CHAPTER ONE – RELATIONSHIP MARKETING – AN OVERVIEW

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RELATIONSHIP MARKETING—AN OVERVIEW

CHAPTER ONE

Chapter overview

This chapter talks about Genesis of Relationship Marketing as a concept and emphasizes the importance of building closer relationship with customer’s results in better returns to companies. The introduction of financial services is considered within the context of retailers relationships with their customers and retailers’ ability to build closer relationships with existing and potential customers. The chapter also discusses the need for research in relationship marketing, various dimensions of the research problem, elaborates on the developments in the Indian Banking Sector, states the broad and specific research objectives and finally elaborates the framework, rationale and benefits of the study.

1.1 Genesis of relationship marketing as a concept

Relationships are as old as mankind. Traders and businessmen of yesteryears relied on relationship for their success. In the early 90s the concept of relationship marketing was formally introduced into the field of services marketing. It was established that building closer relationship with customers resulted in better returns to companies (Reichheld, 1993).

The focus of relationship marketing philosophy is of the notion that making the most out of existing clients is essential for long term profitability. Keeping clients, developing relationships with them, is crucial to establishing and maintaining a competitive advantage in the market. Higher cost of acquisition of customers has shifted emphasis to building and maintaining long term customer relationships to improve profitability (Ennew and Binks, 1996).

The development of financial service provision within the retail sector has offered retailers the opportunity to build closer relationships with their customers. The development of financial services has occurred within
increasingly competitive environments where retailers faced with limited growth opportunities in their core markets have sought to secure existing customer loyalty with schemes which establish a relationship built on retailers' better understanding of the customer and customers' greater involvement with the retailer.

The introduction of financial services is considered within the context of retailers' relationships with their customers and retailers' ability to build closer relationships with existing and potential customers. Today banks have moved way from a transactional based marketing effort to a relationship-based approach that has at its core the recognition of the lifetime value of the customer.

The growth in the number of published works (both academic and a managerial) in recent years is testimony to the renewed interest in the relational marketing paradigm (Gummesson, 1998; Morgan and Hunt, 1994; Reichheld, 1996). Two themes emerge from the expanding literature in the field (Barnes, 1995). The first is that relationships are mostly viewed from the perspective of the firm providing the service; and second, it is assumed that virtually any ongoing contact between an organization and a customer constitutes a relationship. For service firms in particular, forgoing strong customer relationships is especially important due to the intangible, ephemeral and often interpersonal nature of the service delivery process. However, to be successful in initiating and maintaining long-term relationships requires a clear understanding of motivations and other forces that entice customers to stay in a relationship. Much of the recent published work expounds clearly the benefits to the firm of establishing long-term loyal customers. Furthermore, since many service industries possess vastly different characteristics (credence v. experience properties; high v. low personal contact; continuous v. discrete transaction; membership v. non-membership relationship; customized v. standardized, and so forth) (Kasper et al., 1999), it is clear that the nature and strength of these benefits in impacting on the strength of a relationship may indeed vary by service type.
One of the main reasons for the dramatic growth in interest in relationship marketing (RM) has been the assertion of the benefits that it can bring to an organization. These benefits have taken many forms. (Rosenberg and Czepiel, 1984), for example, asserted that the cost of winning a new customer is about five times greater than the cost of retaining a current customer through the use of relationship marketing. (M. Reichheld and Sasser, 1990) further outlined the economic benefits of customer retention (which is the central notion of Relationship Marketing). Their claims that “companies can boost profits by almost 100 per cent by retaining 5 per cent more of their customers” inspired a new wave of research into Relationship marketing. (Reichheld and Sasser, 1990) also highlighted the importance of the lifetime value of the customer. This approach advocates the need to move away from a transactional view of the customer to a relationship view in order to maximize the return from a customer over a long period of time. Many other researchers have also outlined the direct economic benefits of Relationship marketing (Webster, 1994).

1.2 Need for research in relationship marketing

As the popularity of the relational paradigm grows, its applicability broadens to new areas beyond those with established histories of studying relationships in commercial settings. While to date relationships have been extensively studied in marketing channels, industrial, and some consumer settings in Western (Anglo-Saxon) cultural contexts such as Europe, US, Australia or UK, few studies have examined the paradigm in an Eastern cultural context such as Thailand, China, South Korea or Malaysia and India. The only exceptions include empirical studies of relationship marketing in an Asian market by (Aulukh, 1996). Furthermore, no studies could be located that specifically examined relationship marketing in a consumer service context in South-East Asia.

As suggested by (Srivastava et al, 1988) Collaborative relationship with customers is intangible asset with an organization; its economic value can be assessed using discounted future cash flows. Value of relationship is like
brand equity. A well accepted model for measuring relationship equity is not available in the literature as yet.

Satisfaction literature defines customer satisfaction as the primary and direct link to outcome measures in an organization leading to building of relationships with customers. Relationship marketing can then be split into three distinct parts: database marketing; interaction marketing; and network marketing. Financial services provide retailers with the opportunity to use all three areas of relationship marketing more effectively. Firstly, they enable retailers to hold information in marketing databases they would otherwise lack. Secondly, they provide the opportunity for greater interaction with customers both in-store and remotely, through viable and valid communication regarding their financial services. Finally, they offer the opportunity to create networks with other retailers or banks (or both) when a decision is made to enter into a strategic alliance with these parties to provide financial services.

While financial services may be seen as a means by which retailers may positively develop their relationship with existing customers, they may also be seen as a means by which retailers reduce the negative aspects of their relationship with financial service providers such as the banks. Also research into retailers’ relationships with the suppliers of financial services has shown retailers’ ability to control transaction costs or control the use of payment methods remains a contentious issue.

The development of financial services within retail operations has therefore become of fundamental importance to a number of parties. To the retailer, the development of services that support existing activities provides the opportunity to build closer relationships with customers and address the customer’s desire for a closer relationship within the context of core product sales and the opportunity to diversify into non-core areas in increasingly saturated core markets. For banks, it has implications for the changing nature of the competitive environment and those financial product areas in
which the retailers will choose to compete and in which they are able to pose a credible threat.

According to (Kotler, P., 1992), “companies must move from a short-term relationship-building goal”. Our thinking therefore is moving from a marketing mix focus to a relationship focus “There has been a shift from a transactions to a relationship focus” and “from an academic or theoretical perspective, the relatively narrow conceptualization of marketing as a profit-maximization problem, focused on market transactions or series of transactions, seems increasingly out of touch with an emphasis on long-term customer relationships and the formation and management of strategic alliances”.

A firm that applies a relationship-type strategy can monitor customer by directly managing its customer base (Gronroos, 1990). Managing the customer base means that the firm has at least some kind of direct knowledge of how satisfied its customers are and thus this helps building relationships them.

Given that the literature review above suggests that relationships are beneficial to organizations such as retailers, that financial services can create closer and stronger relationships than retailers are able to create, and that there is a scarcity of literature within this subject area.

1.3 Various dimensions of research problem

A number of critical research gaps still exist within the domain of relationship marketing theory. Though much has been written about relationship marketing, few studies have attempted to address the implementation of relationship marketing in organizations, or what it entails with the focus on customer satisfaction (Morris et al, 1999). Secondly, Concepts of relationship marketing have been spoken about in the literature but fewer empirical articles pertaining to this construct have appeared in the literature (Perrien and Ricard, 1995). Thirdly, A little attention is paid in research to consumer retail marketing (Sheth and Parvatiyar, 1995; Reynolds and Beatty, 1999).
In India there is growth in private and foreign banks. The national banks are facing a challenge in services from the private banking sector with respect to various services. The concept of anytime banking, net banking, and universal banking is fast assuming its importance and giving challenge to the national banks. Competition and technology have made the banking sector proactive in meeting the demands of the customer. The transaction based marketing is no longer valid in today’s environment. The importance of relationship marketing stems from the fact that banks need to satisfy and retain customers as already research suggests that acquiring customers is five times expensive than retaining old ones. Banks also need to cross sell and up sell their various products to its existing customers, hence it important for the banks to satisfy its customers. This affects the performance of the banks.

The present study provides steps towards addressing these gaps. The main objective of the study is to study relationship marketing dimensions taking into account the customer satisfaction variables in the Indian Banking sector and develop a conceptual framework of relationship marketing practices in Indian Banks by capturing the perspectives of customers. In order to do so relationship marketing dimensions were identified by conducting a customer satisfaction survey of customers of five banks. The results of the survey are put through statistical analysis which is then related to the performance on the Indian Banks.

Relationship marketing has three possible levels namely functional, customer facing and company wide. In this research the focus is on customer facing level, building a view of the customer with respect to satisfaction with various service parameters and various services provided by the bank. A key theoretical basis for this research is the relationship marketing literature. The literature suggests that building and managing ongoing customer relationships delivers essence of marketing concept in today’s competitive environment (Morgan and Hunt, 1994).
1.4 Indian banking sector

While liberalization and reforms have thrown up a few challenges, it has also created opportunities for banks to increase their revenues by diversifying into investment banking, insurance, credit cards, mortgage financing, depository services and more. With the emergence of e-commerce, the way in which banking business is presently conducted would undergo a radical change. Future competition among banks will be essentially based on the twin platforms of technology and ability to attract talent. Telephone and Internet banking will gain importance and the future will see the emergence of Internet driven operations without a broad-based branch network. Increasing competition will exert pressure on bottom lines, forcing banks to cope with thinning margins.

The Indian banking sector is headed for consolidation. The presence of many regional players will see few banks emerging as global competitors. The opportunity spectrum available for Indian Banks is wide today as never before. The economy is on a sound platform. GDP of the country is growing at 7 percent to 8 percent. The rural economy holds huge untapped potential, which the banks can exploit. While the economy is being driven by fundamentals, the services momentum is growing very strong, with services constituting 56% of the economy, as opposed to a very small percentage few years back. Clearly services have been the key driver in economic momentum of the country.

The most expeditious and comprehensive change in the banking industry in recent times took place thanks to modern communication and information technologies. Operational costs of many financial activities came down by technology, adoption and modern banks like HDFC and ICICI thrived on the use of internet to provide information on fingertips. Reserve Bank of India (RBI) also pushed technological changes and advanced infrastructure in banks to facilitate a transparent money market along with reforms on liquidity adjustment facility, export credit refinance, asset-liability management and
cash reserve ratio. As many as twenty three public sector banks (PSB) met the Central Vigilance Commission directive to computerize 70% of banking business before January 1, 2001.

The latest mantra today is universal banking. The trend reflects a maturing industry, which offers a combination of commercial banking, investment banking and other strategic activities. The business profile of financial institutions is also undergoing a profound change. The new generation private sector banks had a head start over other Indian banks in terms of technology. Net banking, which was initially seen as complementary to branch banking, has taken off well and now almost all functions except cash withdrawals are available through the internet. In effect, banks have been trying to limit a customer’s physical return to a bank after opening an account.

From mere phonebanking, it is now full-fledged banking online: one can check his account, make a fixed deposit, transfer money, cancel, all in few seconds. While the ATMs make sure that your cheques are taken care of a call or an e-mail can get you a demand draft in less than an hour at your doorstep.

It is not only in technology advancement that these banks reveal; their overall performance has been astounding. While interest income constituted just over 7 per cent of the assets, their low operating expenses were a mere 15.48 per cent of the income. This shows the cost-efficiency of these banks.

The remarkable growth story of the Indian banking market is appreciated globally now. Between 2000 and 2005, the total assets of the industry grew from $265 billion to $520 billion; profits grew from $1.7 billion to $5 billion. Current projections suggest that in 2010, industry assets would exceed $1 trillion, with total profits pegged between $10-$12 billion.

Views expressed by Managing Director, Boston Consulting group, Business Standard, April 2006.
While foreign banks like Citi bank, HSBC and Standard chartered took giant strides in India in line with global developments, Indian banks innovated and customized the services to perfection. HDFC Bank is a forerunner in this area, while others like UTI Bank, Global Trust Bank and ICICI Bank provide real-time banking matching global standards.

The significant achievement of these banks is the advancement in electronic services while removing customer misconceptions about online banking. Value added services include payment of telephone bills, utility services and specified assistance like taxes and credit card payments. The essential feature of Net banking is saving on the bank's cost and the customer's time.
The Indian banking sector is going through an exciting phase. Banks are growing at a fast clip. Public sector banks and foreign banks are also responding well to competition and change. Hence, the customer is the biggest beneficiary in terms of quality services and efficiency. We have been endeavoring to provide a one-stop financial shop to customers with a bouquet of services, realizing the customer aspirations well. In future, banks will have to become more customer centric, enabling technology to fulfill customer needs and convenience. Amid all these, cost effectiveness is the key and only those that achieve all the above will survive.

With Indian markets opening up to foreign competition, customers becoming more demanding and foreign institutional investors on the watch, the Indian banking industry will have to markedly improve its performance in the coming years.

1.5 Research objectives

1.5.1. Broad objectives

The study attempts to empirically investigate the following broad objectives:

- To study the dimensions of Relationship marketing in the Indian Banking sector with customer satisfaction as the foundation of building relationships and link customer satisfaction with performance of the banks.

1.5.2 Specific objectives

The study attempts to empirically investigate the following specific objectives:

- To identify the variables of customer satisfaction which result in relationship building in the Indian banking industry.

- To link customer satisfaction with performance of the banks.

- To investigate significant difference in customer satisfaction with various services provided by five different banks.
To measure difference in satisfaction of services of current and savings account customers.

The major objective of this research work is to establish whether relationship-marketing paradigm is appropriate to the marketing of financial services in nationalized and private banks in India. The dimensions of Relationship marketing are studied with the help of extensive literature survey in relationship marketing and taking customer satisfaction as the basis on building relationships. To be effective in the new millennium bankers must understand the decision making process and criteria used in selecting a bank. Further the upcoming of newer services to the customer in India, the satisfaction level of the customer with these services plays an important role in retaining the customer. Taking satisfaction with various services provided by the bank, relationship between satisfaction with the services and performance of the bank are determined.

1.6 Framework of the study

Study of relationship dimensions in the banking sector has been studied with the help of customer satisfaction survey and analysis using empirical tools. The satisfaction of the customer is linked with the performance in Indian banks.

The framework of the study is as follows:

Chapter one talks about the relationship marketing as a paradigm, defines the various dimensions of research problem, the need for research, the objective of the study, the framework, rationale and benefits of the study.

Chapter two gives a review and analysis of literature on relationship marketing and customer satisfaction.

Chapter three deals with the methodology and related sub headings pertaining to the hypothesis, research design, and instrument administered,
the profile of the respondents, sampling procedure, method of analysis and limitations of the study.

Chapter four deals with analysis of results. It is an attempt in the direction analyzing the overall general service parameters of the bank, specific service parameters, analysis of Loan accounts, attributes with service quality, satisfaction with ATM services, factor analysis, performance of banks and its relationship with satisfaction of the customers. Assessing difference in satisfaction among savings and current account customers of different banks and assessment of satisfaction among different banks with respect to the customer.

Chapter five presents a summary of results and discussion. The findings are presented in the form of sections dealing with important relationship dimensions and relationship between satisfaction of the customer and performance of the Indian banks. It also proposes steps that may prove to be of help to Indian Banks to face competition in future. It contains a section suggesting future research directions and managerial implication for bank managers.

The research process involved the following steps. First, a literature review was undertaken to identify what parameters to consider in research. It outlines the previous research and relationship with respect to customer satisfaction in the banking industry. Second, In depth interviews with the help of focus group discussions were held with customers to establish the evaluation criteria and factors were identified which result in customer satisfaction. Third, questionnaire was constructed and it was piloted. Last, population and sampling procedure was established and methods of data collection and analysis determined.

The questionnaire was designed with the help literature (prescriptive, conceptual, empirical and practitioner) and also based on pilot survey among practitioners which consisted of two executives (middle and senior management) from each of the five banks and focus group discussions with
customers of these banks. It included sixteen variables which determined the satisfaction of the customer with five banks chosen for the study. The questionnaire was divided into ten sections. To measure the satisfaction of the customer the questionnaire was randomly administered on customers of these banks. The first part of the questionnaire asked the respondent the bank they have their account in, their experience while opening the account and the nature of account they have. The second part asked the respondent satisfaction with respect to general banking services provided on semantic differential scale ranging from extremely good to extremely bad (seven point scale, where 1- extremely good, 7- extremely bad). The third part of the questionnaire dealt with variables which involve transactions. The satisfaction with respect those was recorded on seven point semantic scale ranging from extremely satisfied to extremely dissatisfied, (where 1- extremely satisfied, 7- extremely dissatisfied). The fourth part of the questionnaire dealt with satisfaction with respect to loans. The satisfaction with respect to those was recorded on seven point semantic scale ranging from extremely satisfied to extremely dissatisfied, (where 1- extremely satisfied, and 7- extremely dissatisfied).

The fifth part of the questionnaire dealt with satisfaction with quality of services provided by the bank on seven point semantic scale ranging from extremely good to extremely bad, (where 1- extremely good, 7- extremely bad). The sixth part of the questionnaire dealt with satisfaction with ATM service of the bank on semantic scale ranging from extremely good to extremely bad, ( where 1- extremely good, 7- extremely bad ). The seventh part of the questionnaire asked for information on how the bank is different from others and who operates the account in the bank.

The eighth part of the questionnaire asked the respondent about where they look for information about the bank.

The ninth part asked them whether they refer the bank to others and how do the respondent make purchases.
The tenth part of the questionnaire obtained the demographic information of the customer.

The covering letter of the questionnaire emphasized the objective of research and stated that the data will remain confidential. The questionnaire was administered to 700 customers of these banks. Out of which 560 were complete questionnaires. Systematic Probability is used to draw the sample from the population.

The raw data was captured in a spreadsheet software package twice to ensure accuracy. The spreadsheet was then imported into a software statistical package (SPSS 10.0 for windows). Factor Analysis is used to draw important relationship dimensions which lead to satisfaction of the customer. Result of the factor analysis was put through Alpha reliability test. Difference in satisfaction of services provided by various banks, difference in the satisfaction of different account holders and difference in satisfaction among customers bank wise was tested.

The factors of customer satisfaction were linked to performance of these banks. The performance of the banks was judged on basis of Sale per branch and Profit before income and tax (PBIT) per branch. Also Sale per employee and PBIT per employee were taken into consideration. Regression Analysis is used to link customer satisfaction with performance of the bank.

Descriptive statistics was used to calculate the mean and standard deviation which provided a brief summary of the data.

1.7 Rationale of the study

The rationale behind choosing the banking sector for studying relationship dimensions was the competition and growth in technology which is beginning to set in this sector with private and foreign banks entry into India. The drive towards the development of relationship marketing concept stems from the maturing of services marketing increased recognition of potential benefits for the firm and the customer and technological developments (Berry, 1995). Few
argue against the importance of customer satisfaction being essential to customer loyalty within the service industry. However to achieve customer satisfaction, a superior level of service and customer orientation is required. (Heskett et al, 1987). Following from a strong interest in customer satisfaction, relationship marketing, a new approach to customer orientation, has gained popularity.

In the last few years, banking as a function, has come full circle. The prime mover for banks today is profit, with clear indications from the government - ‘perform or perish’. This change is a result of the banking reforms – namely the Narasimhan Committee recommendations, liberalizations and opening up of the economy in nineties and the government’s decision to privatize the banks by reduction in state ownership. The Committee on Banking Sector Reforms is headed by Shri M. Narasimhan. The Committee is required to review the progress in the reforms in the banking sector over the past six years with particular reference to the recommendations made by the Committee on the Financial Sector Reforms in 1991 and to chart a programme on Financial Sector Reforms necessary to strengthen the India’s financial system and make it internationally competitive taking into account the vast changes in the international and financial markets, technological advances and the experience of the other developing countries in adapting to such changes and to make detailed recommendations in regard to the banking policy, institutional, supervisory, legislative and technological dimensions.

With the current change in the functional orientations of banks, the entire purpose of banking is under redefinition. The driver’s of this change are: changing customer needs and expectations, impact of technology, competition from private banks and MNC’s, transparency towards stakeholders, government and customers,

2 (http://pib.nic.in/focus/fomore/narsim.html)
The rationale for choosing these five banks namely State Bank of India (SBI), Punjab National Bank (PNB), Housing Finance Corporation (HDFC), Industrial credit and investment corporation of India (ICICI Ltd), Industrial development Bank of India (IDBI) was that SBI and PNB have the largest Network of branches in India. ICICI and HDFC were first private banks to introduce intelligent, universal and anytime anywhere banking in India. These banks have strong retail presence and offer comprehensive range of information to the customer.

1.8 Benefits of study

This study has a major managerial implication for the banks today. The Regression Models establish the criteria that increase in customer satisfaction with respect to services provided by the banks results in better performance by the banks. The study aimed to establish that customer satisfaction results in building better relationships with customers through better services. Many service firms, including retail banks have been measuring customer satisfaction and quality to determine how well they are meeting the customer needs. (Dabholkar, 1995). The current research contributes towards understanding relationship between satisfaction and performance. This is in line with empirical findings reported earlier (Anderson and Suvillan, 1993). As far as relational dimensions are concerned, the bank management has to ensure that employees are properly trained so that they can meet the needs of the customer. The study also suggests that demographics play an important role in satisfaction of services. The study links customer satisfaction with performance of the banks which will help the Indian banks to embark upon a strategy to satisfy the customer in order to improve profitability of the banks (Hillier, 1999). Our findings imply that banks should take care of the needs of customers when introducing various services to them. Different customers have different needs. Thus the bank has to embark upon a strategy to serve customers with different occupations and educational backgrounds.