

THE INFLUENCE OF SWITCHING BARRIERS TOWARDS CUSTOMER LOYALTY OF XL AXIATA SERVICE OPERATOR IN INDONESIA 2018

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Abstract

Recently communication has become an important part of life and it is inseparable in every daily activities of everyone in this era of information. One of the tools of communication that people nowadays are using is mobile phone. The competition in the telecommunication market is tight, as the market has really saturated. XL Axiata, as one of the players in Indonesian cellular industry is troubled with low and fluctuating customer growth, high churn rate, and low ARPU. In the condition of such a market, XL needs to focus on retaining the existing customers. Therefore, it is necessary to consider the factors that can help XL retain their customers. The objective of this research is to analyze switching barriers and also the influencing factors and their contributions toward customer loyalty. This research uses data from samples from 400 respondents who lives in Indonesia chosen by Purposive Non-Probability Sampling technique. The result revealed that there are two out of three factors of switching barrier that significantly influence customer loyalty, namely *Perceived Switching Cost* and Attractiveness of Alternatives. The model can predict the influence of switching barrier towards customer loyalty in Indonesia since the R² is 62.4%.

Keywords: *XL Axiata, switching barrier, customer loyalty, Indonesia*

1. Introduction

Recently communication has become an important part of life and it is inseparable in every daily activities of everyone in this era of information. One of the tools of communication that people nowadays are using is mobile phone. According to APJII as of early 2016, the number of active mobile phone users is approximately 326.3 million users.

Kemp (2016)^[1] shows how important an efficient telecommunication is for the citizens of Indonesia by showing that the penetration rate of SIM cards is 126%, which number surpass the actual total population number of 259.1 million which means that on average each users are using 1.7 active SIM cards. With the number of mobile subscriptions already far surpassing the country's entire population, operators are focusing their marketing efforts on increasing volumes per customer rather than growing their customer base, resulting in operators compete along the dimensions of price, extend and quality of network coverage (GBG Indonesia, 2016)^[2].

Failure in retaining the customers means making the customers switch to other operator and increases the company's churn rate. Churn rate refers to the amount of customers or subscriber who discontinue their subscription during a given period of time (Investopedia, 2016)^[3]. It is used as the indicators of the health of the company's subscriber base. Lower churn rate delineates the better outlook for the company (Mobileburn, 2016)^[4].

Attracting customers is in a fierce competition, which demands cellular operators to be more creative in their marketing strategy to maintain and increase their market share, and as a result, cellular operators are competing on whom can offer customers the lowest price possible that can give the biggest value. Looking from customer perspective, it is considered as positive thing, since they will be provided with many options (Widiartanto, 2016)^[5]. On the other hand, this phenomenon gives negative impact toward the industry and increases the churn rate. Currently, the average churn rate in Indonesia is between 11 - 20% per year, a really high number compared to developed country such as USA that have churn rate at 0.8% (XL Axiata Document Investor, 2016)^[6].

According to Lee, *et al.* (2001)^[7], the lower the market growth and the intense competition in telecommunication sector make companies tend to focus on retaining the existing customer. A survey also shows that the cost to acquire new customers can cost up to 30 times as it does to keep the existing ones. Moreover, 65% percent of company's revenue comes from the existing one as the existing customers also has big potential

to use other service line. Hence, focusing the marketing effort with the existing customers would be a wise option (Kingwill, 2015)^[8]. Therefore, operators should think about the strategy to keep their existing customers from moving to other operator.

2. Theoretical Background

2.1 Switching Barrier

Fornell in Kim, *et al.* (2004)^[9] stated that switching barrier refers to the difficulty of switching to another company that is encountered by a customer who is dissatisfied with the existing service, or to the financial, social and psychological burden felt by a customer when switching to a new product or services. Therefore, the higher the switching barrier, the more a customer is forced to remain with his or her existing barrier (Kim, *et al.* 2004)^[9]. Jones *et al.* (2000)^[10] stated that any factor that makes changing providers difficult or costly is defined as a switching barrier. In their empirical study, they examined three types of switching barriers: interpersonal relationship, perceived switching cost, and attractiveness of alternatives.

2.2 Interpersonal Relationship

Jones *et al.* (2000)^[10] defined interpersonal relationship as the power of personal relationship that may develop between the customer and the employees of a supplier. The role of interpersonal relationship can take customers away from companies and organizations or help them get closer to them (Tung *et al.* 2011)^[11]. Thus, interpersonal relationship is inseparable with switching barrier in building customer loyalty.

2.3 Perceived Switching Cost

Jones, *et al.* (2000)^[10] defined switching cost as the customers' perception of time, money, and effort associated with switching provider. Switching cost theory also describes how companies can realize competitive advantages by making it more difficult and costly for a customer to switch providers (Lee *et al.*, 2012)^[7].

Switching costs, defined as "costs perceived, anticipated, and /or experienced by a buyer when changing a relationship from one seller to another" (Pick & Eisend, 2016)^[12], are seen as powerful defensive marketing tools that lead to higher revenues and lower relationship costs (Chebat *et al.* 2011)^[13]. Hence, switching costs can be considered to play an important role in influencing customer loyalty.

2.4 Attractiveness of Alternatives

Jones, *et al.* (2000)^[10] stated that lack of attractive alternatives refers to customer perceptions regarding the extent which viable competing alternatives are available in the market place.

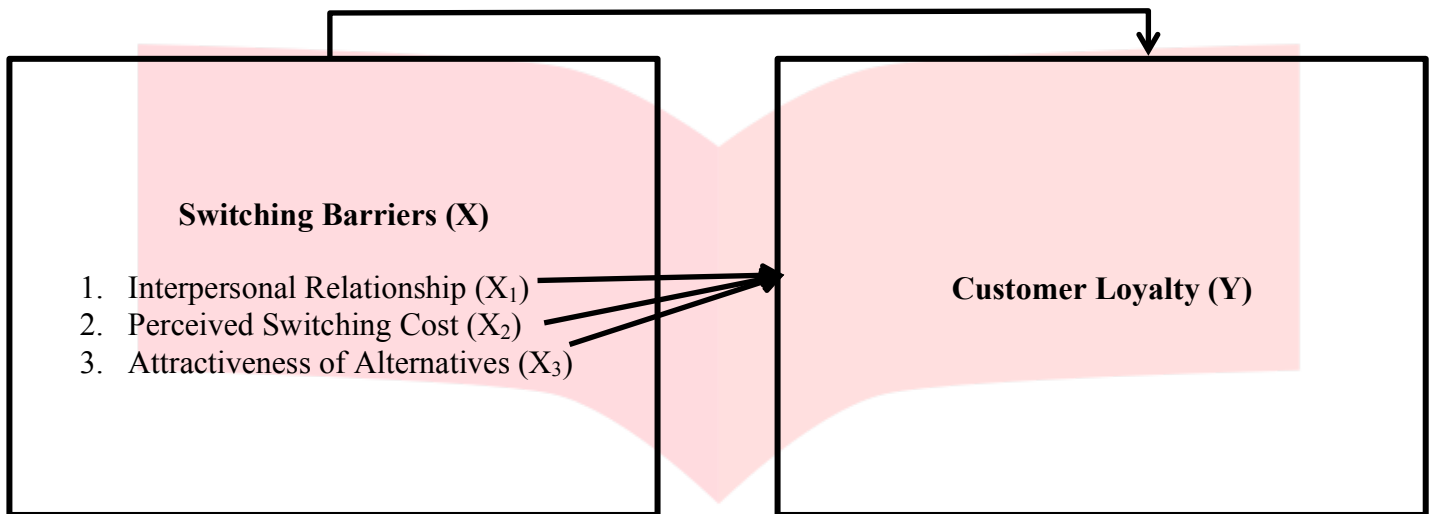
On the other hand, attractiveness of alternatives refers to reputation, image and quality of services that are expected to be superior or more suitable compared to other service provider (Setiawan, 2011)^[14]. This matter is closely related with service differentiation and organization. If a company offers a unique service, it will complicate competitors to imitate, or if there are only a handful of alternatives in the market, customers are more likely to stick to the old service provider.

2.5 Customer Loyalty

According to Oliver in Kotler & Keller (2015)^[15], loyalty is a commitment held deeply to buy or support the preferred product and services in the future although the effect of situation and marketing effort are potentially can cause customers to switch service provider.

However, according to Lovelock & Wirtz (2011)^[16], loyalty is an old-fashioned word traditionally used to describe fidelity and enthusiastic devotion to a country, a cause, or an individual. Best (2013)^[17] differentiated customer loyalty and repeat purchases by pointing that loyal customers have a longer customer history, are more committed to the company, buy more, and are more likely to recommend the brand to others. While repeat customers also have a long history but are less committed to the brand, buy less, and are less likely to recommend the brand to others.

2.6 Research Framework



2.7 Research Hypotheses

- H1 There is significant influence of *interpersonal relationship* (X₁) toward customer loyalty
 H2 There is significant influence of *perceived switching cost* (X₂) toward customer loyalty
 H3 There is significant influence of *attractiveness of alternatives* (X₃) toward customer loyalty

3. Methodology

3.1 Research Characteristics

The research type that is used for this study is quantitative research. Quantitative research can be defined as research that address the objectives of research through empirical measurement that involve numerical measurement and analysis approaches (Zikmund *et al.* 2010)^[18]. Based on the purpose of study, this research is descriptive study. According to Sekaran (2003)^[19], a descriptive study is undertaken to confirm and be able to describe the characteristics of the variables of interest in situation. Furthermore, based on the type of investigation, this research is within causal study. Sekaran (2003)^[19] suggest that causal study is a study which intent is to state that variable X causes variable Y. In which, variable X is independent variable and Y is dependent variable.

3.2 Measurement Tool

This research uses Likert scale as the instrumental scales. With the Likert scale, respondents show their perceptions or attitudes toward some object by choosing the option that indicates how strongly they agree or disagree with formulated statements. In which, the level of agreement with the statements are assigned with number (Zikmund *et al.* 2010)^[18].

3.3 Population and Samples

According to Hair *et al.* (2010)^[20], suggested sample size for SEM in the range of 100-400. The population in this study is the subscriber of XL Axiata who lives in Indonesia, and is 15-60 years old.

3.4 Data Analysis Technique

This study uses SEM methodology that uses SmartPLS due to its structure and and complexity. Partial least squares regression is a variance-based statistical method. The analytical software used in this study is SmartPLS 3.0

3.4.1 Validity Test

The pilot test conducted on SPSS to test the reliability and validity due to the number of samples gathered is below 100. The pilot test gathered from 40 respondents that have all the variables valid due to the 5% of sampling error allowance and the Pearson's R table for 0.05.

3.4.2 Reliability Test

The data reliability of this research is to see the adequacy of Cronbach Alpha and Composite of the variables' Liableness using SPSS software. For reliability value limits refer to the criteria of Sekaran (2003)^[19]

where the Cronbach's Alpha coefficient ≥ 0.60 is considered reliable. In general, reliabilites less than 0.60 are considered to be poor. The result reveals that all the variables are valid.

4. Research Result

4.1.1 Analysis of Structural Equation Model

a. Outer Model

The data gathered from 400 respondents then processed and tested for its discriminant validity

1) Convergent Validity

Convergent validity is conducted to test the accuracy of items inside a variable to measure the research object. The indicator used in this test is using Factor Loading (FL). According to Hair *et al.* (2010) in Indrawati (2015)^[21], the item can be said to have a convergent validity if the FL score is ≥ 0.5 . The result of the FL scores of this research can be seen in Table 4.1.

Table 4.1 Factor Loading

Latent Variable	Indicator	Factor Loading	Conclusion
Attractiveness of Alternatives (AA)	AA1<- AA	0.89	Valid
	AA2<- AA	0.92	Valid
	AA3<- AA	0.88	Valid
Customer Loyalty (CL)	CL1<- CL	0.83	Valid
	CL2<- CL	0.81	Valid
	CL3<- CL	0.70	Valid
	CL4<- CL	0.74	Valid
Interpersonal Relationship (IR)	IR1<- IR	0.77	Valid
	IR2<- IR	0.85	Valid
	IR3<- IR	0.90	Valid
Perceived Switching Cost (SC)	SC1<- SC	0.78	Valid
	SC2<- SC	0.84	Valid
	SC3<- SC	0.78	Valid

Source: Processed Using SmartPLS 3.0

Based on Table 4.1, all of the indicators respectively scored more than 0.50, which concludes that the whole indicators above are reliable.

The next test in convergent validity is the AVE, assessment of reflective measurement that calculates of each latent variable. AVE results on convergent validity can be seen in Table 4.2.

Table 4.2 AVE Scores

Variable	Average Variance Extracted (AVE)
Interpersonal Relationship	0.714
Perceived Switching Cost	0.646
Attractiveness of Alternatives	0.813
Customer Loyalty	0.603

Source: Processed Using SmartPLS 3.0

Based on table 4.2, the AVE score of each variable is more than 0.50. Therefore, the questionnaire fulfills the criteria of convergent validity.

2) Discriminant Validity

Alongside convergent validity, discriminant validity is also required. Indicators of discriminant validity can be seen from AVE Square Root Score. If the AVE square root score of each AVE variable is higher than the correlation between two variables inside the model, so then the research questionnaire already fulfills the discriminant validity. The Cross Loading factor, a method to determine the discriminant validity can be seen on Table 4.3

Table 4.3 Cross Loading Correlation of Each Item

	AA	CL	IR	SC
AA1	0.895	0.493	0.641	0.541
AA2	0.928	0.537	0.692	0.589
AA3	0.882	0.492	0.673	0.561
CL1	0.390	0.835	0.420	0.674
CL2	0.444	0.812	0.407	0.622
CL3	0.464	0.714	0.569	0.538
CL4	0.461	0.748	0.578	0.594
IR1	0.729	0.494	0.772	0.514
IR2	0.533	0.518	0.854	0.650
IR3	0.626	0.580	0.903	0.715
SC1	0.592	0.509	0.714	0.784
SC2	0.561	0.564	0.718	0.843
SC3	0.396	0.707	0.431	0.782

Source: Processed Using SmartPLS 3.0

Table 4.3 shows the value of cross loading of each item that are higher than the score of other construct. The table above indicates a positive result, as there is no indication of problem.

3) Composite Reliability

The indicator measured by its Cronbach's Alpha and Composite Reliability to measure whether it is reliable, the reliability relates with a consistency and also a stability of measurement result. Hulland (1999) in Hair et al (2017)^[23] Researchers frequently obtain weaker outer loadings (<0.70) in social science studies.

Table 4.4 Reliability Test

Variable	Cronbach's Alpha	Composite Reliability
AA	0.885	0.929
CL	0.779	0.858
IR	0.797	0.882
SC	0.734	0.845

Source: Processed Using SmartPLS 3.0

b. Inner Model

According to Indrawati (2017)^[24], the second test of PLS is Assessment of the structural model or Inner model Test. This test is conducted to know the influence of the latent variables towards another latent variable. The test is conducted by looking at the path value to see whether the influence is significant or not. This test required bootstrapping procedure to get the t-value. Besides the t-value, the variance percentage needs to be concerned, which is for dependent latent variable. The result 0.67; 0.33; and 0.19 indicate that the model is "Good", "Moderate", and "Weak". (Indrawati, 2017)^[24]

1) T-Statistical result

One-Tail right-sided hypotheses are used in this research due to its power to detect an effect to investigate influences between variances in positive direction. With the significance level of 0.05 and the critical value of 1.65, if the t-value result is greater than 1.65 means that there is a significant influence between independent variable and dependent variable, then, H_0 rejected.

Table 4.5 Path Coefficients and T-value

No.	Path diagram	Path coefficient	T-value	Conclusion
1	AA-> CL	0.102	1.870	H_1 accepted
2	IR -> CL	0.037	0.528	H_1 rejected
3	SC -> CL	0.692	12.930	H_1 accepted

Source: Processed Using SmartPLS 3.0

As shown in the table 4.5, one out of three variables is rejected and the other two variables is accepted.

2) R-square

The influence on dependent latent constructs is presented by R^2 . In this research, the R^2 is shown on table 4.15 below:

Table 4.15 R^2 Dependent Latent Construct

Latent Variable	R Square
Customer Loyalty	0.624

Source: Processed Using SmartPLS 3.0

Based on table 4.15 above, the R^2 on Customer Loyalty construct is 0.624, means Customer Loyalty is 62.4% influenced by *Perceived Switching Cost*, *Interpersonal Relationship and Attractiveness of Alternatives* while the rest 37.6% are influenced by the other factors that is not studied in this research. It also indicates that the model is "Moderate".

5. Conclusion and Suggestion

5.1 Conclusion

Based on the results and analysis of this research, the author draws these conclusions; There are 2 variables of switching barrier in this study that are proven to have a significant influence on customer loyalty namely, *Perceived Switching Cost* and *Attractiveness of Alternatives* while *Interpersonal Relationship* is proven to have no significant influence

The proposed model of this research had an R-Square value of 62.4% which means this model has a moderate predicting power to predict the influence of switching barrier towards customer loyalty. Therefore, this proposed model can be used to be implemented in decision making of XL Axiata management to improve which switching barrier to be used to maintain customer loyalty.

5.2 Suggestions

5.2.1 Theoretical Aspect

For further research, study can be conducted using quota sampling to have samples that represent all area of Indonesia. Further research can also be conducted around the relationship between switching barrier elements with other variables such as customer satisfaction, repurchase intention and customer retention.

5.2.2 Practical Aspect

Based on the result of the conclusion, the suggestions are as follow:

1. Regarding interpersonal relationship, since the result of this research implies that interpersonal relationship has no significant influence over customer loyalty, XL Axiata and other similar service provider should not spend further effort in terms of time and money. It is enough to just maintain the

quality of customer service. For example, ensuring the customer service operator to have proper training in order to them to have product knowledge in order to have a good communication and relay assurance and reliability to customers.

2. Regarding perceived switching cost; XL Axiata should add programs that can further prevent customers from switching provider. For example, loyalty programs that give benefit to customers the longer they subscribe to XL Axiata. This will make customers feel a sense of loss and discourage the customers leading them to giving up the idea of switching providers.
3. Regarding attractiveness of alternatives, XL Axiata should improve their service quality so as to be better than other operator by fulfilling their promises in their advertisements such as competitive prices, strong signal that XL offered to their customers.

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