CHAPTER – III

CONCEPTUAL FRAMEWORK OF CUSTOMER RELATIONSHIP MANAGEMENT IN PUBLIC SECTOR BANKS

Peter F Drucker, the management scientist said that ‘The purpose of business is to find a customer’ while another further elaborated this by saying ‘The purpose of business is to create and keep a customer but not to make money’ (Theodore Levitte). Despite all the above, present day business tries to find, keep and grow the right type of Customer. Relationship building with the customer has now come to be accepted as an overriding goal of marketing and of the business as a whole. Therefore, the challenge in the new millennium after 1991 LPG for business is to serve and also maintain good relations with customers.

Historically, customers were very passive and therefore producers were able to sell their products easily. They took very little effort towards customer commitment. But the changing environment is characterized by economic liberalization, increased competition, high customer choice, enlightened and demanding customer, emphasis on quality product/service as well as value for price.

Marketing in modern days are not just developing a product, pricing it, promoting it and making it accessible to target customers. It demands building a trust, a binding force as well as value-added relationship with customers to win their hearts. The new age marketing aims at winning customers through the principles of customer’s delight and customer life time value. Further, it has been established that profit comes from repeat customers as they generate more than twice the gross income as the new customer.

3.1 BANKERS AND CUSTOMERS RELATIONSHIP

Today, the relationship between the bankers and customers has come under the sharp focus both at the bankers as well as at the customers ends. Many customers not only want just service but also the best service. Therefore, the question that occupies bank managements today is how to improve customer service and how to take advantage of the competition in the market and gain from it.
3.2 SHIFTS IN BANKING SCENARIO IN INDIA

Broadly speaking, one can safely say that the shifts have occurred during 1991 year of LPG. It was a different situation prevailing in banking scenario prior to 1991. Let us see the situation prevailing then so as to facilitate a comparison with the situation prevailing after 1991.

3.2.1 Seller’s Market

Public Sector Banks were the real dominant players in the banking industry prior to LPG year 1991. They were not engaged in any marketing efforts as business used to walk in. They were contended with such walk-in business. Naturally, there was no necessity for them to think in terms of building a long lasting relationship based on trust, confidence, faith etc. At the best, banks were trying to pursue the leads and references given by their high-net-worth customers, for procuring additional business to their branches.

3.2.2 Buyer’s Market

Emergence of new private banks led to competition. To begin with, Public Banks started losing business to them. New Public banks provided service which was comparably the best to customers. They were also using computers, peripherals, etc., with the result, a quick as well as reliable service was available to their customers. Very soon, public banks woke up and started changing their mindsets as well as attitudes towards customers. They fell in line with the new private banks on the technological front also, with the result products / services which were never heard off till then filled the baskets in the Indian banking industry. The ultimate result was competition of very high order. With plenty of products / services around, customers started picking the best ones that suited their requirements. A buyer’s market started emerging.

3.2.3 Protected Market

Administered interest rates, directed credit flows, etc. were all the happenings on Indian Banking prior to 1991. Government / RBI kept a very tight control on the affairs of Public Sector Banks. The results in such a protected market were not so good.
3.2.4 Open Market

After 1991 interest rates were de-regulated. There were no credit pressures of high order. The business imperatives like fixing up interest rates, credit distribution went totally into the hands of the individual banks. The forces of the market started deciding all the above. Thus, the market became an open one in the banking sector.

3.2.5 Global Brands Were Absent

Products / services were very plain and normal. They were more or less alike across all the Public/Private banks before 1991. The absence of global brands lent less interest to the affairs in the banking industry.

3.2.6 Increase on Global Brands

Pressures of competition after 1991 compelled the Public Sector Banks to design innovative as well as creative products / services for their customers. They were bringing in products / services on par with their foreign counterparts.

3.2.7 Patient Customers

Customers as a whole were patient and less demanding in the whole of banking industry prior to 1991 LPG. They were accustomed to the conditions in the sector and went along with it. Though committees were established for going into the improvements required in the services to customers, there was nothing worthwhile on the whole. This was because the public banks were the major players in the industry and was able to manipulate everything with their sheer mega size.

3.2.8 Demanding Customers

Came LPG 1991, changes of unimaginable nature took place in the industry. Customers started breathing a fresh air with competitions providing varieties in products as well as service to them. Business was not easy to the banks more particularly to Public banks as they had to really take into account their customers interests, needs, expectations, etc. The customers took new avatars and started
becoming more demanding by nature. This is quite natural as the banking market has steadily become a buyers’ market also.

3.3 TRADITIONAL BANKING TO ELECTRONIC BANKING

Traditional banking methods followed in the Indian banking sector witnessed friendly competitions between Public banks. The choices were very much limited. Public banks on their part went in for limited use of visual media for popularizing their products and services. Impressing customers through an admirable quality service was also not seen much. New customer acquisition was also not given much priority. It was only transaction banking. All the above were because of an average level of standard of living prevailing amongst the country’s population.

Compared to the above conditions that prevailed during the period of traditional banking, the day of e-banking brought along with it a cut-throat competition, better and unlimited choices to the customer in product / service variety. Public banks have also been using visual medium for promoting their business. Differentiation in service quality brought business to banks as every one of them had everything. Also, besides acquiring new customers, stress was given to retaining the existing as well as loyal customers. The environment in the industry changed from that of transaction-based banking to relationship-based banking. Again, all the above were the results of improvements on the life quality that occurred after 1991 amongst the country’s population.

3.4 MAPPING THE CUSTOMER NEEDS

In the present day banking, though the banking services are technology driven and major role is played by technology in all decisions on customer service, the tested methods like customer survey continue to help the management in identifying the customer needs, so that the actual requirement of the particular segments of the customer is met with. In order to identify the customer needs, the banks have to develop a proactive approach. Such approach, will not only enhance the image of the bank in the customers view, but also provides a satisfaction to the bank for having served the customer needs.
3.4.1 Knowledge about the needs of Customer

Customer Relationship Management cannot be implemented properly unless full knowledge about the needs and requirements of the customers are provided. It has been noticed that constant interaction between the bank and the customers is the key factor.

3.5 EMERGENCE OF CRM

A number of factors have contributed to the emergence of CRM including technology, total quality management, growth in the service industry and heightened customer expectation. Technology is at the heart of CRM development.

The customer data base and software technology enable firms to track customer purchase behavior, product preference and personal contact information. Technological advancement in data base program have allowed marketers to improve direct marketing tactics through individualization (Parvathiar A & Seth J, 1995). Once customer patterns are recorded in the data base, the software can cater direct marketing efforts such as e-mails, or mailers with coupons and special offers to each individual customer. This customer value can only be delivered by highly sophisticated data base that combine information from several external and internal sources regarding demographic, psychographic, survey results and purchase pattern (Formant C, 2000). Technology must also be imperatively customer friendly and easily accessible through website where customers can enter information, provide feedback and explore product offerings.

3.5.1 Managing the CRM Process

Once the CRM components are defined by the firm, the next step is to actively manage the process through role specification, employee training, effective communication, and evaluation. Role specification is necessary in managing the relationships of CRM and its main goal is to define the responsibilities and duties of the relationship partners such as the firm, the employees, and the customers (Heide J, 1994). As the CRM programs progress in complexity, role specification becomes more important in managing the complex relationships (Parvathiar A & Sheth J,
Role specification ensures that the individuals responsible for maintaining the relationship are held accountable and are given the necessary resources to continue the CRM programs.

After roles are specified, the employees must be adequately trained to implement the programs within the CRM process. In order to successfully execute effective CRM, employees should be equipped with strong sales and communications skills and they should be trained to provide exceptional customer service (Formant C, 2000). Since employees are responsible for direct contact with customers and can enhance or weaken the customer-firm relationship, they should feel empowered to make decision regarding customer service. Employees need to know how to use and update the customer information located in the databases efficiently and effectively in order to build relationship and increase customer satisfaction (Liljander V, 2000). Since employees are such an integral part of customer relationship management, companies should focus on employee satisfaction and offer employee motivation in the form of rewards or incentives (Parvathiar A, Sheth J, 2001). Customer and employee loyalty and satisfaction are positively related to each other, so it is in the firm’s best interest to train and reward employees (Reichheld F, 1996).

In order to carry out any successful programs or build any relationship, the bank should accurately communicate with its internal audience (the employee) as well as its external audience (the customers). Relationship marketing requires communication among all key players since it is built upon trust and mutual satisfaction. Banks must communicate with employees while training and enforcing guidelines and policies. The top executives and customer relationship managers must explain the CRM goals of the banks and how the CRM programs will be implemented to the rest of the banks (Liljander V, 2000). On the external level, communication is essential to building relationship with the customers. Customers must be informed about the CRM programs (such as loyalty programs) available in order to encourage repeat purchases. The bank must perfect the communication channels between the bank and the customers to ensure that information is being accurately shared (Parvathiar A & Sheth J, 2001).
The final step in managing the CRM process is evaluating the results and overall successfulness of the program. Customer Relationship Management is focused on building and maintaining customer relationship in order to increase retention and profit in the long run. If the programs are not successful and the bank does not get an adequate return on investment, then the CRM process should be modified or ended immediately. Since CRM incorporates subjective and abstract concept such as satisfaction, loyalty, and relationship development, it is often difficult to measure its success. The CRM process should be evaluated using a set of unique performance metrics that reflect the core concepts of a firm’s relationship marketing. (Roberts M, Liu R, Hazard K, 2005).

3.5.2 CRM in Banking

Competition and globalization of banking services are forcing banks to be productive and profitable. To retain net worth individuals, banks should focus strongly on relationship management with customers. Innovative customer relationship management strategies and cutting edge software can help, to a great extent, in achieving the desired results. To provide customized services, banks are opening personalized boutiques which provide all the required financial needs of the customer. The entire service industry is now metamorphosized to become customer-specific. In this context, the management of customer relationship in financial services industry demands special focus.

Gone are the days when customers at a bank did not mind the long serpentine queues and waited patiently for their turn with a token in their hand. In today’s internet era, no one has the leisure to wait. In this context, online banking is assuming a great significance. Today, banking is more customer-centric, unlike the yester year when it was transaction-centric. Banks are increasingly focusing on the premise the customers choose on the service provider who differentiates through quick and efficient service. However, there is more to Customer Relationship management than just managing customers and analyzing their behaviors.

Banks are well aware that their success is predominantly dependent on the CRM strategies adopted by them, service providers have recognized that their good CRM
bonds customers with the organization for a longer term, resulting in increased revenues. With customer expectations becoming even more competitive, banks are coming up with a wide array of novel products and services every day. The challenge is for the banks to work towards ensuring that customers prefer their products and services over that of competing brands. The key to develop and nurture a close relationship with customers is by appreciating their needs and preferences and catering to their requirements.

Thus in this current competitive scenario, for the banks to survive competitions, succeed and make profits, there is hardly any option but to learn from and actively respond to consumers needs. Banks offering retail products need to reorient their strategy from a product-centric to a customer-centric approach to attract and retain High Net worth Individuals (HNI) and profitable customers as well. The battle of the banks for gaining a greater slice of the market share is taking on new dimensions. In the current falling interest rate scenario, banks are finding it increasingly difficult to meet the high growth expectations. In order to bolster their top lines, banks are in pursuit of newer ways and means of achieving organic growth through strategies that enable acquisition of new customers and retaining the loyalty of the existing customers. Ensuring a good customer experience at every customer touch point is the cornerstone of a successful growth strategy.

A good customer experience will drive customer acquisition and promote customer retention, which translates into increased profits. This, in other words, is the hallmark of a successful CRM strategy. Emphasis on CRM arises on account of the challenges confronting retail managers managing to sustain and achieve growth and profits. Bankers are conscious of the relative costs of acquiring new customers. As top management emphasizes on “delivering results”, most bankers resort to customer grabbing, rather than customer cultivations and creation, with the result that “customer churn” is the call of the day. Incidentally, bankers are fully aware that losing the existing customer and acquiring new customers is an expensive affair. Moreover, it acts as drain on the existing resources of the bank which can be better employed for growth initiatives. Therefore, the challenge for the banks is to retain and deepen the profitability of the existing customer relationship. With the shift from a
transaction-centric to a relationship-centric business approach, leveraging CRM has become sine qua non. Banks are adopting CRM to cover people, process and products more effectively to embark on the true relationship banking with the end result of accelerating the business momentum. Towards this end, experts propose various ideas and approaches to understand the fundamental marketing motivations driving the CRM trend in banks.

To meet the challenging preferences of the customers and to stay ahead of competitors, bankers are bound to attract customers by providing a spectrum of services. Online banking, ATM banking and tele-banking are just a few of them. Bank can enhance customer service by leveraging on technology, maintenance of efficient service delivery standards and business process reengineering. On their part, employees need to demonstrate certain service traits such as putting on pleasing attire. At the end of the day, bankers should display a flair for cultivating a good relationship with customers through the mechanism of better customer service. Having understood the significance, it is prudent to plan for CRM in retail banks.

A top-down CRM focused approach that starts with the top management, percolating and permeating to all levels of the CRM is a necessity in the present business scenario. Initiatives such as introducing CRM audit by independent teams to identify the existing lacunae and plugging the loopholes in the CRM strategy as per the recommendations of the audit report are required to be adopted by the banks for reaping benefits. It is observed that banks lost their best clients to competitors due to a variety of reasons.

The rationale behind losing their best clients to other service providers such as non-brokerage houses and mutual fund houses needs to be analyzed by banks. Experts opine that inefficient and improper service is one major reason. The remedies suggested by them are that banks should adopt customer relationship building approaches such as responding to complaints instantaneously, analyzing the attrition of the clients in particular products and rating of services across the network of branches and the creation of a suggestions box to elicit the views and suggestions of their employees.
Another dimension of the relationship building exercise is to obtain an electronic feedback from customers to understand the level of acceptance of existing products which will facilitate in developing better products.

3.6 CONCLUSION

Customer Relationship Management is very vital in today’s competitive environment for the banks. More indispensable for the public sector banks, as they are generally and comparatively believed to be less attentive to the requirements of their customers. But, one clear and discernable change can be noticed in the banking done by public banks after 2000. They have started listening to the voices of their customer base and have also changed their mindsets. This could be observed from the manner in which they have improved their ambience (both internal and external), adopted superior technology on par with their competitors, improved their infrastructural facilities to provide convenience to their customers, installed a clear grievance redress mechanism, etc. The importance of establishing good practices under customer relationship management has therefore been well understood by these public sector banks. The present study has clearly attempted to bring to the fore how these practices have provided good satisfaction to their customers and has proved the worth behind the Customer Relationship Management in these public banks.