CHAPTER 1

INTRODUCTION

1.1 THEORETICAL FRAMEWORK

This section consists of general introductory part of Customer Relationship Marketing, concept of CRM, the attributes of CRMS, Customer focus in Financial services, Marketing of Financial Products and services, Contribution to Current knowledge, Statement of the Problem, Need for the study, Research Questions and Objectives, Hypothesis Testing, Financial Sectors considered for the study, Scope, Usefulness, Limitations of the study and Operational Definitions and Abbreviations

1.1.1 General Introduction

The biggest management challenge in the new millennium of liberalization and globalization for a business is to serve and maintain good relations with the king - the customer. Over the last two and a half decades, marketing has witnessed a paradigm shift. The literature reveals that marketing has shifted from “transaction marketing to relationship marketing” (Lindgreen 2011). Scholars have identified the need to retain customers to have a competitive advantage in the market. The challenge for a firm is to attract and retain loyal customers. Relationship marketing aims at building and maintaining long-term relationship with customers. A firm can exploit customer relationship to have information regarding customers’ needs and
wants so that a suitable strategy can be designed to serve the customers more efficiently and effectively than the competitors.

Marketing has made a paradigm shift from transactional approach to relational approach. We are living in a globalized world, where competition has become an unavoidable element of business and customers have become scarce. This has led to a situation where all the firms in the same industry are trying to attract the same customers in various ways, even while offering similar products and services. They are using relationship marketing approach to ensure that the customers remain loyal and come back to them for the same products and services.

Traditionally, few people changed their financial institutions unless serious problems occurred. In the past there was, to certain extent, a committed, often inherited relationship between a customer and their financial institution. The philosophy, culture and organization of financial institutions were grounded in this assumption and reflected in their marketing policies, which were product and transaction-oriented, reactionary, focused on discrete rather than continuous activities.

Today, financial institutions can no longer rely on these committed relationships or established marketing techniques to attract and retain customers. As markets break down into heterogeneous segments, a more precisely targeted marketing technique is required, which creates a dialogue with smaller groups of customers and identiﬁes individual needs.

In olden days customers selected banks, insurance and mutual fund only for precautionary motive purpose, but now-a-days customers are selected the financial institutions based on their speculative motive, because people income source are increased and investment awareness also increased. So, the
customers want to invest their money for making money and without spending more time.

This situation coupled with the pressures of competitive and dynamic markets has contributed to the growth of Customer Relationship Marketing in the Financial Service Sector.

Customers can be classified into four categories depending on their lifetime value. The first category is the people who are loyal and profitable. The financial institution should make all our efforts to retain these customers by reinforcing their loyalty and bondage with them. Second category is the customers who are profitable but not loyal. The institution must take measures to strengthen relationships with them with appropriate strategies. Third are the customers who are loyal but not profitable. Taking other aspects into consideration, organizations should assess these cases. The last category is the customers who are neither profitable nor loyal. It is better to leave them to the competitors.

With increased number of financial institutions, products and services and practically nil switching costs, customers are easily switching banks, insurance and mutual funds whenever they find better services and products. Financial institutions are finding it tough to get new customers, and more importantly retain existing customers.

1.1.2 Customer Relationship Management

Customer Relationship Management is the establishment, development, maintenance and optimization of long-term mutually valuable relationships between customers and the organizations. Successful customer relationship management focuses on understanding the needs and desires of the customers and is achieved by placing these needs at the heart of the
business by integrating them with the organization’s strategy, people, technology and business processes.

1.1.3 Customer Relationship Marketing

The term ‘relationship marketing’ was popularized by Berry (1983); he defined relationship marketing as “the process of attracting, maintaining and, in multi-service organizations, enhancing customer relationships”. Gronroos (1990) defined relationship marketing as “the process of establishing, maintaining, and enhancing relationships with the customers and other partners at a profit, so that the objectives of the parties involved are met. This achieved by a mutual exchange and fulfillment of promises.”

Relationship marketing is a form of marketing that emerged in the 1980s, in which emphasis is placed on building longer term relationships with customers rather than on individual transactions. It involves understanding the customers' needs as they go through their life cycles. It emphasizes providing a range of products or services to existing customers as they need them.

A Relationship-based Marketing approach over time, retail bank, life insurance, mutual fund customers tend to increase their holding of the other products from across the range of financial products/services available. Long-term customers are more likely to become a referral source.

The longer a relationship continues, the better a financial institution understand the customer and his/her needs and preferences, and so greater the opportunity to tailor products and services and cross-sell the product/service range. Customers in long-term relationships are more comfortable with the service, the organization, methods and procedures. This helps reduce operating cost and costs arising out of customer error.
Relationship marketing aims at building and maintaining long-term relationship with customers. A firm can exploit customer relationship to have information regarding customers’ needs and wants so that a suitable strategy can be designed to serve the customers more efficiently and effectively than the competitors.

Relationship marketing as an integrated effort to identify, maintain and build up a network with individual customers and to continuously strengthen the network for the mutual benefit of both sides through interactive, individualized and value added contacts over a long period.

1.1.4 Attributes of CRMS

Relationship marketing can be understood as “an integrated effort to identify, maintain, and build up a network with individual customers and to continuously strengthen the network for the mutual benefits of both the sides, through interactive, individualized and value-added contacts over a long period of time (Shani and Chalasani 1992). Good relationship marketing creates trust about the institutions, service level, staffs’ service, communication about the service, customer focus, security, customer prestige and word of mouth in the customers’ mind. The relationship marketing aims at building long-term strong relationship with customers to cultivate and foster customer loyalty that will benefit both the customers and the financial institutions.

1.1.5 Customer Focus in Financial Services

"Change" is a continuous process and Financial Institutions is no exception to this natural law. Change in the Indian banking, life insurance and mutual fund industry is inevitable due to the implementation of the financial sector reforms and policies in the country. The main objective of financial
sector reforms is to promote an efficient, competitive and diversified financial system in the country. Indian financial sector has undergone tremendous transformation after liberalization and globalisation process initiated from 1991. These changes have forced the Indian financial sector to adjust the product mix to effect the rapid changes in their process to remain competitive in the globalised environment.

As the intense competition becomes a way of doing business, it is the customer who calls the shot in deciding the nature of products and services offered in the market. The customers are becoming demanding, dominant and selective. In fact the perceptions and the expectations of the customers have undergone a sea change, with the availability of banks, life insurance and mutual fund services to the customers at their door steps through the help of technology.

Marketing of customer services aims at two important goals: Prosperity to the company and Satisfied customers.

There are four strategies available to customer relations' managers:

- To win back or save customers
- To attract new and potential customers
- To create loyalty among existing customers and
- To up sell or offer cross services.

The future of financial institutions business very much depends upon the ability of the financial companies to develop close relationship with the customers. In order to develop close relationship with the customers the financial companies has to focus on the technology oriented innovations that offer convenience to the customers.
1.1.6 Marketing of Financial Products Services

Marketing of financial products services means organizing right activities and programmes in rendering right services to the right people at the right place, at the right time at the right price and with right communication and promotion. Marketing of financial product services embrace the following unique features

- Intangibility-they cannot be seen or possessed physically but can only be experienced.
- Inseparability-their production and consumption occur simultaneously.
- Variability-they are highly variable depending on the merit of customers.
- Perishability -they cannot be stored.

The entry of more and more foreign financial institutions and new private sector financial institutions, with lean and nimble footed structure, better technology, market orientation and cost effective measures, have intensified the competition in the Indian Financial sector industry. Financial Institutions have also started entering into the domain of banks, life insurance and mutual funds. In recent years, the share of business of public sector banks and mutual funds has declined considerably. So there is a compelling need for the Indian Banking, Life Insurance and Mutual Fund industry to modify its marketing strategy to attract the customers and to withstand the stiff competition from foreign financial institutions and new private sector banks, life insurance and mutual funds.
1.1.7 Contribution to Current Knowledge

The contribution of this research study is threefold. First, to the findings of this study contribute to Relationship Marketing literature in general and to CRMS in particular. Second, there has not been any reported research of the CRMS and different demographical variables are influenced in Customer loyalty in banking in general, and in Chennai city in particular. Third, a very significant contribution of this research study is to identify the impact of CRMS and Customer Loyalty in Public and Private sector account holders mind.

1.2 STATEMENT OF THE PROBLEM

The financial institutions as exceedingly ‘Customer Centric’ offering what they believe to be highly personalized services to the High Net Worth Customers. However, changes in the customer behaviour and accumulation of wealth are resulting in the needs of HNW customers becoming more diverse and complex in terms of the sorts of products they want, the channels through which they want to access them and the associated range of advice. Customer loyalty and customer retention are the most important challenges faced by financial institutions.

Customer relationship building certainly has mutual rewards that benefit both the firm as well as the customer. This is the reason why firms are always interested in knowing the satisfaction level of customers. Very often firms are using relationship marketing as a marketing tool to retain their customers for long.

Customer Loyalty and customer retention are the most important challenges faced by most of the Chief Executive Officers across the world. At the same time, it is also found that effective relationship marketing strategy
helps the organization to understand customers’ needs, so that the financial institutions can serve their customers better than their competitors, which finally leads to cost reduction and customer loyalty. The focus of this study is to empirically investigate Banking, Life Insurance and Mutual Fund account holders in Chennai city the impact of Relationship Marketing variables on Customer Loyalty. The impacts of different demographical variables are also taken into consideration while examining the relationship between Relationship Marketing and Customer Loyalty.

1.3 NEED FOR THE STUDY

Indian financial system has undergone tremendous transformation after liberalization and globalization process initiated from 1991. In India, after globalization, number of new private, foreign banks, life insurance companies and mutual fund companies are launched their business in India. The customers had more number of options, so the financial institutions are to maintain customer loyalty is very difficult. At the same time, it is also found that effective relationship marketing strategy helps the organization to understand customers’ needs, so that the financial institutions can serve their customers better than their competitors, which finally leads to maintain customer relationship and customer loyalty.

As the intense competition becomes a way of doing business, it is the customer who calls the shot in deciding the nature of products and services offered in the market. The customers are becoming demanding, dominant and selective. In fact the perceptions and the expectations of the customers have undergone a sea change, with the availability of financial institutions services to the customers at their door steps through the help of CRM.
The future of financial institutions business very much depends upon the ability of the institutions to develop close relationship with the customers. In this context, it is very important to empirically investigate the impact of Relationship Marketing on Customer Loyalty, so that financial institutions can use this type of information at the time of designing a relationship marketing strategy in order to gain a high level of loyalty among their customers in Banking, Life Insurance and Mutual funds in Chennai City.

1.4 RESEARCH QUESTIONS AND OBJECTIVES

To analyze the Impact of Customer Relationship Marketing Strategy (CRMS) and Customer Loyalty (CL) on Financial Products and Services offered by Financial Institutions with reference to Chennai, Tamil Nadu the researcher has developed three major research questions:

1) What are the CRMS adopted by Public and Private sector Banks, Life Insurance, and Mutual Funds in Chennai City?

2) What are the Customer Relationship Marketing variables are influenced to Customer Loyalty in the respondents mind?

3) What are the different demographical variables taken into consideration while examining the Customer Relationship Marketing and Customer Loyalty?

These were the overall questions to be answered by the current study and defined by the following five objectives:

1) To study the empirical investigation of the impact of CRMS on Customer Loyalty in Financial Products and Services offered by Banks, Life Insurance and Mutual Fund in Chennai.
2) To explore the different demographical variables considered the Customer Relationship Marketing and Customer Loyalty.

3) To identify the Customer Relationship variables to frame the CRMS to influence the Customer Loyalty.

4) To identify the comparative relationship marketing analysis between Public and Private Banks, Life Insurance and Mutual Fund in Chennai.

5) To offer guidelines for the successful strategy implementation in relationship marketing by Banks, Life Insurance and Mutual fund in Chennai.

1.5 HYPOTHESIS TESTING

This research is empirical in nature and this characteristic stems from its objectives.

\( H_1: \) There is an impact between Demographic factors of the respondents and the Customer Loyalty in Banks, Life Insurance and Mutual Funds.

\( H_2: \) There is a relationship between Demographic factors of the respondents and the CRMS in Banks, Life Insurance and Mutual Funds.

\( H_3: \) There is an impact between Customer Relationship Marketing variables and Customer Loyalty in Banks, Life Insurance and Mutual Funds.

\( H_4: \) All Public and Private sector Banks, Life Insurance and Mutual Funds companies are not offering same type of Customer Relationship Marketing Variables.
1.6 FINANCIAL SECTORS CONSIDERED FOR THE STUDY

In Financial Sectors point of view, the researcher has considered Banking Sector, Life Insurance Sector and Mutual Fund Sector available in Chennai, Tamil Nadu.

1.7 SCOPE OF THE STUDY

The study covers the financial institutions in Chennai District, Tamil Nadu, especially Banking Sector, Life Insurance sector and Mutual Fund Sector, which were the control under RBI, IRDA and SEBI respectively.

The researcher has mainly focused in attention on the Impact of CRMS and Customer Loyalty towards Financial Products offered by Financial Institutions in Chennai, Tamil Nadu. In this regard, the Financial Institutions consist of Banking Sector, Life Insurance Sector, Mutual Fund Sector, Shares and Debentures etc., but, the researcher aims to analyze the impact of Customer Loyalty and CRMS only in Banking, Life Insurance and Mutual funds investors in Chennai City, Tamil Nadu. Hence, the scope of the study is restricted only these three sectors in Chennai City only. The data is collected through three different types of questionnaires for Banking, Life Insurance and Mutual Funds. The analysis, findings and suggestions are pertained only these three sectors which are functioning in Chennai City.

1.8 LIMITATIONS OF THE STUDY

- The study was not completely generalized because the findings and conclusion are restricted to 900 respondents.

- 300 for Banking sector customers from Public and Private Banks savings accounts holders in Chennai city, Tamil Nadu.
- 300 for Life Insurance customers from Public and Private Life Insurance account holders in Chennai City, Tamil Nadu.

- 300 for Mutual fund customers from Public and Private Life Insurance account holders in Chennai City, Tamil Nadu.

- The data collected only in Chennai City, Tamil Nadu.

- Data and information collected from the respondents are based on their opinions and knowledge. Some times they may subject to bias.

- Few respondents were reluctant while answering the questionnaire.

1.9 USEFULNESS OF THE STUDY

Customer Relationships have developed into a major corporate strategy for many organizations. It is concerned with the creation, development and enhancement of individualized customer relationships with carefully targeted customers and customer groups resulting in maximizing their total customer life time value.

The recent trend of globalisation and liberalization has posed serious problems to domestic financial institutions. The entry of new foreign financial institutions and private sector financial institutions with their advanced knowledge base of automation in the financial operations and aggressive marketing strategies has pushed domestic financial institutions to a tight corner. To survive and succeed, financial institutions must identify their marketing areas, develop adequate resources, convert these resources into healthy and efficient services and distribute them effectively satisfying the manifold tastes of customers.
1.10 OPERATIONAL DEFINITIONS AND ABBREVIATIONS

The various concepts used in this study are as follows:

i) **Customer Loyalty:** Consumers have varying degrees of loyalty to specific brands, stores, other entities. Buyers can be divided into four groups according to brand loyalty status:

   a) **Hard-core Loyals:** Consumers who buy one brand all the time.

   b) **Split loyals:** Consumers who are loyal to two or three brands.

   c) **Shifting loyals:** Consumers who shift from one brand to another.

   d) **Switchers:** Consumers who show no loyalty to any brand.

ii) **Customer Satisfaction:** Satisfaction is a person’s feelings of pleasure or disappointment resulting from comparing a product’s perceived performance (or outcome) in relation to his or her expectations.

iii) **Customer Relationship Management:** Customer Relationship Management is the establishment, development, maintenance and optimization of long-term mutually valuable relationships between customers and the organizations. Successful customer relationship management focuses on understanding the needs and desires of the customers and is achieved by placing these needs at the heart of the business by integrating them with the organization’s strategy, people, technology and business processes.
iv) **Relationship Marketing (RM):** Relationship marketing as an integrated effort to identify, maintain and build up a network with individual customers and to continuously strengthen the network for the mutual benefit of both sides through interactive, individualized and value added contacts over a long period.

v) **Strategy:** Strategy refers to a plan of action designed to achieve a particular goal.

vi) **Marketing Strategy:** It is a process that can allow an organization to concentrate its limited resources on the greatest opportunities to increase sales and achieve a sustainable competitive advantage. A marketing strategy should be centered around the key concept that customer satisfaction is the main goal. Marketing strategy is a method of focusing an organization's energies and resources on a course of action which can lead to increased sales and dominance of a targeted market niche. A marketing strategy combines product development, promotion, distribution, pricing, relationship management and other elements; identifies the firm's marketing goals, and explains how they will be achieved, ideally within a stated timeframe.

vii) **Customer Life Time Value:** Customer lifetime value enable an organization to calculate the net present value of the profit an organization will realize on a customer over a given period of time. It as a marketing metric tends to place greater emphasis on customer service and long-term customer satisfaction, rather than on maximizing short-term sales. Customer lifetime value has intuitive appeal as a marketing
concept, because in theory it represents exactly how much each customer is worth in monetary terms, and therefore exactly how much a marketing department should be willing to spend to acquire each customer.

viii) Customer Retention: It is the activity that a selling organisation undertakes in order to reduce customer defections. Successful customer retention starts with the first contact an organisation has with a customer and continues throughout the entire lifetime of a relationship. A company’s ability to attract and retain new customers, is not only related to its product or services, but strongly related to the way it services its existing customers and the reputation it creates within and across the marketplace.

ix) Service Quality: Service quality refers to a number of interrelated factors including the way in which individuals are treated by providers, the scope of services and contraceptives available to clients, the quality of the information provided to the clients and quality of the counseling skills, the promotion. The International Customer Service Institute (TICSI) has released The International Customer Service Standard (TICSS). TICSS focuses an organization’s attention on delivering increased customer satisfaction by helping the organization through a Service Quality Model. TICSS Service Quality Model uses the 5 P's – Policy, Processes, People, Premises, Product/Service, as well as performance measurement. The implementation of a customer service standard should lead to higher levels of customer satisfaction, which in turn increases customer loyalty and customer.
x) **Customer Value:** Customer value is the bundle of benefits customers expect from a given product of service.

xi) **Bank:** A bank is a financial intermediary that accepts deposits and channels those deposits into lending activities. Banks are a fundamental component of the financial system, and are also active players in financial markets. The essential role of a bank is to connect those who *have* capital (such as investors or depositors), with those who *seek* capital (such as individuals wanting a loan, or businesses wanting to grow).

xii) **Life Insurance:** It is a contract between the policy owner and the insurer, where the insurer agrees to pay a designated beneficiary a sum of money upon the occurrence of the insured individual's or individuals' death or other event, such as terminal illness or critical illness. In return, the policy owner agrees to pay a stipulated amount at regular intervals or in lump sums.

xiii) **Mutual Funds:** A mutual fund is made up of money that is pooled together by a large number of investors who give their money to a fund manager to invest in a large portfolio of stocks and / or bonds.

### 1.11 CHAPTER SCHEME

**Chapter 1 Introduction:** This chapter comprises of introduction on CRMS and Customer Loyalty (CL), the statement of problem, the research questions and objectives, the significance of research, the Chapter scheme and summary.
Chapter 2 Literature Review: This literature review part of the study is segmented into different modules, which throw a lime light on both the extensive and diverse literatures pertaining to the impact of Customer Relationship Marketing and Customer Loyalty and related practices adopted by the Financial service sectors in the journey. The chapter’s overall goal was to provide an overview of the literature in the areas covering this research: Introduction, An overview of Relationship Marketing, CRM, Customer Value, Customer Satisfaction, Customer Retention and Customer Loyalty. In CRM, its definitions, characteristics, functions, activities, CRM in Financial services industry, Key CRM issues in financial services, e-financial services and impact of CRM in Financial services and Customer Loyalty.


Chapter 4 The Indian Financial Institutions Industry: In this Chapter deals separately Bank industry in India, Life Insurance industry and Mutual Funds in India.

Chapter 5 Data Analysis and Interpretation: This chapter of the research study comprises the CRMS and Customer Loyalty survey results, statistical analysis – One-way ANOVA, Confirmatory factor analysis, Chi-square test, Multiple Regression Analysis and their inferences with Discriminant analysis between Public and Private Banks, Life Insurance and Mutual funds.

Chapter 6 Executive Summary: This chapter of the study is segmented into two broad heads. The first head highlights the major findings of descriptive statistics and the second head discusses a light on the major findings of statistical analysis.
Chapter 7 Hypothesis Testing: This chapter outlines hypotheses testing of the study and the major discussions of the survey findings.

Chapter 8 Suggestions and Conclusion: In this part of the report, the author has come to conclusions about the study and arrived at certain managerial implications which will hopefully create more awareness among management and employees about the importance of CRMS to Customer Loyalty in Banks, Life Insurance and Mutual funds in Chennai city. Finally, the major limitations of the study and scope for future research are elaborately discussed in this chapter.