ROLE OF CUSTOMER RELATIONSHIP MANAGEMENT IN CUSTOMER LOYALTY AND RETENTION IN THE MODERN BANKING ENVIRONMENT

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1.0 Introduction

Customer Relationship Management is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction (Kotler & Armstrong 2006).

Customer Relationship Management (CRM) has been defined narrowly as a customer data management system, until very recently. According to this definition, CRM was involved in maintaining detailed information about the individual customer and managing the customer 'touch points,' such as purchase and sales force contacts, service and support calls, Web site visits, satisfaction surveys, credit and payment interactions or every contact between the customer and the Company. However, more recently, CRM has taken on a broader meaning and considered as the most important concept of modern marketing. Two leading Professors on Marketing, Kotler and Armstrong (2006) states that, CRM builds and maintains profitable customer relationships by delivering superior customer value and satisfaction. 'Customer satisfaction' is the feeling a customer experiences when the customer's expectations are met (Chaston, 1993), whilst loyalty is shown when a customer repeatedly turns to the same provider to buy a product or service. Horstmann, (1998) a researcher on customer satisfaction and loyalty in the service industry, argues that there is a strong relationship between customer satisfaction and loyalty. Customer satisfaction influences loyalty; the higher the level of customer satisfaction, the higher the level of loyalty. Therefore, it is interesting to discuss and important for the Banks to note, how CRM can facilitate customer loyalty and retention in the modern banking environment.

During the past two decades, the environment within which the banks operate has changed rapidly due to many reasons. Globalization, technology revolution, fast developing communication modes and financial liberalization have facilitated this change, intensifying the competition in the Banking Industry. As a result, the array of financial products and services have been broadened. Many efficient delivery and processing channels, innovative products and services have been developed, enhancing access to finance through the above facilities. To recall a few: introduction of Automated Teller Machines (ATMs), Electronic Fund transfer facilities at the Point Of Sale (EFTPOS), Electronic Banking facilities such as Internet Banking and Telephone Banking, Debit card, Credit card and Traveller's card facilities are notable features which increased wide accessibility to banking services in the industry. These rapid changes in the environment have compelled the banks to compete with each other for the same market share, introducing unique products and services through effective Customer Relationship Marketing, to obtain a competitive edge in the market.

In addition to the above changes in the banking environment, the customer aspect too have changed during the recent past. The volume of banking customers have increased over the last two decades, with a wide range of tastes and preferences. Customers have become more knowledgeable, sophisticated, assertive and highly demanding, Majority of them are less loyal, and more inclined to switch to a competitor at the slightest dissatisfaction with their regular banker. Customers in the modern banking environment expect flexibility in hours of operation, greater convenience, customization in products and services, user friendly IT facilities, transparency in transactions, wider accessibility, control and secured operations, personalized, friendly service etc. The number of financial institutions too have increased in the environment, competing to attract new customers with aggressive marketing. strategies. With the increased number of banks to choose from, customers now demand better quality, more customized products and services from the banks. In this customer-centric business environment, attracting and retaining the customers in the long-run has become a key challenge for the banks. This has led to a shift in the business focus in the modern banking environment from ' transactional marketing' to 'relationship marketing'. As a result, the customer is at the centre of all business activities. Banks have to position their staff to attend to the needs of the customers in a highly customized and responsive manner, introducing Customer Relationship Managers, each designated as the prime contact for an assigned group of customers. They act proactively and offer customized products and services, in a timely manner. The objective of banks introducing customer relationship management is to build and maintain profitable customer relationships by delivering superior customer value and satisfaction, in order to enhance customer loyalty and retention.

However, attracting and retaining customers is not an easy task in the present ,highly competitive business environment. The role of Customer Relationship Management in customer loyalty and retention in the modern banking environment, based on the marketing concepts and research findings, will now be discussed in detail..

2.0 Customer Value and Customer Satisfaction

According to Kotler & Armstrong (2006), Customer buys from the firm that offers the highest 'Customer Perceived Value' or the customer's evaluation of the difference between the total benefits and the total costs of a marketing offer, relative to those of competing offers. Customers often act on perceived values because they do not judge product values and costs accurately or objectively. Customer satisfaction depends on the product's perceived performance, relative to a buyer's expectation.

According to the Product's perceived performance, the customer satisfaction levels are of three types : If the

1. Performance is short of customer expectations, the customer is considered to be "dissatisfied";
2. Performance matches the customer expectations, the customer is considered to be "satisfied" and
3. Performance exceeds customer expectations, the customer is considered to be "highly satisfied" or "delighted".

A business cannot function without its customers. The financial losses and loss in reputation can be damaging for its image, when losing customers. Therefore, smart firms aim to delight customers by promising only what they can deliver and at the end, delivering more than what they promise. Highly satisfied customers or delighted customers make repeat purchases and tell others about their positive experience with the firm. Customer-centric firms go out of the way to make their valued customers delighted. The key is to match the customer expectations with the company performance. As the marketing scholars have stated, although the firms seek to deliver high customer satisfaction relative to their competitors, they do not attempt to maximize customer satisfaction, since it affects the firms' profitability in the long-run. The purpose of marketing is to generate customer value profitably. Therefore, striking a balance is important in generating customer value and satisfaction in the customer relationship management process. It will be useful to mention the highlights of the following marketing research to emphasize the above point. The findings will be very useful to the banks in the modern environment to design their customer relationship management strategies.

Marketing research has proved that with higher customer satisfaction, the level of loyalty of the customer increases. A customer that is "very satisfied" is six times more likely to repurchase a product than a customer that is "satisfied" (Matzler & Hinterhuber, 1998) However, it is important not to exceed the satisfaction level too much, since if it happens, the customers' expectations will be even higher the next time. As indicated in the Figure I below, this will result in an upward moving spiral, where the risk of service failure increases. Therefore, it is important to increased the satisfaction level of customer by small steps, to avoid the risk of dissatisfied customers in the future (Gronroos, 2000). The shape of the relationship between satisfied customers and loyal customers is a curve-like relationship and the scholars, Hart and Johnson in Gronroos (2000) discussed this through "the Zone of indifference" (Figure 1).

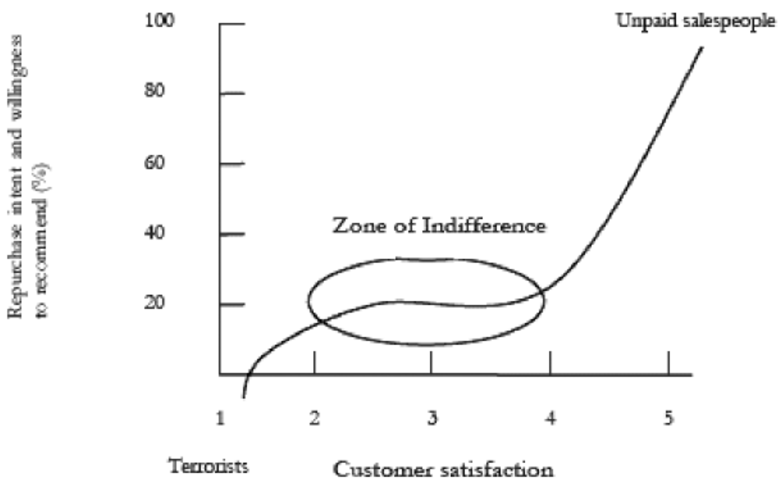

Figure 1 - Zone of Indifference (Gronroos, 2000)

The curve indicates the customer relationship, ranging from completely dissatisfied customers to very satisfied customers. The large, slowly increasing slope is called the "*zone of indifference*", where customers are merely "*satisfied*" and who do not tend to be loyal customers, with a high retention rate. By offering superior service and value-added products, firms can make the customers leave this zone of indifference and become loyal through driving them towards being "*very satisfied*". The customers in this area not only become loyal through repeat purchases, but also willingly spread positive comments by word-of-mouth about the firm. But dissatisfied customers try to scare away potential customers by bad-mouthing the company (Gronroos, 2000).

3.0 Customer Relationship Levels and Tools

The knowledge on different types of customer relationship levels and tools will be very useful to Banks, as much as to the other firms, in order to offer high quality customer relationship services. Kotler & Armstrong (2006) state that, companies can build customer relationships at many different levels; basic relationships, full partnerships, frequency marketing or club marketing relationships, depending on the nature of the target market. A firm may seek to develop basic relationships with many low-margin customers, at one extreme. In this situation, the firm may not call on them to get to know them personally, but creates relationships through brand-building advertising, sales promotions or through its web site.

At the other extreme, in markets with few customers and high margins, firms will create full partnerships with these high net-worth clients. For example, from the international market, P&G customer teams work closely with Wal-Mart, Safeway, and other large retailers, building long-term, full partnerships to sell their products. Further, Boeing partners with American airlines, Delta and other airlines in designing airplanes that fully satisfy their requirements. In between the above two extreme CRM levels, other levels of customer relationships are possible.

In the modern marketing environment, many established companies are developing customer loyalty and retention plans under their CRM programs. Beyond offering consistently high value and satisfaction, the companies use specific marketing tools to develop stronger bonds with their customers. The frequency marketing programs offered by the companies, that reward customers who buy frequently or in large quantities are examples for such marketing tools. The frequent-flier programs offered by airlines, room upgrades to frequent guests by hotels, patronage discounts to "VIP" customers by supermarkets and mobile phone companies are few examples of these marketing tools the companies use to develop stronger bonds with their customers.

Further, some companies sponsor club marketing programs that offer special discounts and facilities to members and create member communities in their respective industries. Companies add structural ties as well as financial and social benefits, to build customer relationships in this regards. Banks could use the above knowledge on customer relationship levels and tools to strengthen their CRM processes, to face the challenges in the modern banking environment.

4.0 Changing Nature of Customer Relationships

Many notable changes are occurring in the ways in which firms are relating to their customers in the marketing world. Since these changes are very important to the banks to face the challenges in the modern environment, how the nature of customer relationships have changed will be discussed next. In the past, firms focused on mass marketing to all customers, keeping a distance and selling in a standardized way to any customer who comes along. But today's companies are no longer building relationships with each and every customer. Instead, they are building more direct and long-lasting relationships with more carefully selected, fewer, more profitable customers. Firms are finding new ways to deliver more value to customers, and also beginning to assess the value of customers to the firm, called *selective relationship management*. Many firms use the customer profitability analysis to select the profitable or target winning customers for pampering, and to weed out non-profitable customers.

Once the profitable customers are identified, firms create unique, attractive offers and special handling to capture these clients and build their tust and loyalty. Many banks too follow this process to identify profitable customers from their vast databases and to cut out losing ones. The customer values are calculated based on factors such as an account's average balance, account activity, services usage, profitability to the bank and other variables. Banks use such customer information to identify high net-worth clients and offer them customize, personalize products and services. This in turn facilitates customer satisfaction and loyalty which leads to retention in the long run. However, this sorting-out process, has many risks since the future profits are hard to predict. But most banks believe that the benefits outweigh the risks. For example, imposing a charge for the bank account balances below the minimum level, will help the banks to identify their unprofitable, money-losing customers. Further, the marginal customers will become profitable customers by boosting their account balances, high enough to avoid the charge.

As discussed above, Companies as well as banks are being more selective about which customers they choose to serve and they also serve the chosen customers in a deeper, more long-lasting manner. In the present environment, the firms/banks are going beyond designing strategies to attract new customers and create transactions with them. Customer Relationship Management is used today to retain current customers and build profitable, long-term relationships with them.

Marketing scholars have identified 'Marketing' as the science and art of finding, retaining, and growing profitable customer relationships. In the present environment, more emphasis is made on growing customer loyalty and retention, specially with the profitable customers. In the past , the emphasis was on market growth with a large supply of new customers. In the modern environment, banks face new marketing realities and changing demographics. Highly demanding customers, more sophisticated competitors, over capacity in the industry mean that there are fewer customers to sought after. In this scenario, many banks are aiming at the same stock of highly profitable customers. As a result, the cost of attracting new customers is rising. Marketing research reveals that, on average, it costs five to ten times as much to attract a new customer as it does to keep a current customer satisfied. Given these new realities, banks now go all out to keep their profitable customers. Creating customer value and building strong customer relationships, are key strategies to retain profitable customers. Major changes are occurring in the modern banking environment to bring more value to customers. Effective *Customer Relationship Management* and *Partner Relationship Management* play a major role in this task.

Kotler & Armstrong (2006) defines Partner Relationship Management as working closely with partners on other company departments and outside the company, to jointly bring greater value to customers. The traditional thinking that marketing is done only by marketing, sales, and customer care units has been changed now. According to the modern thinking, marketing has no sole ownership of customer interactions, but every functional area can interact with customers, especially electronically. "Every employee must be customer focused" is the new thinking in the business world and the firms are linking all departments in the cause of creating customer value. Many successful companies in the global arena, such as Procter & Gamble, Hewlett-Packard form cross-functional teams, rather than assigning only sales and marketing people to customers to attend to their needs.

Similar changes are occurring in how companies connect with the firms outside their companies, such as suppliers, channel partners, even competitors etc. Most of the companies today are networked companies, relying heavily on partnerships with other firms. Today's companies have realized that to be effective they need strategic partners. Therefore, in the modern competitive marketing environment, strategic alliances are blooming across almost all industries and services.

Examples from the international arena, Dell computers partners with Microsoft and Intel to provide customized e-business solutions and Volkswagen is working jointly with Archer Daniel Midland to develop biodiesel fuel, to add value to their customer services. In the local banking environment, many leading commercial banks partner with telephone companies such as, Dialog GSM and Mobitel, to enhance value of their customer services. The most recent example in the local banking environment is the NDB-Dialog mobile commerce network, termed "eZPay". Dialog Telekom and NDB Bank in August, 2007 unveiled eZ Pay, South Asia's first mCommerce (mobile commerce) initiative, a service that enables the consumer to carry out a variety of electronic, commercial transactions through its mobile phone, anywhere within the Dialog GSM network coverage (The Sunday Times, August 19, 2007). Therefore, the knowledge of changing nature of customer relationships are of key value to the banks, to be competitive and to enhance their market share in the industry.

5.0 Creating Customer Loyalty and Retention through CRM

How to create loyal customers and retain them in the banking industry ? This is a major challenge to the banks in the modern business environment. The following discussion on research findings will be valuable to the Banks, to manage profitable customer relationships, in order to maintain customer loyalty and retention. As Kotler and Armstrong (2006) explain, the marketing process involve building customer relationships by creating and delivering superior customer value and then capturing the value in return, in the form of current and future sales, market share, and profits. Companies create highly satisfied customers or delighted customers, who stay loyal and buy more in the long-run, by creating superior customer value. Marketing research has shown that, good customer relationship management creates customer delight and in turn, delighted customers become loyal and remain with the company, giving positive referrals of word-of-mouth to the others about the company and its products. Studies have revealed that even a slight drop from complete customer satisfaction can create a huge drop in customer loyalty, resulting in losing customers. Further, companies are realizing that losing a customer means, losing a customer lifetime value or the entire stream of purchases and services that the customer would make over a lifetime of patronage. Therefore, the aim of customer relationship management of companies is to create customer delight and not customer satisfaction ! (Reicheld etal 2003). The importance of the role of Customer relationship management in the present, competitive business environment is highlighted by the above research findings.

Further, it is important to note that, companies should build right relationships with the right customers, at the right time. This is key to manage the total combined customer lifetime values of their customers, or the customer equity of the company. Customers should be viewed as assets that need to be managed and maximized. Research has shown that all customers are not good investments, even the loyal customers can be unprofitable and some disloyal customers can be profitable. How to identify the profitable customers ? Is it the consistent big spenders the company has to acquire, ignoring the erratic small spenders or the erratic big spenders to be retained and lose the consistent small spenders ? It is often unclear whether, who should be acquired and at what cost. Therefore, it is vital for the banks to understand this situation and build the right relationships with their customers.

As the writers, Relnartz W. and V. Kumar (2003) have stated in the article, "The Management of Customer Loyalty" in the Harvard Business Review of July 2002, the companies should classify customers according to their potential profitability and manage their relationships accordingly. Further, customers are classified in to four relationship groups, according to their potential profitability and projected loyalty. It has been noted that each of the groups require a different type of relationship management strategy to maintain these customer groups..

As indicated in Figure 2 below, customers are grouped as (1) True friends (2) Strangers (3) Butterflies and (4) Barnacles, indicating their fit between company's offerings and customer's needs, and the level of profit potential.

Figure 2 - Customer Relationship Groups

Potential Profitability		Short-term customers	Long-term customers
	High Probability	**Butterflies** Good fit between company's offerings and customers needs; high profit potential	**True friends** Good fit between company's offerings and customers needs; highest profit potential
	Low Probability	**Strangers** Little fit between company's offerings and the customers needs; lowest profit potential	**Barnacles** Limited fit between company's offerings and customers needs; low profit potential

Projected Loyalty

Source : Adapted from "The Management of Customer Loyalty" by Werner Relnartz and V. Kumar, HBR July 2002, p.93

"True friends" are the most profitable and loyal customer group, with a strong fit between the customer's needs and the company's offerings. To delight these customers and nurture, retain, and grow them, the company needs to make continuous relationship investments.

"Strangers" are with lowest profit potential, little projected loyalty and a little fit between the company' s offerings and customer's needs. The relationship management strategy for this group of customers is 'do not invest anything in them'.

"Butterflies" are with high profit potential, but low projected loyalty. There is a good fit between the company's offerings and the customers' needs. However, the benefit from this group of customers are like butterflies, they come and go, short-term. Companies should enjoy the butterflies for the moment, effort to convert them to loyal customers rarely successful. The relationship management strategy to be adopted with them is, the firms should use their marketing promotions to attract them, create satisfying and profitable transactions and then stop investing in them until the next time around.

"Barnacles" are not very profitable, but highly loyal. There is only a limited fit between the company's offerings and the customer's needs. For example, Bank customers with small accounts that bank regularly, but do not generate enough returns to cover the cost of maintaining their accounts. They create drag, like the barnacles on the hull of a ship and are the most problematic customers. The relationship management strategy to be adopted to this group of customers is the for company to try to improve their profitability by selling them more, increasing their fees/charges etc. However, the relationship should be stopped if they cannot be made profitable.

The key learning point of the above study to the Banking Industry : Different types of customers require different relationship management strategies and the goal is to build the right relationship with the right customers at the right time.

6.0 Relationship Quality and Performance of the Customer Relationship Manager

According to the results of a recent marketing research conducted in Sweden on "Customer Loyalty and Satisfaction : A study of Swedbank's small corporate clients in Gothenburg (Dec 2002)", the relationship quality and the performance of the customer relationship manager are vital for the growth and survival of the Bank.

How customers perceive a company is very much impacted by how they are approached and treated by front-line and support-employees at different encounters with the Company. As Chaston (1993) found out, some customers are reluctant to approach their banks for discussions of financial needs, because they have experience of bad relationship quality in a less welcoming atmosphere. Personal relationship with the bank is the factor of most importance for the clients at an abstract level, and the need for personal relationship increases proportionally, with the complexity of a situation. (Ivarsson (2005).

The impact of the Relationship Manager's way of managing the relationship is found to be a key factor in success of the relationship with the client. Therefore, ability of the Relationship Manager to understand the client, finding solutions, treating them as important clients and the performance of the bank's staff in day-to-day activities, leads to changes in the level of satisfaction. Change of the Relationship Manager, or several changes over a short period of time, with no previous insight about the customer's business, is seen to yield dissatisfied customers, who might instead switch to other banks, if this turnover is not handled in a positive manner. Satisfied customers will be less likely to switch banks and more likely to stay loyal to, and give positive referrals about the Bank. (Madill et al., 2002). The other factors that affect the relationship of customers with the bank is the competency level of the Relationship Manager. For example, how much communication there is with the client, Relationship Manager's knowledge in the subject matter, the level of flexibility involved, changes and conflicts and the level of solidarity in the relationship etc. Research by Ivarsson (2005) too highlighted the issue of competencies of the Relationship Manager, but he calls it instrumental nearness and includes both the Relationship Manager's economic knowledge and his/her authority to negotiate on behalf of the Bank and provide the customer with quick information regarding his financial needs.. It is important to change banks' Corporate Policies and Procedures which would make them more flexible in handling their relationships with the clients.

7.0 Conclusion

Therefore, in conclusion, the Customer Relationship Management (CRM) is a strategic area in the banking industry, where the Customer Relationship Manager plays a key role in customer loyalty and retention in the modern banking environment. Information and research findings revealed in this article may be helpful to the banks to meet the challenges in the modern banking environment.

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