CHAPTER - I

INTRODUCTION AND DESIGN OF THE STUDY
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1.1 INTRODUCTION

Relationship marketing plays a significant role in customer retention, as establishing, maintaining and enhancing customer relationship have always been important aspect to any business. In the present business world, marketing move away from transactional marketing to relationship marketing. Since the early 1990s, interest in relationship marketing has extended to service sector.

Relationship marketing is the method of gradually turning prospective consumers into customers and it is a planned program to convert them into life time customers. It is also a philosophy of doing business that focuses on keeping up and improving relationships with current customers rather than acquiring new ones (Valarie A. Zeithaml et al. 2008)\(^1\). Proper relationship marketing may bring about low marketing cost, enhancement in customer satisfaction and customer loyalty, and increase in customer retention rates of banks (Bergeron et al. 2008)\(^2\). Relationship marketing holds customer retention as its main

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objective. It is identified that retaining the existing customers is more profitable than trying for new clients (Ian Linton, 1998)\(^3\).

Customer retention refers to retaining the customers via products and services. It can lead to various benefits for banks, including higher sales and profitability, lower cost of acquiring new customers and word-of-mouth recommendations. These benefits can contribute to the survival of banks and ensure greater banking success (Rootman et al. 2011)\(^4\). In this study, the researcher analyses the relationship between relationship marketing and customer retention in public and private sector banks with special reference to SBI and ICICI Bank. The researcher undertakes relationship marketing and customer retention dimensions to analyse the relationship between them. The relationship marketing dimensions are trust, commitment, empathy, conflict handling, communication, personalisation, ethics and technology and the customer retention dimensions are customer trust, customer commitment, customer services and corporate image.

1.2 IMPORTANCE OF THE STUDY

Banks in India plays a pivotal role in economic development of a nation. In its nation-building endeavour, they are expected to act as socially responsible citizens, by turning all the people, as customers under their belt. They are the responsibility of providing their

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customers all services at affordable cost, besides charging reasonable profits to sustain their operations. Creating and sustaining a large network of customers is the need of the hour for every bank. In this context, a bank needs relationship marketing strategy to retain an existing customer and acquire a new consumer, and it follows relationship marketing strategy to maintain a long term relationship with their customers. Otherwise, there is a high possibility for the customers to switch over to the other banks. In the present scenario, customers have been inspired by good services and better relationship, apart from the products and schemes. A bank can satisfy its customers through the different dimensions of relationship marketing and customer retention. Hence, the present study has been undertaken to identify the different dimensions of relationship marketing and customer retention in SBI and ICICI Bank. Towards this end, the researcher analyses the association between demographic profile of the customers and relationship marketing and customer retention dimensions and also find out the relationship among relationship marketing, customer satisfaction and customer retention in SBI and ICICI Bank.

1.3 STATEMENT OF THE PROBLEM

Customer mobilisation and retention has become a complex task for every bank in India, due to various factors, and every bank is striving hard and take all out efforts to build a sustainable customer network. To establish and strengthen wide customer base, every bank
has devised various strategies to retain the existing customer and create a new one. This vouches the significance of relationship marketing in banks. Owing to heavy competition between the public and the private sector banks, relationship marketing concept came into existence after the year 1992 with much emphasis on customer retention. In the 21st century, banks highly concentrated on managing customer relationship to retain their customers. In general, banks experience high cost when they try to acquire new customers rather than retaining the existing ones. Acquiring a new customer can cost 5-10 times more than retaining the existing one, a 2 percent rise in customer retention equates to a 10 percent reduction in operating costs, and a 5 percent boost in customer retention brings forth an 84 percent increase in a lifetime profit. So, the banks should aim at improving the business growth potentially (Sheth and Parvatiyar, 1995) by following the relationship marketing strategy to retain their customers rather than acquiring new ones. It is also important to analyse the relationship among relationship marketing, customer satisfaction and customer retention in SBI and ICICI Bank. In this backdrop, the researcher identified the following questions and probed answers to these questions.

i. What dimensions influence the customers to maintain their accounts in the same bank?

ii. How do these dimensions influence the customers to maintain their account in the same bank?

iii. How does the demographic profile of the customers influence the relationship marketing and customer retention dimensions?

iv. What is the relationship among relationship marketing, customer satisfaction and customer retention?

1.4 SCOPE OF THE STUDY

Relationship marketing can be studied in various perspectives. Each perspective can suggest different dimensions to evaluate relationship marketing and customer retention. The concept of relationship marketing and customer retention has been applied in service sector and produced different kinds of outputs, but very limited research work have been performed in this area. In the prevailing circumstances, all the banks provide same types of services and schemes to acquire and retain their customers. The researcher has chosen SBI and ICICI Bank in public and private sector bank respectively for the present research on the basis of some common criteria, such as market capitalisation, employee cost, net sales, PBDIT, net profit, interest, total assets, EPS, other income, investments and debt (liability). The present research analyses the relationship among relationship marketing, customer satisfaction and customer retention in public and private sector banks through SBI and ICICI Bank. This may open fascinating
vistas for analytical and innovative research in the area of relationship marketing and customer retention.

1.5 OBJECTIVES OF THE STUDY

The study has been carried out with the following objectives:

i) To study the conceptual background of relationship marketing and customer retention;

ii) To analyse the relationship among relationship marketing, customer satisfaction and customer retention in SBI and ICICI Bank;

iii) To identify the association between demographic profile of the customers and relationship marketing and customer retention dimensions in SBI and ICICI Bank; and

iv) To offer valid suggestions to the bankers for acquiring and retaining the customers.

1.6 HYPOTHESES OF THE STUDY

The following hypotheses have been framed by the researcher, keeping in mind the objectives of the study.

i) There is no significant relationship among relationship marketing, customer satisfaction and customer retention.
ii) There is no association between demographic profile of the customers and relationship marketing dimensions.

iii) There is no association between demographic profile of the customers and customer retention dimensions.

1.7 BRIEF HISTORY OF THE BANKS

The researcher has been chosen SBI in public sector banks and ICICI bank in private sector banks for the present study. Hence a brief profile of SBI and ICICI are given below:

1.7.1 State Bank of India

The State Bank of India (SBI) is the oldest and largest bank in India. Its origin dated back to the first decade of the 19th century, with the establishment of the Bank of Calcutta on the 2nd June 1806. The bank attained its present name after passing of SBI Act in Parliament in May 1955 and it started its operation under the banner the State Bank of India on 1st July 1955. It has become a successor to the Imperial Bank of India, which was established in 1921. It came into operation on the 1st July 1955 through the State Bank of India Act, 1955. The States of India joined the State Bank Group as subsidiaries under the State Bank of India (Subsidiaries Banks) Act, 1959.

1.7.1.1 Subsidiaries

SBI includes a network of five banking subsidiaries and several non-banking subsidiaries. Since its establishment, it has been offering various services, including merchant banking services, fund
management, factoring services, primary dealership in government securities, credit cards and insurance. The five banking subsidiaries are:

- State Bank of Bikaner and Jaipur (SBBJ)
- State Bank of Hyderabad (SBH)
- State Bank of Mysore (SBM)
- State Bank of Patiala (SBP)
- State Bank of Travancore (SBT)

1.7.1.2 Branches and ATM Services

SBI corporate centre is located in Mumbai. In order to provide varied functions, there are several other establishments in and around Mumbai, apart from the corporate centre. The bank has 14 local Head Offices and 57 Zonal Offices in the major cities throughout India. It is recorded that SBI has more than 13000 fully-networked branches to provide a wide range of services to its customers throughout India. It also has 190 foreign offices over 36 countries.

SBI facilitates with more than 27000 ATMs to its customers in order to access their transactions in India. The bank also provides free transaction of money at the ATMs of State Bank Group, which includes the ATMs of SBI and its associate banks. SBI customers may also transact money through SBI commercial and International Bank Limited by using the ATM-cum-Debit card.

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6 www.indiainfoline.com
7 www.sbi.co.in
1.7.1.3 Products and Services

SBI provides personal banking and other services to its customers. The personal banking services are SBI Term Deposits, SBI Recurring Deposits, SBI Loan against Mortgage of Property, SBI Car Loan Rent Plus Scheme, SBI Educational Loan, SBI Loan for Pensioners, SBI Housing Loan against Shares and Debentures and Medical-Plus Scheme. It provides other services, such as agriculture or rural banking, internet banking, mobile banking, international banking, corporate banking, NRI services, ATM services, Demat services, broking services, RBIEFT, E-Pay, E-Rail, safe deposit locker, SBI Vishwa Yatra Foreign Travel Card and Gift Cheque.

1.7.2 ICICI Bank

ICICI bank is the largest private sector bank in India. It was originally promoted in 1994 by ICICI Limited. It was founded by the Government of India in 1960 and was set up to extend financial assistance to large industrial projects. Earlier, it was known as the Industrial Credit and Investment Corporation of India and it did not entertain the retail customers. Then in 2002, the ICICI Bank was merged with the ICICI under the banner ICICI Bank Limited.

1.7.2.1 Branches and ATM Services

The ICICI bank is situated in 19 countries, including India, and comprises 3,753 branches and 11,292 ATMs in India. Further, it houses

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8 www.icici.com
its subsidiaries in the UK, Russia and Canada. It owns its branches in the United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai. The International Finance Centre and the Representative Offices of the ICICI are situated in the United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. Further, the UK subsidiary has established its branches in Belgium and Germany.

The ICICI Bank offers a wide-range of banking products and financial services to the corporate and the retail customers through various delivery channels and its specialised subsidiaries in the areas of investment banking, life and non-life insurance, venture capital and asset management.

**1.7.2.2 Products and Services**

ICICI bank provides personal banking, NRI banking and business banking services to its customers. The personal banking services are Deposits, Loans, Cards, Investments, Demat Services, Insurance and Wealth Management. The NRI Banking services are Money Transfer, Bank Accounts, Investments, Insurance, Loans and Property Solutions. The business banking services are Corporate Net Banking, Cash Management, SME Services, Trade Services, Custodial Services and Online Taxes.
1.8 RESEARCH METHODOLOGY

This study has been performed with the Survey Method depending upon the primary and secondary data. The primary data have been collected through well-structured questionnaire. The secondary data of the study have been gathered from books, journals, magazines and websites.

1.8.1 Pilot Study

A pilot study was carried out to test the feasibility of the questionnaire to analyse the relationship among relationship marketing, customer satisfaction and customer retention in SBI and ICICI Bank. For this purpose, the researcher has contacted and interviewed 100 customers. The responses obtained from the customers have been transformed into the data sheet with suitable numerical coding.

Cronbach’s Alpha test has been applied to the primary responses with Likert’s 5 point scale to identify the reliability of the relationship marketing and customer retention variables and the overall reliability is 0.909.

1.8.2 Questionnaire Design

Well-structured questionnaire has been designed to elicit necessary data and details from the bank managers and the customers. It comprises optional type and Likert’s 5 point scale type questions. The researcher has prepared two questionnaires, one for the bank customers and the other for the bank managers. The questionnaire for the
customers and the managers covers their demographic profile and the questions related to relationship marketing and customer retention dimensions. In addition, questionnaire for the bank managers comprises both the open-ended and the closed-ended questions.

1.8.3 Sampling Technique

This study was carried out with the help of the data collected through questionnaire from the perspective of customers as well as managers. Proportionate Random Sampling Method has been employed to elicit the necessary information from the customers of SBI and ICICI Bank branches in Salem, Erode and Namakkal districts. The researcher has chosen 100 customers each from 10 revenue divisions of three districts. Hence, the sample size is 1000. Out of this sample size, the data collected from 936 customers were fit and considered for analysis, the response rate being 93.6 percent (Exhibit 1).

<table>
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<tr>
<th>Exhibit – 1</th>
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<tr>
<td>Sample Size</td>
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<table>
<thead>
<tr>
<th>Districts</th>
<th>Revenue Divisions</th>
<th>Respondents</th>
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<tr>
<td>Salem</td>
<td>Salem</td>
<td>100</td>
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<tr>
<td></td>
<td>Sankari</td>
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<td>Mettur</td>
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<td>Erode</td>
<td>Erode</td>
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<td></td>
<td>Gobichettipalayam</td>
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<td>Namakkal</td>
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<td>Tiruchengode</td>
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<td></td>
<td>Rasipuram</td>
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<tr>
<td>Total</td>
<td></td>
<td>1000</td>
</tr>
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</table>
The researcher has contacted the managers of all the branches of SBI and ICICI Bank (117 branches) in the selected districts, of which responses of 73 managers, collected through questionnaire, were considered for analysis.

1.8.4 Statistical Tools Used

The data collected from the customers and the managers were analysed with the help of various statistical tools, such as Percentage Analysis, One Sample ‘t’ test, Factor Analysis, Cluster Analysis, Chi-Square test, Descriptive Statistics, One-way ANOVA, Karl Pearson’s Coefficient of Correlation and Discriminant Analysis. The application of these statistical tools in this study is given hereunder:

❖ Percentage Analysis is used to express the result of demographic profile of the customers.

❖ One Sample ‘t’ test is used to identify the high mean value of relationship marketing, customer satisfaction and customer retention variables.

❖ Factor Analysis is employed to reduce the data and identify the relationship marketing and customer retention dimensions.

❖ Cluster analysis is used to identify the customer groups.

❖ Chi-Square test is used to identify the association between demographic profile of the customers and relationship marketing and customer retention dimensions.
Descriptive Statistics is used to measure the satisfaction level of the bank customers.

One-way ANOVA is applied to find out the differences among customer retention dimensions.

Karl Pearson’s Coefficient of Correlation is applied to test the relationship among relationship marketing, customer satisfaction and customer retention.

Discriminant analysis is used to build the contemporary model for ‘influence of relationship marketing and customer retention on customer satisfaction’.

1.9 LIMITATIONS OF THE STUDY

Salem, Namakkal and Erode districts mostly consist of customers from semi-urban and rural background. The results derived from the analysis may or may not be suitable to Metropolitan cities and urban areas.

The study covers only SBI and ICICI Bank in public and private sector respectively. So, the result obtained from the study may or may not be applicable for the other public and private sector banks.

The information provided by the customers is purely based on their memory only. The quality and reliability of the result is based on the response of the customers.
The managers of some of the branches of SBI and ICICI Bank in the selected districts could not be effectively contacted due to administrative reasons.

1.10 CHAPTER SCHEME

The entire thesis has been presented in six chapters, the description of which is as follows:

- The first chapter deals with introduction and design of the study.
- The second chapter deals with review of literature.
- The third chapter presents conceptual background of relationship marketing and customer retention.
- The fourth chapter presents customers’ profile and opinion on banking services.
- The fifth chapter analyses the influence of relationship marketing and customer retention on customer satisfaction.
- The sixth chapter sums up the major findings, suggestions, conclusion and scope for further research.