CHAPTER-III

CONCEPTUAL BACKGROUND OF RELATIONSHIP MARKETING AND CUSTOMER RETENTION
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3.1 INTRODUCTION

In the competitive world, service sector have realised that the cost of attracting new customers is very high and retaining the existing customers increases the profit and also enhances the business growth through word of mouth marketing and positive referrals. In the 21st century, relationship marketing has become an important approach in service sector especially in banking sector and the permanent relationship with customers determines success of business in today’s highly competitive environment.

In India, banking sector is considered as the backbone of economic development. Therefore, better formation of strategies in banking sector is needed, especially, in the recent information technology era. Furthermore, the banking sector faces big challenges like tough competition, division of markets, short life cycle of products and increasing customer awareness and difficulty (Taleghani et al, 2011). In such situation, banks can use the relationship marketing strategy to create, maintain, and enhance strong relationships with their customers to retain them. Therefore, it is important to empirically

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examine the actual relationship between relationship marketing and customer retention in banking sector. Such understanding or finding will help banks to establish better management of bank-customer relationship and enhance customer retention rates.

3.2 MARKETING OF BANKING SERVICES

In marketing of banking services, it is very important to comprehend the concepts of marketing and services. Bosch et al. (2006)² defines the term marketing as a business function that is responsible for the satisfaction of consumer needs by adding value through appropriate products and services, reasonable prices and acceptable distribution channels, using promotional strategies and marketing communication methods. Thus, marketing includes all those activities of a bank that ensures whether the actual exchanges take place between the bank and its consumers. For this reason, marketing department of the bank should provide the right product and service at the right time, in the right place and through the correct promotional methods. These focus areas have become known as the marketing mix or the 4Ps of marketing like product, price, place and promotion. Service sector initiated additional marketing mix, namely, processes, people and physical evidence, collectively known as the 7Ps of services marketing. The

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extension of the traditional 4Ps of marketing to the 7Ps for service marketing is supported by various authors such as Kotler et al. (2010)\(^3\).

Marketing authors such as Bosch et al, 2006 and Kotler et al, 2010 also indicate the five distinguishable orientations towards the concept of marketing in banking sector. These orientations are production, product, selling, true marketing and societal marketing. Each of these orientations is described below:

- Production orientation towards marketing assumes that consumers will buy available and affordable products and services.

- Product orientation towards marketing assumes that products and services will make sales easy because of their inherent built-in quality and performance characteristics.

- Selling orientation towards marketing assumes that consumers will not buy sufficient products and services unless they are convinced to do so by means of promotional strategies.

- True marketing orientation involves the determination of consumer needs and values and the design and supply of products and services to satisfy the consumer needs.

- Societal orientation towards marketing assumes that consumer needs should be satisfied, the wellbeing of the society should be

enhanced as a whole. It should focus on “environment friendly” products and services.

3.3 SERVICES MARKETING

Today, the focus of service marketing is on one-to-one marketing aiming at individualising the marketing effort. Kotler et al. (2010) indicates that service is any activity or benefit that one party can offer another person and it is essentially intangible and cannot be owned by anyone. Boshoff and Du Plessis (2009)\(^4\) also indicate that services provide convenience, enjoyment, entertainment, comfort and health to the receivers. Therefore, the activities performed by the banks, such as the provision of loans and saving facilities can be called as services. Marketing of services is different from the marketing of actual physical products. It is tangible, inseparable, perishable, variable and non-transferable (Boshoff and Du Plessis 2009 and Bosch et al 2006).

Kotler et al. (2010) emphasises that marketing is a process to build mutual beneficial relationship with the customers rather than to maximise the profit on each individual transaction. Peppard (2000)\(^5\) outlines the picture of development in service marketing. Initially banks have close relationship with their customers individually, and their needs and wants are fulfilled timely. However, this “system” is costly

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and consumers pay more prices for products and services. Then, mass marketing is introduced, where consumers trade these close relationships with service providers for secrecy and lower prices. In the present world, banks can offer variety of products and services to customers at lower prices through relationship marketing, using the effective use of information and communication technology. Gummesson (2008)\(^6\) also indicates that marketing in services has now developed into relationship marketing. So, the relationship marketing is come under the head of services marketing.

3.4 RELATIONSHIP MARKETING

In the recent business era, relationship marketing is a powerful tool to gain and retain the customers and it is considered as the heart of marketing. Many experts and academicians have defined the term relationship marketing in different ways. “Berry (1983)\(^7\) was the first person to define the term relationship marketing, which is used as a relationship perspective (Christiana Baffoe Ababio and Amy Atiwoto, 2011)\(^8\). Relationship marketing is very important concept to attract and retain the customers in banking sector. The concept of relationship


marketing is widely understood, both academically and professionally. The main goal of relationship marketing is to enhance good relationship between the customers and the banks and also convert the indifferent customers into loyal ones.

The best definition for relationship marketing is “Relationship marketing is to establish, maintain and enhance relationships with customers and other partners, at a profit, so that the objectives of all parties are met. This is done by mutual exchange and fulfillment of promises” (Gronroos 1990)9.

The term relationship marketing has been widely used to describe the type of marketing activity designed to create extended relationship with customers. Researches by Nicole Coviello, Red Brodie and Hugh Munro suggest three distinct categories of relationship marketing such as database marketing, interactive marketing and network marketing10.

Ndubisi (2006)11 suggests key characteristics of relationship marketing and according to him, every customer is considered as an individual person or unit, activities of the firm are mostly directed

towards existing customers, implementation is based on interactions and dialogues and the firm tries to achieve profitability through decreasing customer turnover and strengthening customer relationships.

3.4.1 Background of Relationship Marketing

The service sector has emerged as a key sector in Indian Economy. In the post-reforms era, there has been a vast change in the financial sector. In such a scenario, the services have grown rapidly and the customer has been more often a purchaser of services rather than a product.

The financial service is the backbone of service sector. This is important not only for the banking sector but also for the Indian economy as a whole. As banking are a catalyst and the life of modern trade and commerce. It is an integral part of all the businesses and social activities. This rapid transformation of services in the banking system has led to the evolution of a highly competitive and complex market where there is a continuous refinement of services. Hence, the increased role of banking in India’s economic development on the one hand and the changes in the business climate on the other has increased the pressure on them. These changes force the banks to reorganise themselves in order to cope with the present conditions.
Now, the financial institutions make an attempt to provide all the services at the customer’s doorstep. The customer has become the focal point either to develop or maintain stability in the business. Every engagement with the customer is an opportunity to either develop or destroy a customer’s faith in the bank. The expectations of the customers have also increased in many folds. Powerful competition among the banks has redefined the concept of the entire banking system. The banks are looking for new ways not only to attract but also to retain the customers and gain competitive advantage over their competitors. Therefore, banks follow relationship marketing strategy to retain the customers.

Relationship marketing is the process of building a long-term mutually beneficial relationship with the customers. The financial institutions in the developed countries are using this as a very effective marketing tool by taking full advantage of information and communication technologies. The Indian banking industry has been facing extraordinary challenges with the wave of liberalisation, privatisation and globalisation of Indian economy. Banks in India are under intense pressure in today’s unstable market place. Steep competition, globalisation, growing customer demand and exposure to higher credit risks are forcing the banks to find new ways of improving profitability. On the other hand, cost-cutting measures force banks to manage operations with few customers, relationship managers and product specialists.
Even today, most of the banks in India depend on the legacy of customer information system. In such scenario, it is difficult to have a complete customer view across divisions. They face extraordinary challenges to sustain their growth path for survival. The challenges include customer retention, reducing transaction costs, risk management and regulation compliance. This results in huge propagation in customers’ choice.

The rapid growth in information technology and its potential to serve the customers in a new way awaken the marketers and enable them to transform these challenges into opportunities. Under these circumstances, customer satisfaction becomes an important aspect of the business. The search for new strategies has begun to meet not only the high expectations of customers but the need to retain them. The competitive world witness many banks participating in the race to optimise their profits. It increases the pressure to perform leading to the adoption of advanced technology and better skilled work force. Therefore, business model has changed from bank-centric approach to customer-centric approach. The customer becomes an essential part of the business.

Relationship marketing, according to Gordon (2008)\textsuperscript{12} is not a wholly independent philosophy but draws on traditional marketing principles. If relationship marketing is really a successor of traditional

marketing, a good starting point in developing a definition of relationship marketing would be to look at how marketing has traditionally been perceived. This traditional view might be summed up briefly using the Chartered Institute of Marketing’s (CIM 1963) 13 definition of marketing as:

The management process of identifying, anticipating and satisfying customer requirements profitably.

This definition includes a number of assumptions that are important in the discussion of relational strategy development. ‘Process’ assumes that traditional marketing is a series of activities carried out as the part of a company’s other functions. It implies a functional marketing department responsible for a fixed number of responsibilities, most probably closely associated with the ‘marketing mix’. It also absolutely suggests that identifying, anticipating and satisfying customer requirements’ is the singular responsibility of the marketing department. ‘Profitably’ is assumed to mean that these responsibilities are carried out in a competitively superior manner.

The focus of traditional or mass marketing implies that whatever the status of the customer (non-customers, current customers and past customers) they all are treated in the same way with compared to the worth status of the organisation.

13 Chartered Institute of Marketing (1963), Moor Hall Cookham Maidenhead, Berkshire, UK.
Berry (1983) was the first person to introduce the term ‘relationship marketing’ as a modern concept in marketing. He suggested that this ‘new approach should be defined as:

*Attracting, maintaining and enhancing customer relationships.*

While recognising that customer acquisition is the part of a marketer’s responsibilities, the viewpoint emphasises that a ‘relationship view of marketing’ implies that retention and development are of equal importance to the company in the longer term than customer acquisition. According to Payne (2009) 14 relationship marketing becomes an important reference point in marketing and management.

### 3.4.2 Relationship Marketing Vs Transactional Marketing

One of the major developments within marketing has been the evolution from transaction marketing to relationship marketing. Marketing has moved from customer acquisition to customer retention to customer selection. In relationship marketing, retention of few profitable customers has also become more important. Egan (2004) 15 says that relationship marketing has a dual focus both on customer retention and acquisition strategies. It has become underpinning

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conviction of relationship marketing that it encourages retention marketing first and acquisition marketing later on. The academics are of the view that customer retention offers better advantage than customer acquisition. Transactional marketing is a business strategy that focuses on “single point of sale” transactions. The emphasis is on maximising the efficiency and volume of individual sales rather than developing a relationship with buyer. On the other hand, relationship marketing is a business strategy that seeks to establish a long term relationship with its customers rather than focusing on single transaction, not only on individual customers, but also on all the stakeholders in order to manage a relationship that adds value to each person. Varey and Lewis (2002)\(^\text{16}\) describe in detail how transactional marketing differ from relationship marketing.

- Transactional marketing focuses on the recruitment of customers for single sale. Relationship marketing focuses on customer retention.

- Transactional marketing is product features oriented. Relationship marketing related to product benefits and system solutions.

- Transactional marketing has a short term horizon. Relationship marketing has a long term horizon.

• Transactional marketing has little customer focus. Relationship marketing has high customer focus.

• Transactional marketing information is about communication. Relationship marketing information is the product of communication.

• In transactional marketing, there is low contact with customers. In relationship marketing, there is high contact with customers.

Relationship marketing is rooted to the idea that retaining an existing customer is cheaper than acquiring a new one. There are many benefits of relationship marketing. They are:

The first and foremost focus is on providing value to its customers and emphasising customer retention. Secondly, relationship marketing approach is an integrated approach to marketing, service and quality, and, therefore, it helps in gaining competitive advantage. The long term customer may do the word-of-mouth promotions and referrals and many studies have revealed that the cost of retaining the existing customer is just a fraction of the cost of acquiring new ones.

3.4.3 Differentiation between Consumers, Customers and Clients

It is important to differentiate the concepts of consumer, customer and client. No precise differentiation has been made between the
concepts of consumer and customer (Gray 2007)\textsuperscript{17}. Many authors use the concepts consumer and customer interchangeably without offering an explanation why one concept is preferred to the other in a particular context. Additionally, the concepts customer and client are used interchangeably by some authors. The concept of consumer is used to describe a person who consumes the bank schemes and services. Customer refers to a person who purchases a particular physical product and services and client refers to a person making use of a service (Chantal Rootman, 2011)\textsuperscript{18}.

3.4.4 Relationship Marketing Dimensions

In marketing literature, relationship marketing has turned into a theory according to the dimensions, such as trust, commitment, empathy, conflict handling, communication, personalisation, ethics and technology. The researcher discusses the eight dimensions below:

3.4.4.1 Trust

Trust is a willingness to believe a business partner whom one has confidence. It can be divided into four categories, such as generalised


trust, system trust, personality based trust and process based trust (Christian Gronroos, 2001)\(^\text{19}\).

- Generalised trust is derived from social norms. Here, customer has full confidence about their bankers.
- System trust depends not only on laws, regulations and contracts but also on professionalism of other party.
- Personality based trust is to behave in a predictable way according to expectations.
- Process based trust is an ongoing relationship between the two persons in the business.

Trust is the interest to depend on a business partner (Moorman et al., 1993)\(^\text{20}\). In fact, trust implies the reliable claim or commitment of the partner. The other writers define the word as common values (Morgan and Hunt, 1994)\(^\text{21}\), bilateral goals (Wilson, 1995)\(^\text{22}\), making and keeping commitments (Bitner, 1995)\(^\text{23}\).


3.4.4.2 Commitment

Commitment is a continuing desire to maintain a respected relationship. It is a common dependent variable used to study buyer-seller communication (Wilson, 1995) and it is a forever interest in keeping valuable communication (Moorman et al., 1992)\textsuperscript{24}. It is pointed out that it plays a significant role to make a successful communication between the service provider and the service receiver and it also enhances a bilateral satisfaction between them.

3.4.4.3 Communication

Communication refers to the ability to provide proper and trustable information. Today, communication is an interactional conversation between the bank and the customers, taking place in presale, sell, consumption and post-consumption (Andeson and Narus, 1990)\textsuperscript{25}. Communication in relationship marketing aims at keeping in touch with valuable customers, providing the needed and trustable information about services, and changing the services and informing the problems in delivering process to the customers. Communication is also important in building personnel’s understanding of the firm’s objectives and creating clear insights about organisational responsibilities.


3.4.4.4 Conflict Handling

Conflict handling means the ability to avoid the potential conflicts, solve the understandable conflicts before they turn into problems and discuss the solutions when the problems arise. In interpersonal communication, conflicts occurs when an individual identify inappropriateness between his or her personal goals, needs, or desires and the other party. In dealing with conflict, people use different strategies to accomplish their goals. In short, good conflict resolution will result in relationship quality positively. Conflict handling is an important relationship builder. Even though it is difficult to service industries, especially, in banking sector to achieve zero service failure, banks put in place effective conflict resolution or problem solving machinery.

3.4.4.5 Empathy

Relationship Marketing can be viewed as the ability to share, understand and feel another person’s feelings in a relational situation. Empathy is the ability to see a situation from another person's perspective (Wang, 2007)\textsuperscript{26}. It is defined as seeking to understand somebody else desires and goals. Empathy has a number of similar meanings - the golden rule, the ethic of care and an “others” orientation. Empathetic marketers are sensitive to the needs and concerns of the consumers. Empathy should not be equated with sympathy; marketers

can be empathetic while driving a hard bargain with customers (Murphy et al, 2007)\textsuperscript{27}.

### 3.4.4.6 Personalisation

When banks and customers interact directly with each other and develop a relationship, personalisation acts as key to one-on-one relationships. Personalisation is the procedure of collecting customers’ information which helps the firm to create products and services that perfectly provide the customer’s desires and needs (Nunes and Kambil, 2001)\textsuperscript{28}. Personalisation is a tactic that can maintain a long-term relationship between the bank and its customers. Nowadays, banks take advantage of personalisation in order to increase their loyal customers and retain them. They use personalisation as a tactic and try to enhance the customers’ satisfaction in order to make more profit. The cost of personalisation is mostly high due to expensive software which is necessary for data collection and data mining. The process of personalisation needs appropriate plans and arrangements. They should make sure of offering the right product or services to the right person.


3.4.4.7 Ethics

The ethical behaviour includes its level of social responsibility, in other words, its obligations to consumers, employees and community (Longenecker et al. 2006). A bank’s ethical behaviour is the degree to which it operates within socially acceptable and legal ways. Ethical behaviour includes the banks’ degree of social responsibility projects, its level of confidentiality with customer information (Brennan 2003) and its proper securing of customer funds (Goosen et al, 1999).

3.4.4.8 Technology

It is the ability of a firm to use technology in various forms, for example, by using computers and internet to perform different tasks and activities (Greenberg and Baron 2000). Technologies are used to create new markets or to penetrate existing markets (Chipp et al. 2006). Especially in banking industry, technologies are regarded as the essentials in the provision of banking products and services, specifically

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to the un-banked clients (potential banking clients) (Petzer et al 2008)\textsuperscript{34}. In this study, technology refers to the use and experience of technologically advanced systems and processes in banks.

3.4.5 Benefits of Relationship Marketing

Karakostas et al. (2005)\textsuperscript{35} discusses the importance of relationship marketing in the financial service sector, which includes the banking industry. This study indicates that 90% of the firm’s respondents are of the opinion that the dependence by financial service firms on relationship marketing and its related systems would increase in future. Successful relationships with the customers involve a mutual fulfillment with benefits to the service provider and the customer (Swartz and Iacobucci 2000)\textsuperscript{36}.

3.4.5.1 Benefits from Relationship Marketing to Customers

Customer desires a relationship with a specific service provider if they find that the benefits to be received will significantly exceed the associated costs of obtaining such benefits. Customers want banks to manage all customer interactions and focus on building a relationship


over time (Wilmshurst and Mackay 2002)\textsuperscript{37} and they are willing to build a long-term relationship based on trust and mutual respect with banks that provide differentiated and personalised services (Customer Relationship Management in Financial Services 2001). Other authors agree that quality relationships consist of bonds, commitment, satisfaction, kindness and trust between the two parties (Rauyruen and Miller 2007)\textsuperscript{38} and Kotler et al 1998)\textsuperscript{39}.

Kevin P. Gwinner et al (1998)\textsuperscript{40} analysed the benefits, which customers derive from relationships, could be grouped into three categories.

\begin{itemize}
\item Confidence benefits include feelings by customers, that in an established relationship there was less risk, confidence in correct performance, ability to trust the provider, less nervousness when purchasing, accurate expectation, and receipt of the firm’s highest level of service.
\end{itemize}

\begin{itemize}
\item \textsuperscript{40} Kevin P.Gwinner, Dwayne D.Gremler and Mary Jo Bitner (1998), “Relationship Benefits in Services Industries: The Customer’s Perspective”, \textit{Journal of the Academy of Marketing Science}, Volume 26, Number 2, pp.101-114.
\end{itemize}
• Social benefits embrace mutual recognition between customers and employees by name, friendship with the service provider and enjoyment of certain social aspects of relationship.

• Special treatment benefits include better prices, discounts on special deals, extra services, higher priority and faster service.

As a result of the above mentioned relationship marketing benefits, customers may experience beneficial customised and valuable services, increased customer satisfaction and decreased prices (Customer Relationship Management Benefits 2004)\(^{41}\). In relationship marketing, banks know their customers at their personal level and alter their service rendering process to the desired service delivery expectations of a specific customer. If a bank focuses on a specific customer, it will provide them service with added value, according to the customer’s specifications.

If a firm implements relationship marketing strategies, its customers will possibly experience a high level of customer satisfaction. This indicates that customers will have a high level of satisfaction at individual service encounters. The implementation of sufficient relationship marketing strategies may lead to high level of efficiency and cost reductions for a bank, which in turn may possibly lead to lower price levels for customers. Thus, relationship marketing includes

additional benefits to the customers, such as individualised services, higher customer satisfaction and special decreased bank fees in banking industry. In addition, banks implement relationship marketing strategies to gain benefits from their actions.

3.4.5.2 Benefits from Relationship Marketing to Banks

Banks desire to build and maintain relationships with customers and it generates better results when they manage their customer base to identify, satisfy and retain their most profitable customers. The rationale for implementing relationship marketing strategies is that it improves business performance by enhancing customer satisfaction and customer loyalty and by increasing customer retention (Bergeron et al, 2008\textsuperscript{42} and Mudie and Cottam 1999)\textsuperscript{43}. Eid (2007)\textsuperscript{44} indicates a successful customer relationship marketing strategy and its technological implementation to improve customer service, customer satisfaction, and faster and successful transactions.


Baron and Harris (2003)\textsuperscript{45} mentions that relationship marketing can lead to lower marketing costs, the reason may be that satisfied customers with better, established relationships with banks increase sales without needing additional marketing to convince them to purchase from the bank. In addition, they state that proper relationship marketing results in positive, free word-of-mouth recommendations. Satisfied customers, often share their positive experiences with potential customers of a bank.

According to Peppard (2000), other studies by Schwaiger and Locarek-Junge (1998)\textsuperscript{46} and Heskett et al (1994)\textsuperscript{47} also highlight the following benefits resulting from superior relationship marketing:

\begin{itemize}
\item Relationship marketing improves through two-way communication, and where a bank has effective two-way communication channels, there is the potential for the bank to learn from and understand its customers better.
\item Through relationship marketing, customer demands can be estimated and thus customer preferences can be determined by a bank.
\end{itemize}

\textsuperscript{45} Baron.S and Harris.K (2003), Services marketing: Texts and cases, New York: Palgrave, p.64.


Previous studies have proved that the quality of service provider relationship with its customers influences the other aspects of bank, for instance, the level of service quality (Rootman 2006)⁴⁸, customer’s positive feelings and satisfaction with their bank, and the relationship strength between the bank and its customers (Barnes and Howlett 1998)⁴⁹. It is evident that service firms, including banks, should focus on relationship marketing in order to benefit from many advantages of properly implemented relationship marketing strategies.

3.4.6 Weakness of Relationship Marketing

It is important for banks to realise that, in addition to the benefits of relationship marketing, there are some possible weaknesses. One of the major weaknesses of relationship marketing is that many banks do not completely understand how to implement relationship marketing strategies. According to Peppard (2000), a study has shown that most financial service firms have a too narrow view of relationship marketing, and, therefore, they do not experience all the positive effects of relationship marketing as intended.

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Relationship marketing is not only about the implementation of technology (Eid 2007) or the launch and maintenance of a loyalty programme (Hall 2000). In addition, Eid (2007) emphasises the complexity and difficulty of implementing successful relationship marketing strategies, especially customer relationship marketing technologies. A too strong focus on relationship marketing may result in disadvantages for the bank and its customers. If the customers do not prefer to maintain relationship with their service provider, they will switch over to a competitor for products and services.

Hall (2000) indicates that banks should focus on the most profitable and loyal customers instead of the customers to offend the bank. In other words, a firm may permanently lose clients, if it implements relationship marketing strategies toward the wrong segment of clients. Despite these disadvantages, the benefits resulting from successful relationship marketing efforts over-shadow the disadvantages. Therefore, it is still important and vital for banks in today’s competitive business environment to focus on relationship marketing and to identify the methods or strategies of relationship building and development.

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3.4.7 Relationship Marketing Theory

The challenge for the most of the companies today is to thrive in a relationship economy (Cap Gemini Ernst and Young, 2005). Competition for the most profitable customer relationships is extremely tough and companies need to know who their customers are. This includes aspects like their preferences, their habits, and their experiences with companies and particularly with their value. Customers have become very much demanding and their expectations have increased to new heights. The environment has evolved into a complex landscape, which has resulted in the high value placed on relationship marketing today.

Relationship marketing has evolved from a primary focus on consumer goods in the 1950s, industrial marketing in the 1960s, non-profit and societal marketing in the 1970s, services marketing in the 1980s and finally, relationship marketing in the 1990s (Christopher et al 1991).

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In order to understand the essence of relationship marketing in customer retention, the concept of relationship has to be discussed. The term relationship comes from the Latin word relatio, relation + onis, which means carrying back, bringing back, also with the meaning of repetition and reference, similarity, repayment (Woodhouse 1972)\(^53\). Relation has the meaning of dependence between two things, to know each other, intimacy, political, commercial and cultural mutual interests. By analysing these different meanings of the term, it can be concluded that a relationship implies commitment, duties, mutual understanding.

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and goals. In this line of thought, Ford et al (2003)\textsuperscript{54} claim that a company’s relationship with its customers, suppliers and others is an asset for the company but it is also a burden for it to carry.

Gronroos (1994)\textsuperscript{55} states that a paradigm shift is evolving in marketing from the focus on the four P’s of marketing – Product, Price, Place and Promotion – to a new approach based on relationship building and its management. Relationship marketing, as part of marketing, involves the relationships and interactions between customers, suppliers, competitors, and others. This, however, does not mean that the four P’s are less valuable, but the focus has moved to a new paradigm where the main focus is given on more market-oriented drives and the customer as the marketing concept. Relationship building can be seen as the cornerstone of marketing.

Relationship marketing focuses on customer retention, service, and product benefits, a long-term scale, service emphasis, high customer commitment, customer contact, quality, customer loyalty and finally customer retention (Abratt and Russell, 1999)\textsuperscript{56}. Its focus is to

\begin{itemize}
\item \textsuperscript{55} Gronroos.C (1994), Quo Vadis, Marketing? Toward a Relationship Marketing, pp.35-45.
\end{itemize}
move customers up to the ladder of loyalty (Voss and Voss, 1997). Its strategy also seeks to change the market demands in favour of a particular company by providing unique value, which must be sustainable over time. It is seen as a combination of quality, customer service, and marketing. The key relationship is based on the relationship between the supplier and the customer. All of this reflects the concept that the centre of the relationship marketing philosophy is to make the most of the existing customers (retention) enable the company to make long-term profits.

Figure 3.2
Relationship Marketing, Quality and Service

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Relationship marketing is similar to the concept of one-to-one marketing. One-to-one marketing means “to be willing and able to change your behaviour toward an individual customer based on what the customer tells you and what else you know about that customer” (Peppers et al, 1999). It is grounded in the principle of establishing a learning relationship with each customer, with a focus on your most valuable ones.

Relationship based marketing can result in long-term retention, which leads to improved financial and market performance, and an increased competitive edge. It is further concerned with the building of bonds with customers to ensure long-term relationships of mutual advantage. The below diagram illustrates the inter-relationships that exist between the bank, customer and employee. Two-way relationships must exist among the three parties of the triangle to make relationship marketing successful (Bennett and Durkin, 2002). 

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Relationship marketing has been addressing the importance of getting and keeping customers and building an ongoing relationship (Rayner, 1996). The concept of relationship marketing is rooted in services marketing and incorporates service delivery processes. The relational exchange can provide a competitive advantage and create barriers to switching. To be effective and successful, the relationship marketing philosophy needs the support of the people in the other departments and business functions on an integrated basis. According to Gummesson (1998), Abratt and Russell (1999), there are certain themes emerging in the relationship marketing literature:

- Emphasis on the relationship rather than on a transaction approach to relationship marketing. The focus is to increase customer loyalty and customer retention. Banks need to know

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their customers, what their needs are and cross-sell throughout the banking group. The relationship is also based on equal and respectful terms.

- Banks must understand the economics of customer retention. They need to ensure the appropriate allocation of marketing resources to existing customers. The increased retention will lower costs and can lead to increased productivity.

- Customer segmentation is critical for an effective relationship marketing strategy. This involves targeting certain profitable customers and maximising the lifetime value of desirable customers and customer segments.

- Marketing and quality customer service needs to be integrated. The extent to which the customer perceives the relationship banker will influence relationship quality. This will lead to the establishment of trust and will build commitment throughout relationship.

- Banks need to care for existing customers and increase their share of spending.

- The four P’s (marketing mix – Product, Price, Promotion and Place) do not adequately explain the key issues of building a sustained long-term relationship.
• Relationship marketing can be applied to various market domains and not just consumer markets. Relationship marketing can differentiate a bank and lead to competitive advantage.

The banking institutions offer the products and services to the customers with certain conditions. The marketing could offer new solutions, if the banks shift the focus of their orientation and activities from transaction marketing towards banking relationship marketing. Relationship marketing tries to establish an “intimacy” that is individualised, links customers via strong and personal appeal, and continuing commitment (Lee and Carter, 2005). Trust, commitment and communication between the bank and the customer increase loyalty and relationship.

Relationship marketing offers new opportunities for banks, since it is loyalty marketing, within the framework of a partnership. This means that this kind of marketing aims to create, maintain and improve the customer’s long-term loyalty (Gordon 1998). Such goal means that a bank should find a balance between customer satisfaction and profit of the bank. The change of focus toward customer satisfaction and loyalty is especially expectant with new opportunities for relationship development. In relationship marketing, bank marketing acknowledges customer satisfaction through creating and delivering value, under the form of banking services, as the main goal of any banking institution. A

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bank should really be customer oriented and the financial objectives could be achieved by recognition and satisfaction of the customer’s needs and expectations throughout the entire life cycle of the relationship. The loyalty gained through a higher customer satisfaction should be tracked down within the framework of relationship development.

Ghavami and Olyaei (2006)\textsuperscript{63} study the process and objectives of relationship marketing in customer retention and it is very important for the survival of companies in today’s competitive environment. The study further identifies “Customers” are very important factors in companies’ management, with the power to change their short-term and long-term policies and strategies. Therefore, enough knowledge of environment, expectations, customers and their desires are very important to find the best solutions for facing unexpected behaviour of customers to satisfy and retain them for profit.

\section*{3.5 CUSTOMER RETENTION}

Customer is a person, company or other entity which purchases goods and services produced by another person, company or other entity. The customers can be categorised as retail and wholesale customers as per the purchasing patterns. However, in certain contexts,

the term customer also includes the extension of any entity that uses or experiences the services of another. The customer is a person who comes with high expectations and value-oriented in consuming services as they have alternative choices (Slater, 1997)\textsuperscript{64}.

Retention is the measure of how well the customer stays with the organisation or with specific products and services. Customer retention occurs when a customer is loyal to a company, a brand or a specific product or service, expressing a long-term commitment and refusing to purchase from competitors (Reichheld, 1996)\textsuperscript{65}. A bank can adopt a number of strategies to retain its customers, such as concepts of customer service, customer relations, and relationship marketing. It can build loyalty and retention through the use of number of techniques, including, database marketing, the issue of loyalty cards redeemable against a variety of goods or services, preferential discounts, free gifts, special promotions, newsletters or magazines, club memberships, or customised products in limited editions. It is argued that customer retention is linked to employee loyalty, since loyal employees build up a long-term relationship with customers.


Customer retention involves the steps taken by a service sector in order to reduce customer defection. Successful customer retention starts with the first contact of a bank with a customer and continues throughout the entire lifetime of a relationship. It should become a part of the strategic marketing planning process of any bank. Several studies put emphasis on the significance of customer retention in the banking industry (Fisher, 2001)\(^66\).

The argument for customer retention is relatively straightforward. Customer retention is important to the service sector because the cost of acquiring a new customer is far greater than that of maintaining a relationship with a current customer (Ro King, 2005)\(^67\). This is because the expense of acquiring customers is incurred only in the beginning stages of the commercial relationship (Reichheld and Kenny, 1990)\(^68\). In addition, long-term customers buy more and generate positive word-of-mouth promotion, out of satisfaction, for the company. Additionally, long-term customers also take less of the company’s time and are less sensitive to price changes (Healy 1999)\(^69\). Customer retention can be seen as the mirror image of customer defection. It is in terms of percentage share of customer savings, borrowing or expenses.

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3.5.1 Customer Retention Dimensions

In marketing literature, customer retention has turned into a theory according to the key characteristics called customer trust, customer commitment, corporate image and customer service. The researcher discusses the four dimensions as below:

3.5.1.1 Customer Trust

Customer trust holds the key mediating role in successful customer retention (Morgan and Hunt, 1994). In commerce, customer trust has been variously defined as:

- A willingness to take risk
- A willingness to believe the trustee or
- A belief concerning certain characteristics of the trustee.

Customer trust is the principal mediator between product or service attributes and customer retention (Garbarino and Johnson, 1999). It significantly contributes to sales growth through customer acquisition and retention.

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3.5.1.2 Customer Commitment

Customer commitment implies that there are mutual benefits and that the parties involved want to stay in the relationship and are prepared to put in efforts and investments in terms of monetary and psychological in maintaining the relationship (Morgan and Hunt, 1994). Customers tend to commit themselves to establishing, developing, and maintaining relationships with a service provider who offers value-added benefits. These benefits can be classified as confidence, social and favourable treatment (Gwinner et al, 1998)\(^\text{72}\).

3.5.1.3 Corporate Image

Today’s consumers have more choices for their financial needs than ever before. Technology, globalisation, increased competition and increased consumer mobility have radically changed the way people bank (Harwood, 2002)\(^\text{73}\). He argued that branding as a tool to build image, is critical in the banking industry where all firms offer about the same kinds of products. Hence, it is critical that banks have a comprehensive knowledge of customers’ values, attitudes, needs and perceptions of various services the bank offers and the image which customers have of the bank itself (Kaynak 1986)\(^\text{74}\). Accordingly, bankers


must be able to build and manage their bank’s image in order to clearly define the differences between their bank and its competitors.

3.5.1.4 Customer Service

Customer service is a strategic tool for increasing customer satisfaction and sales (Berkowitz et al 1989)\textsuperscript{75}. It is the ability of a system to satisfy users, in terms of time, dependability, communication relations, and convenience and it is also industry specific. In the case of banking services, customer service can be seen as the performance of core services, provision of support services, complaint handling, and interpersonal communication by service providers.

3.5.2 Benefits of Customer Retention

The major benefits of customer retention to banks and their customers are as follows:

3.5.2.1 Benefits from Customer Retention to Customers

If there is a relationship between a bank and a customer (thus successful relationship marketing) and the customer is retained in the bank (customer retention), it is evident that the customer receives the same benefits from customer retention and relationship marketing. There are a number of additional benefits that apply to customers when they are retained by a bank (thus successful customer retention).

According to Buttle (2004) these benefits include recognition, personalisation, power, risk reduction, status and affiliation. A discussion of these benefits is as follows:

- Retained customers feel more valuable when recognised and addressed by the bank employees.

- Products and services may be personalised by a bank for its retained customers, as they are already familiar with the bank.

- Some retained customers feel that they have “power” in demanding special product and service offerings through relationships with a particular bank.

- Retained customers may feel that their risk of acquiring, maintaining or making use of a particular product and/or service is reduced because of their relationship with the bank.

- Retained customers may receive the benefit of enhanced status levels as a consequence of their relationship with a particular bank.

- A permanent relationship with a bank (such as a retained customer) may ensure feelings of affiliation for customers.

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3.5.2.2 Benefits from Customer Retention to Banks

As stated, customer retention can lead to many benefits for banks, including cost savings, word-of-mouth recommendations and an increase in revenues and profits. In addition, Reichheld and Sasser (1990)\(^{77}\) state that customer defections (the opposite of customer retention, i.e. where a bank loses its customers) have a surprisingly powerful and thus cause negative impact on the “bottom line” or profits of a bank.

It is a known fact that acquiring a “new” customer costs more than retaining an existing one (Brink and Berndt 2008). Farquhar (2003)\(^{78}\) indicates that customer retention can improve revenue by decreasing the costs incurred in acquiring new consumers. According to Buttle (2004), the main benefit from customer retention is the reduction in banks’ marketing costs. It also shows that improving customer retention rates increases the size of a bank’s customer base and the larger customer base ensures better financial performance for the bank.

Regular customers tend to place frequent and consistent orders, thereby decreasing the costs of servicing existing customers (Brink and


Berndt 2008). According to Kotler (2000), retained customers buy more as the bank introduces new products and/or services. Thus, as the relationship between a bank and its customers grow and they become retained customers, they try to trust the bank, and its products and services. Therefore, these customers are willing to increase their purchases from the bank.

According to Brink and Berndt (2008), efforts to retain customers cause barriers for potential competitors to enter the market and make it difficult for existing competitors to increase their market share. This is also due to the fact that customer retention results in banks’ better understanding of their customers and therefore banks can ensure an improvement in customer satisfaction. Kotler (2000) also states that retained customers pay less attention to the competitors; this results in more difficulty for other banks to compete the market share.

Banks can also gain word-of-mouth recommendations through satisfied and retained consumers (Kotler 2000 and Reichheld and Sasser 1990). Brink and Berndt (2008) also state that long-time (retained) customers tend to be lesser price sensitive and therefore allow banks to charge a slightly higher price for products and services before becoming

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dissatisfied. Buttle (2004) also emphasises the benefits of customer referrals and premium prices on customer retention.

Improved customer retention can also lead to an increased level of employee satisfaction (Brink and Berndt 2008) as employees notice positive results of the retained customers and they receive additional employee benefits for the improved customer retention levels. An increase in employee satisfaction and employee retention leads to other resultant benefits for the bank, such as lower absenteeism and employee turnover rates. This may lead to additional cost savings for the bank.

According to Karakostas et al. (2005), acquiring new customers is five times more expensive than generating repeat business from the existing customers. Thus, through customer retention, the funds spend on acquiring “new” customers can be used for other bank activities, such as sending regular newsletters to existing customers. They indicate that customer retention may lead to additional revenues for a bank. A 5 percent increase in customer retention may result in an 18 percent reduction in operating costs. This is especially important to banks, because banks generally regard at least 80 percent of their profits to be gained from only 20 percent of their customers. Reichheld (1996) indicates that customer retention is a key driver of a bank’s profitability. Research has shown that a 5 percent increase in customer retention can
increase a bank’s profit by between 20 and 100 percent (Reichheld et al, 2000)\textsuperscript{81}.

The discussion on the benefits of retaining customers takes the same form as discussion of customer retention, i.e. it is both quantitative and qualitative, or more specifically, it addresses both economic benefits and non-economic benefits. Arguments which justify the strategy of retaining customers as opposed to acquire the new customers are strengthened by microeconomic theory and, in particular, the concept of customer LTV. The assumption is that, in a relationship, a seller seeks to minimise their costs and maximise their revenues. Customer retention affects both elements of the profitability equation, where

\[ \text{Profit} = \text{Revenue} - \text{Expenses or Cost} \]

Customer retention helps to increase revenue through increases in sales volume and/or premium prices, as well as, reducing the expenses or costs of generating those revenues. An increase in retention rate has been argued to have led to a corresponding increase in profit (Dawkins and Reichheld, 1990; Reichheld and Kenny, 1990; Reichheld

and Sasser, 1990; Reichheld, 1993 82, 1996). Reichheld (1996) has identified six economic benefits of retaining customers:

- Savings on customers’ acquisition or replacement costs,
- A guaranteed base profits, as existing customers are likely to have a minimum expense per period,
- Growth in per-customer revenue as, over a period of time, existing customers are likely to earn more and have more varied needs and spend more,
- A reduction in relative operating costs, as the banks can spread the cost over many more customers during a longer period,
- Free of charge referrals of new customers from the existing customers, as it is costly in terms of commissions or introductory fees and
- In case of price premiums, the existing customers do not usually wait for promotions or price reductions before deciding to purchase, in particular with new models or versions of existing products.

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Existing customers cannot only provide feedback about the products and services, but also work together with the bank to add value to a particular product by improving its functional features or by modifying the banking schemes.

3.5.3 Drawbacks of Customer Retention

Logically, the main drawback of customer retention occurs when a bank retains the “wrong” customers. In other words, if a bank retains its current unprofitable customers, it does not receive the benefits from profitable customers. The drawback of customer retention experienced by the customers of a bank occurs when it uses negative customer retention strategies. Negative customer retention strategies “lock the consumer in” by penalising the consumer for an exit from the bank-customer relationship (Buttle 2004). In other words, if a bank penalises the consumers when they want to switch over to the competitors, products or services, it implements “negative” methods of customer retention strategies.

This may result in disadvantages for the consumer, such as high switching costs and more administration before switching banks. In addition, consumers may now have negative attitude toward the bank “locking them in” and the consequence thereof may be negative word-of-mouth communications. Barnes and Howlett (1998) also indicate that forcing customers to deal with a bank does not contribute to quality and positive bank-customer relationships.
3.5.4 Measuring Customer Retention

Dawkins and Reichheld (1990)\(^83\) highlights a relatively small percentage increase in the retention rate can lead to a large increase in the net present value of customers. The bank may aim at capturing the largest proportion of its customer’s ‘lifetime value’ (LTV) in terms of needs for banking products and services. The LTV of a customer refers to the customer’s net present value to a seller. If the period of relationship and future revenues and costs are projected, then the net value can be calculated and discounted at a chosen discount rate in order to arrive at the LTV of a particular customer.

Several authors have recognised the importance of the concept of LTV. According to Dwyer (1989)\(^84\) customer LTV is an important construct in designing and planning a customer acquisition programme. Many researchers have studied its managerial implications in direct marketing (Dwyer, 1989 and Keane and Wang, 1995)\(^85\) and broader managerial applications (Wayland and Cole, (1997)\(^86\), Berger and Nasr,

1998). Berger and Nasr (1998)\textsuperscript{87} discuss LTV with different combinations of assumptions, such as discrete cash flows, continuous cash flows and historical purchasing behaviour.

Quantitative measure of retention and defection rates can be a good starting point in the process of understanding customer retention. However, this will become more complex when a bank offers a wide range of products to different customers. The optimal measure of customer retention is able to measure not only the absolute, crude or relative retention rate but also the banks’ present and future profitability. In using customer retention as a marketing strategy, banks have to establish continuous seller-buyer associations that can be connected to their profitability.

3.5.5 Potential Strategies for Retaining Customers

Customers can be retained using three potential strategies like conceptual strategies based on existing theories, best practices strategies as reported by specialists and pragmatic strategies as observed in companies. In terms of existing theories, the author considered lessons from services marketing, industrial marketing and business-to-business marketing perspectives.

From the service marketing perspective, customer retention has been conceptualised as a consequence of customer-perceived service quality and customer satisfaction (Berry and Parasuraman, 1991; Zeithaml and Bitner, 1996). Based on cause and effect model, the service provider could therefore focus on progressively closing the gaps between customer expectations and experiences of service quality. Based on a survey of service providers, Payne and Frow (1999) offer a four step framework, such as market structure, segment the customer base and determine segment value, identify segments’ service needs and implement a segmented service strategy. They claim that the framework enables banks to allocate appropriate budgets to various segments of customers according to their projected lifetime profitability.

From the industrial marketing perspective, core products are often of little significance to potential buyers. Augmented products, such as technical advice and long-term cost of maintenance and operation tend to be more important than functional features and selling price. Turnbull and Wilson (1989) argue that banks should protect their profitable customer relationship through not only social but also

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structural bonds. Social bonds, according to Turnbull and Wilson (1989), refer to positive inter-personal relationship between employees in the buyer and seller organisations. Although they do not provide an explicit definition of structural bonds, they imply through their illustrations that structural bonds are built upon joint investments which cannot be retrieved when the relationship ends. Therefore, structural bonds help to create value for customers by saving the cost of retraining or making a new investment with a new supplier.

While the industrial marketing perspective acknowledges the nature of the product to be an important determinant of the process of buying (Jackson, 1985)\textsuperscript{92}, the business-to-business (B2B) marketing perspective recognises the nature of customers that is businesses have multiple and inter-connected relationships (Ford et al., 1998)\textsuperscript{93}. The key argument of this perspective is that marketing to businesses involves managing inter-connected relationships among buyers, sellers, competitors and third parties and, hence, is open to the possibilities of inter-connected multi-interdependencies. The marketing of industrial products and business-to-business marketing are similar in some regards like bonding, interdependencies and relationships.

Although all the customers do not prefer long-term relationships, those who prefer stable long-term relationships, inherently spend more, pay promptly and require less service. Reichheld (1996) adds that long-serving employees generate several economic benefits, such as better at finding and recruiting the best customers, but they retain customers by producing better products and value and they are the sources of customer referrals.

Potential strategies for managing customer retention have also emerged from the observations of management practice. DeSouza (1992) offer strategies that measure retention in terms of both crude and weighted rates. DeSouza gives three components for measuring retention, such as interviewing former customers, analysing complaint and service data and identifying switching behaviour. With the use of computers, banks experience little difficulty in calculating and reporting both crude and weighted rates. In addition to measuring retention, banks should consider interviewing former customers in order to learn their reasons for defecting. Customer defections may have been caused not only by the relationship marketing, but also by the factors beyond its control.

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DeSouza (1992) has identified six types of defectors: (1) price - for a lower price, (2) product - for a superior product, (3) service - for a better service, (4) market - for a different market, (5) technological - a customer who has converted from using one technology to another and (6) organisational - switches due to political pressure. However, banks could find it difficult to persuade their former customers to agree with interviews. Moreover, a long lapse of time between defecting and the interview make it difficult for former customers to recall their reasons for switching. The second component of DeSouza’s (1992) strategy is analysing complaint and service data. This can provide clues for service and product improvement. The final component is identifying switching behaviour. This means that to identify the reason to switch to competitors industry.

Keaveney (1995)\(^5\) has identified eight causes of switching behaviour in service industries, such as price, inconvenience, core service failures, failed employee responses to service failure, ethical problems, involuntary factors, competitive issues and service encounter failures. She has discovered that six of the eight causes of switching behaviour are controllable by the service provider. This finding offers an opportunity for banks to develop barriers for preventing customers from switching.

It is probably unrealistic to expect all customers to stay indefinitely. Banks have to accept that a proportion of their customers will leave from time to time for a number of reasons. A strategy that enables banks to cope up with this situation is customer portfolio management. It involves an analysis of the banks customer portfolio with a view to creating a specified balance of customer groups before reorganising the bank for customer retention (Rosenberg and Czepiel, 1984)\textsuperscript{96}. A customer portfolio comprises several groups of customers with different buying behaviours, such as the first-time buyers, repeat buyers, switched-away-then-return buyers and last-time buyers. Three factors need to be considered when banks seek the optimal balance in their portfolio. First, the consumers can perceive the product differences.

According to Rosenberg and Czepiel (1984) when the products are selected on the basis of `objective' superiority, such as luxury cars, keeping customers is relatively easier than if they are selected on the basis of `subjective' criteria, such as cosmetics. The banks then apply a customer-retaining marketing mix and reorganise themselves for customer retention. Some examples of retention tactics are giving more products, reinforcing promotions, providing sales force connections, providing specialised distribution and providing post-purchase communication. Reorganisation for customer retention involves setting

an acceptable target for customer turnover, establishing executive accountability for keeping customers and improving internal coordination by targeting promotional strategies towards repeat usage.

3.5.6 Significance of Customer Retention on Banks

From relationship marketing perspective, successful banks manage to turn their customers into clients (Berry and Parasuraman, 1991)\(^\text{97}\) and from prospects into partners (Christopher et al., 1991\(^\text{98}\); Peck et al., 1999)\(^\text{99}\). Vandermerwe (1996)\(^\text{100}\) have pointed out that successful banks ‘own’ their customers and pursue ongoing values for them.

Fornell and Wernerfelt (1987)\(^\text{101}\) emphasise that marketing resources may better be spent on keeping existing customers than acquiring new ones. Existing customers are profitable and they cost less to keep, than to replace. Banks, therefore, have to be aware of the profitability of not only their products, but also their customers.

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overwhelming argument for customer retention is that it is cheaper to retain than to acquire new customers (Blattberg and Deighton, 1996)\(^{102}\).

Customer retention clearly deserves some attention and should form part of the banks’ strategic marketing goals rather than simply being seen as the end result of ‘good’ marketing management. However, banks attempting to integrate customer retention goals and strategies into their strategic planning process need to consider practical issues.

3.5.7 Influence of Relationship Marketing on Customer Retention

Selected studies have previously shown that a link exists between relationship marketing and customer retention. A study by Karakostas et al. (2005) shows 71 percent of the bank customers indicate that their relationship marketing strategies have been implemented with the purpose of ensuring customer satisfaction. It is known that when a customer is satisfied with a bank’s products and services, the customer will not switch to a competitor bank. Thus, the higher the bank’s customer satisfaction levels are, the higher the bank’s customer retention rate is. In effect, the above mentioned study by Karakostas et al. (2005) indicates that 71 percent of the banks customers motivate the implementation of their relationship marketing efforts as possibly leading to higher customer retention rates.

Johnson (2004)\textsuperscript{103} also indicates that banks have based their revenue-building strategies on improving customer retention on the basis that there is less effort required to sell more to existing customers than the effort required to win or acquire new ones. Peppard (2000) indicates that customer retention can be maximised by matching product and service levels more closely to customer expectations through proper relationship marketing.

Eid (2007) regards customer retention as the guide to measure the CRM success of a bank, thus suggesting a link between relationship marketing and customer retention. Menon and O’Connor (2007)\textsuperscript{104} also suggest that banks should focus more strongly on the components of a relationship marketing strategy that will increase customer retention. According to the study of Eid (2007), the relationship quality of banks has a direct and positive effect on customer retention. Overall, this study by Eid (2007) shows that acquiring a better understanding of existing customers allows banks to more effectively interact with, respond to and communicate with customers, and this significantly improves customer retention rates. Thus, relationship marketing can be regarded as the facilitator of customer retention strategies. As explained earlier, various studies over a number of years have identified a link


between relationship marketing and customer retention (Bergeron et al. 2008; Ackermann and Van Ravensteyn 2005, Wilmshurst and Mackay 2002 and Mudie and Cottam 1999), and specifically in service industries (Swartz and Iacobucci 2000).

Thus, research has shown a relationship between relationship marketing and customer retention; however, no study has solely focused on this relationship in the banking industries of Tamilnadu. In addition, no study has specifically investigated this relationship as perceived by both bank customers and bank managers.

3.5.8 Link between Relationship Marketing and Customer Retention

The primary objective of the present study is to identify the variables influencing relationship marketing and customer retention in SBI and ICICI Bank, both from bank customers’ and managers’ viewpoints. Therefore, it is important to clarify the link between relationship marketing and customer retention before starting a discussion on the various independent variables in the conceptual background.

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Relationship marketing and customer retention concepts have been discussed and a clear connection between the concepts has been identified in this Chapter. It is proposed, based on the literature analysis, that the customer retention of banks, including banks, will improve if relationship marketing is implemented (the building and maintaining of relationships with profitable clients).

Various secondary sources share the above proposal that relationship marketing influences customer retention. The link between relationship marketing and customer retention, as identified by various studies (Bergeron et al. 2008; Ackermann and Van Ravensteyn 2005; Wilmshurst and Mackay 2002; Swartz and Iacobucci 2000 and Mudie and Cottam 1999), has been clearly highlighted in Chapter two. Karakostas et al. (2005) also states that the philosophy of relationship marketing is based on customer retention.

A relationship marketing approach develops a long-term, retained loyal customer (Gummesson 2008). Baron and Harris (2003) mention that proper relationship marketing by a bank increases customer expectations. If customer expectations are met, it is possible that customers will be retained by a bank and higher customer retention levels will be attained. Roche (2007) indicates that the right

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deployment of CRM (the technological application of relationship marketing strategies) can lead to higher levels of customer retention.

Thus, it is evident that different theoretical sources state that relationship marketing influences customer retention. Therefore, the link between relationship marketing and customer retention can possibly be true for the Tamilnadu based banking industry, focus area of this study.