gen-Z's put into consideration on choosing on a Mobile Service Providers or changing is mainly based on Price, most of them are the price of Internet Service Packages Price given by the Mobile Service Providers of their choosing (daVinci Payments, 2019).

The price given by these Mobile Service Providers companies are different, for Telkomsel the price ranges from Rp.15.000 – Rp.191.000, XL Axiata price ranges from Rp.12.000 - Rp.120.000, Indosat price ranges from the amount of Rp.2.900 – Rp.199.900, and for 3(Tri) the range of the price is from the amount of Rp.1.500 – Rp.150.000. Those prices are the prices from the cheapest one-day packages and the highest of the personal monthly packages. Table 1.1 below shows the prices and packages difference from each four of the providers mentioned.

Table 1.1. Internet Service Packages Price Comparisons Among MSP's

	Package	Information	Price
TELKOMSEL	Internet OMG! 52 GB	50 GB of Internet Data + 2 GB OMG! Data	Rp.191.000
	Internet OMG! 4 GB	3 GB of Internet Data + 1 GB OMG! Data	Rp.39.000

Continued...

Continuance...

XL Axiata	XTRA Combo VIP	35 GB of Internet Data + 35 GB Youtube Data + 90 Minute all operator call + Free 3GB Bonus Data	Rp.249.000
	XTRA Combo VIP	5 GB of Internet Data + 5 GB Youtube Data + 20 Minute all operator call + Free 3GB Bonus Data	Rp.69.000
INDOSAT	Freedom Combo 50 GB	25 GB of Internet Data + 15 GB Local Data + 10 GB Night Data + 60 Minutes all operator call	Rp.150.000
	Freedom Combo 4 GB	2 GB of Internet Data + 1 GB Local Data + 1 GB Night Data + 5 Minutes all operator call	Rp.45.000
3 (TRI)	Paket 4G 12GB	2GB + (10GB 4G)	Rp.50.000
	Paket 4G 30GB	8GB + (22GB 4G)	Rp.100.000

Source: Data from various sources, 2021

It can be seen in the Table 1.1. above, every provider offers different prices and package but mostly similar price range and only differs slightly. These various choices of package, price, and products has makes different choices for every person. People may choose their mobile service provider based on price offered, but the price competition itself in mobile service provider market is tight and competitive as the difference are mostly small.

In this research the author conducts the existence of penalty fees gained by customer when leaving a service provider for another are categorized as switching costs (Porter., 1998). It is an important factor since switching costs helps the development of customer loyalty and causes a company to be affected slightly with fluctuation in terms of service quality in a short amount of time. Both existing theoretical and empirical studies previously conducted concluded that switching costs does play an important role on safeguarding a company existing consumer and gaining competitive advantage for said company (e.g., Klemperer, 1987), which in turn causes many companies to concentrates to exploit the existence of this penalty as a direct marketing platform (Burnham et al., 2003).

As the comparison of package prices table the author have provided in the Table 1.1. earlier, and furthermore taking the research conducted by daVinci Payments into account the Mobile Service Providers in Indonesia mainly have small difference in their package price range and the price competition itself in mobile service provider market is tight and competitive as stated by Hauser et al., (1994) as the prices of a product rises, customers become more less sensitive towards the level of satisfaction. Although this are the case the structure of the market itself also has a role in influencing the effects on switching costs as in turn has effect towards the relationship of customer satisfaction and customer loyalty as when the market of said particular operator is too large the effect of switching costs on loyalty and satisfactions of the customer will be low which in turn will causes dissatisfied customer to keep using the service provider they are already using in the first place as the penalty of stop using said service provider is high and there are no other choices to move (Feick et al., 2001) which is not the case in Indonesia as there are alternatives available and when alternative exist the stake that switching costs had may not be as high as it seems and dissatisfied customers will just simply move to existing competitors which not rarely offers a mean to overcome said barriers usually in form of incentives for the possible future customers (Malhotra and Malhotra, 2013; Yang and Peterson, 2004).

The mobile telecommunications sector is frequently cited as an industry in which SC and AA are high (Malhotra and Malhotra, 2013; Wirtz et al., 2014). As

stated by Kumar et al (2013), the magnitude of the influence of customer satisfaction towards loyalty is dependent on the structure and competitiveness of said industry segment, customer segment, and the presence of various factors which serve as mediators, moderators, or both towards the relationship. Therefore, this research examines the direct effect of satisfactions of the customers toward loyalty and indirect effect of various mediator and moderator for example switching costs and alternative attractiveness which results may in turn causes the need for Mobile Service Provider to revisit and rethink their strategies, and ways to ensure that it is possible for them to establish a long-lasting and profitable relationships with the Gen Z's customer segment.

Based on the phenomena explained before, this research is intended to analyze and examine the attitudes, and beliefs of the Gen Z's towards mobile service providers to analyze the factors which influences Gen Z's consumer loyalty towards Mobile Service Provider.

The author decided to do research and poured the result in the form of a mini thesis entitled: **“FACTORS INFLUENCING GEN-Z CONSUMER LOYALTY TOWARDS MOBILE SERVICE PROVIDER (MSP) IN INDONESIA”**.

1.3. Problem Formulation

The number of internet users In Indonesia is increasing rapidly day by day. Which mostly still dominated by previous generation which is Millennials or Gen Y, Generation Z which is directly after it is also a huge part of those number which will keep growing as this generation gets older. The shifting and lifestyle that always changing of the people from Traditional towards Digital had make the younger generation which is Gen Z to have more dependency toward internet access and mobile devices / gadget, hence causes the increases of needs for information, entertainment, communication, and etc., and as the finding of Swift Prepaid Solutions Gen Z's exhibit much greater price sensitivity and very much lower loyalty towards brand than prior generations it may be a challenging group to target by service providers having grown up in a more media saturated and brand conscious world where information is just a swipe away.

As stated previously that Indonesian people usually use MSP / Mobile Service Provider for accessing the internet. This causes the increase of said needs and or demand, the Dependency on MSP / Mobile Service Provider use also increased. As the mobile telecommunication provider market sector is frequently said to be a SC high industry (Switching Cost) which made Companies / Provider offer to consumer a product with significance value and trapping them through high SC (Lee and Neale, 2012). SC (Switching Cost) itself refers to the time, money, psychological and physical efforts will be sustained by customers to move and change from one service providers to another (Ray et al., 2012).

While mobile telecommunication provider market sectors cited as a market with high SC (Switching Cost) it is also a sector which has a high AA (Alternative Attractiveness) which refers to an extent on which the customers perceive that an alternative service provider to be more superior to that of their current / other service providers (Jones et al., 2000). According to Goode et al., Examples of Alternative Attractiveness / AA includes but not limited to lower prices, better quality in services, more choices available for the customer, and quicker delivery / waiting time (Goode and Harris, 2007).

For such a market sectors with high Switching Cost (SC) and also high Alternative Attractiveness (AA) in a situation where a consumer wants to change or move to an alternative mobile service provider they will faced with a rather significant monetary and non-monetary costs (e.g., contract breaching fees, loss of points and reward previously acquired, time and effort of evaluating information for possible alternative providers and etc.) (Wirtz et al., 2014). Provided the existence of these barriers for switching, another competing mobile service providers often give various offers and incentives to assist and attracts possible future prospective customers to overcome said switching barriers (Yang and Peterson, 2004). Despite the significant investments in the construction of different switching deterrents, it is crucial for mobile service providers that experience high churn rates to understand the cognitive trade-offs between switching costs and benefits of customers. (Haj-Salem and Chebat, 2014; Kim et al., 2013b).

Previously conducted studies has established that Switching Cost (SC) and Alternative Attractiveness (AA) as key determinants towards loyalty of customer (e.g., Kim et al., 2016) but because there is no substantial conclusion regarding their roles in the relationship between satisfaction and loyalty link. The inconclusive findings may be due to the fact that some studies investigated the SC and AA from the perspective of mediators (e.g., Matzler et al., 2015; Picón et al., 2014), whereas other researchers examined these two constructs from the perspective of moderators (e.g., Dagger and David, 2012; Li, 2015). To better understand the interactions between SC and its counterpart AA this research adopts a more comprehensive approach. Specifically, this study adds SC and AA as mediators and moderators to the traditional model of satisfaction–loyalty for an emerging service context (i.e., mobile Internet) using an emerging customer segment (i.e., Gen Z).

This Study aims to determine said factors which influence consumer loyalty of Generation-Z, as far as this study report is written a lot of studies has done research on Mobile service provider but most of them researching them on generation other than Gen Z or previous generations, therefore can be used as reference and education to others in need.

In accordance with the background of research above, the research questions of this study can be listed below are as follows:

1. Is there any positive influence from Perceived value on customer loyalty on Gen Z towards mobile service providers in Indonesia?
2. Is there any influence between customer satisfaction and customer loyalty mediated through SC on Gen Z towards mobile service provider in Indonesia?
3. Is there any influence between customer satisfaction and customer loyalty moderated by SC, such that the relationship is weaker for those individuals who perceive SC to be high on Gen Z towards mobile service provider in Indonesia?
4. Is there any influence between customer satisfaction and customer loyalty mediated through AA on Gen Z towards mobile service provider in Indonesia?

5. Is there any influence between customer satisfaction and customer loyalty moderated by AA, such that the relationship is stronger for those individuals who perceive attractiveness of alternatives to be high on Gen Z towards mobile service provider in Indonesia?

1.4. Research Objective

1. To determine the positive influence between Perceived value and customer loyalty on Gen Z towards mobile service providers in Indonesia.
2. To determine the influence between customer satisfaction and customer loyalty mediated through SC on Gen Z towards mobile service provider in Indonesia.
3. To determine the influence between customer satisfaction and customer loyalty moderated by SC, such that the relationship is weaker for those individuals who perceive SC to be high on Gen Z towards mobile service provider in Indonesia.
4. To determine the influence between customer satisfaction and customer loyalty mediated through AA on Gen Z towards mobile service provider in Indonesia.
5. To determine the influence between customer satisfaction and customer loyalty moderated by AA, such that the relationship is stronger for those individuals who perceive attractiveness of alternatives to be high on Gen Z towards mobile service provider in Indonesia.

1.5. Significance of The Study

This research is intended to provide information and reference for related parties in order to know characteristics of the gen z customer and what they want, so that this result may be a measurement to determine effective marketing strategies which will lead to loyalty of the customer and also the results are expected to add a reference for the next researcher.

1.6. Writing Systematic

The structure of the writing is composed to provide a general overview about the research performed with the following structure:

a. **CHAPTER I INTRODUCTION:**

This chapter consist of the object overview, background, problem statement, research question, research objectives, the significance of the research, scope of the research, and lastly the systematic of the writing.

b. **CHAPTER II LITERATURE REVIEW:**

This chapter contains related theories of this research, previous researches and the theoretical framework and hypotheses which are developed.

c. **CHAPTER III RESEARCH METHODOLOGY**

This chapter discusses the research methodology used in this research.

d. **CHAPTER IV RESULT AND DISCUSSION:**

This chapter presents the result of data analysis and statistical analysis.

e. **CHAPTER V CONCLUSION AND SUGGESTION:**

This chapter contains of summarization of research findings, implication of the findings and limitation of the study and suggestions for this research.

