CHAPTER 2

REVIEW OF LITERATURE

2.1 INTRODUCTION

Today, financial institutions can no longer rely on 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. 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.

Lindgreen (2011) 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. Attracting new customer is costlier than serving an existing customer. It is claimed by Reichheld and Sasser (1990) that a 5 percent improvement in customer retention can cause an increase in profitability between 25 percent and 85 percent (in terms of net present value) depending upon the industry, 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.
Chen and Popovich (2003) argued that Customer Relationship is a complicated application which mines customer data, which has been retrieved from all the touch points of the customer, which then creates and enable the organization to have complete view of customers. The result is that firms are able to uncover and determine the right type of customers and predicting the trend of their future purchases.

2.2 AN OVERVIEW OF RELATIONSHIP MARKETING

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 is achieved by a mutual exchange and fulfillment of promises”.

Berry (1983) defined relationship marketing as attracting, maintaining and enhancing the customers’ relationships in multi-service organisation. After a few decades, the evolution in relationship marketing philosophy changed the word relationship marketing to CRM. According to Brown (2000) CRM is a process of acquiring new customers, retaining the existence customers, and at the same time understands, anticipates and manages the needs of an organisation’s current and potential customers. Furthermore, Mylonakis (2009) described CRM as an innovative process to create a long term relationship and gaining trust. CRM in financial service industry is a cyclical process which starts with definition of customer actions (Panda 2003). CRM is fundamental to building a customer-centric organisation. CRM is a key element that allows a bank to develop its customer base and sales capacity. The goal of CRM is to manage all aspects of customer interactions in a manner that enables the organization to maximise profitability from every customer. Panda (2003) described customer expectations are difficult to manage but are often the cause of dissonance which results in loss of existing customer base. So understanding of customer
expectations with regard to service delivery levels and product quality is essential for establishing a long term symbolic value relationship.

Rapp and Collins (1990) argue that 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.

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).

Sheth and Parvatiyar (1995) argued that relationship marketing can be considered as “an ongoing process of engaging in-cooperative and collaborative activities and programs with immediate and end-user customers to create or enhance mutual economic value at reduced cost.” 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 organization.

According to Chen and Popovich (2003), CRM is not a concept that is really new but rather due to current development and advances in information and enterprise software technology, it has assumed practical importance. The root of CRM is relationship marketing, which has the objective of improving the long term profitability of customers by moving away from product-centric marketing.
Harker (1999) proposes the following definition: “An organization engaged in proactively creating, developing and maintaining committed, interactive and profitable exchanges with selected customers (partners) over time is engaged in relationship marketing”.

2.3 AN OVERVIEW OF CRM

2.3.1 General Introduction

CRM has been widely regarded as a company activity related to developing and retaining customers through increased satisfaction and loyalty. CRM is a customer-focused business strategy that dynamically integrates sales, marketing and customer care service in order to create and add value for the company and its customers.

CRM is one of the fastest growing management approaches being adopted across many organizations. Ovum (Bradshaw and Brash 2001), an independent research and consulting company, define CRM as: A management approach that enables organizations to identify, attract and increase retention of profitable customers, by managing relationships with them.

Scott (2001) defines CRM as “a set of business processes and overall policies designed to capture, retain and provide service to customers”, or (Injazz and Karen 2004), for whom CRM is “a coherent and complete set of processes and technologies for managing relationships with current and potential customers and associates of the company, using the marketing, sales and service departments, regardless of the channel of communication”.

CRM is a process designed to collect data related to customers, to grasp features of customers, and to apply those qualities in specific marketing activities (Swift 2001).
CRM is a relatively new management concept – a new approach to managing customers – currently sweeping through businesses world-wide and is especially finding a receptive audience in the professional service sector. CRM, though not a formal program, generally combines various elements of technology, people, information resources and processes in order to create a business that takes a “360-degree” view of its customers. As a point of reference, the CRM is: Activities a business performs to identify, qualify, acquire, develop and retain increasingly loyal and profitable customers by delivering the right product or service, to the right customer, through the right channel, at the right time and the right cost. CRM integrates sales, marketing, service, enterprise resource planning and supply-chain management functions through business process automation, technology solutions, and information resources to maximize each customer among enterprises, their customers, business partners, suppliers and employees (Galbreath 1999).

Chin et al (2003) suggests that CRM is an information industry term for methodologies, software, and usually internet capabilities that help an enterprise manage customer relationships in an organized way. It focuses on leveraging and exploiting interactions with the customer to maximize customer satisfaction, ensure return business, and ultimately enhance customer profitability.

Sin and Tse (2005) hypothesize that CRM is a multi-dimensional construct consisting of four broad behavioral components: key customer focus, CRM organization, knowledge management, and technology-based CRM. This is in accord with the notion that successful CRM is predicated on addressing four key areas: strategy; people; technology; and processes, and that only when all these four work in concert can a superior customer-relating capability emerge.
CRM has become a leading business strategy in highly competitive business environment. CRM can be viewed as ‘Managerial efforts to manage business interactions with customers by combining business processes and technologies that seek to understand a company’s customers’ (Kim et al 2003). Companies are becoming increasingly aware of the many potential benefits provided by CRM. Some potential benefits of CRM are as follows: (1) Increased customer retention and loyalty, (2) Higher customer profitability, (3) Creation value for the customer, (4) Customization of products and services, (5) Lower process, higher quality products and services (Jutla et al 2001).

Bose (2002) noted that CRM was invented because customers differ in their preferences and purchasing habits. If all customers were alike, there will be little need for CRM. As a result, understanding customer drivers and customer profitability, firms can better tailor their offerings to maximise the overall value of their customer portfolio (Chen and Popovich 2003). The attention CRM is currently receiving across businesses is due to the fact that the marketing environment of today is highly saturated and more competitive (Chou et al 2002).

Chen and Popovich (2003) argued that CRM is a complicated application which mines customer data, which has been retrieved from all the touch points of the customer, which then creates and enable the organization to have complete view of customers. The result is that firms are able to uncover and determine the right type of customers and predicting the trend of their future purchases.

CRM is an all-embracing approach that seamlessly integrates sales, customer service, marketing, field support and other functions that touch customers (Chou et al 2002). They further stated that CRM is a notion regarding how an organization can keep their most profitable customers and
at the same time reduce cost, increase in values of interaction which then leads to high profits.

The core parts of CRM activities are understanding customers’ profitability and retain profitable customers (Hawkes 2000). To cultivate the full profit potentials of customers, many companies already try to measure and use customer value in their management activities (Rosset et al 2002). Therefore, many firms are needed to assess their customers’ value and build strategies to retain profitable customers.

Kotler (2000) assured that CRM uses IT to gather data, which can then be used to develop information acquired to create a more personal interaction with the customer. In the long-term, it produces a method of continuous analysis and refinement in order to enhance customer’s lifetime value with the firms.

Many businesses today realize the importance of CRM and its potential to help them achieve and sustain a competitive edge (Peppard 2000). This view was further boosted by Bose (2002) that as a result of changing nature of the global environment and competition, firms cannot compete favorably with only minor advantages and tricks that can easily be copied by competing firms. The implementation of CRM is an enabled opportunity to rise above minor advantages with a real focus on developing actual relationships with customers. Firms that are most successful at delivering what each customer want are the most likely to be the leaders of the future.

According to Xu and Walton (2005) reported four survey results related to CRM applications in UK companies. The surveys were conducted by PMP Research from 2001 to 2004. A range of CRM-related issues are investigated including the success level of CRM, reasons for implementing CRM applications, degree of customizing CRM solutions, current spending
and future investment in CRM, degree of using analytical tools, and the perception of gaining competitive advantage from CRM.

2.3.2 Benefits of CRM

Peppard (2000) noted that effective management of information has a very important role in CRM because it can be used to for product tailoring, service innovation; consolidate views of customers, and for calculating customer lifetime value.

CRM systems assists companies evaluate customer loyalty and profitability based on repeat purchases, the amount spent, and longevity. Bull (2003) added CRM makes it practicable for companies to find unprofitable customers that other companies have abandoned or jettisoned. This position is supported by Galbreath and Rogers (1999) that CRM helps a business organisation to fully understand which customers are worthwhile to acquire, which to keep, which have untapped potential, which are strategic, which are important, profitable and which should be jettisoned.

Greenberg (2004) emphasized that CRM can increase the true economic worth of a business by improving the total lifetime value of customer, adding that successful CRMS encourage customers to buy more products, stay loyal for longer periods and communicate effectively with a company. CRM can also ensure customer satisfaction through the allocation, scheduling and dispatching the right people, with the right parts, at the right time (Chou et al 2002)

2.4 AN OVERVIEW OF CUSTOMER VALUE

Woodruff (in Chi et al 2004) defined customer value as a customer-perceived preference for, and evaluation of, product attributes, attribute
performances, and consequences in terms of the customer's goals and purposes. According to Chi et al, there have been limited studies to examine the differential effects of individual dimensions of customer value on the specific dimensions of CRM performance. They argued that investigating key dimensions of customer value and their effects is very critical and important since the delivery of superior customer value can involve significant costs for firms. Also firms even though they recognize the fact that superior customer value can lead to higher profits, they may be a bit skeptical since it can lead to profit reduction.

Delivering superior customer value has become an ongoing concern in building and sustaining competitive advantage by driving CRM performance. Driven by demanding customers, keen competition, and rapid technological change, many firms have sought to deliver superior customer value, and base on this the role of the customer has changed from that of a mere consumer to a multi-faceted role as consumer, co-operator, co-producer, co-creator of value, and co-developer of knowledge and competencies, which implies a much more important position of the customer than ever hence, firms are seeking to retain existing customers and attract new customers by targeted value creation activities (Chi et al 2004).

Ryals (2001) affirms that CRM creates value for the customer. The customer benefits from product and/or service offers which are targeted to meet individual needs and from improvements in customer service. There are a number of ways in which customer service can be improved through CRM. This includes reliability, security, efficiency, and communication as well as quality control and service monitoring. CRM systems also act as an ‘organizational memory’ about the customer. This can benefit the customer by reducing the amount of repetitive form-filling that the customer has to do. Customer preferences can also be kept on record, making placing an order
quicker and easier for the customer. The use of CRM to provide added value to customers can be directly linked to improved profitability and value-based marketing for the company.

2.4.1 Customer Value in CRM Process

Committed customers are profitable to an organization for the long term. Customer commitment forms when a customer’s expectation is satisfied and the customer realizes fair value from his/her relationship with the organization. From an organization’s perspective, this value reflects customer equity, but from a customer’s perspective, it represents the customer’s perceived value of the relationship.

Effective CRM has become a strategic imperative for companies in virtually every business sector. Companies are moving closer to their customers, expending more effort in finding new ways to create value for their customers, and transforming the customer relationship into one of solution finding and partnering rather than one of selling and order taking (El Sawy and Bowles 1997).

Organizations will be more successful if they concentrate on obtaining and maintaining a share of each customer rather than a share of the entire market (Peppers and Rogers 1995). It has been illustrated in practice that retaining an existing customer is more profitable than acquiring a new one (Reichheld and Sasser 1990).

Each relationship exchange incurs transactional and/or non-transactional data. Transactional data typically include sales amount, transaction time, place, and buyers while non-transactional data may include inquiries or feedback in the form of complaints or suggestions. Both transactional and non-transactional data must be organized into an integrated
customer data profile because such information is what makes customer interaction powerful (Wells et al 1999).

Such integration is a foundation of simplifying customer support activities and reducing transaction costs so that the organization may not only differentiate its products but also offer lower prices (Goodhue et al 1992; El Sawy and Bowles 1997).

Segmentation by demographic factors is widely used in bank marketing despite the fact that the correlation of such factors with the need of customers is often weak. Segmentation by expected benefits and attitudes could enhance a bank’s ability to address the conflict between individual service and cost-saving standardization. Using cluster analysis segments were formed based on combinations of customer ratings for different attitudinal dimensions and benefits of bank service. The clusters generated in this way were superior in their homogeneity and profit to customer segments gained by referring to demographic differences (Machauer and Morgner 2001).

Companies try to segment their customers by identifying groups of persons with need structures that are as homogeneous as possible within each group and significantly heterogeneous between groups. These groups can then be addressed with a specially designed but also standardized strategy. The goal is to solve the conflict between the intentions to satisfy customer needs as individually as possible but also to allocate marketing resources as economically as possible (Machauer and Morgner 2001).

A qualitative example of psychographic segmentation is presented by Harrison (1994) who uses variables such as the individuals’ own perceived knowledge and understanding of financial services, the perceived confidence and ability in dealing with financial matters and the expressed level of interest (involvement) in financial services.
2.4.2 Types of Customer Value

It is suggested that it is impossible to create sustained value for a firm’s shareholders unless value is being created for its customers. In fact, they suggest, service has been enhanced because, through the use of technology, the customer can now deal with the firm in a much more convenient way. Access is available through several channels and is guaranteed 24 hours a day, seven days a week (Bristol Group 2004). This then raises a fundamental question about the type of value companies should create for their customer. For example, Kotler (1997) argued that customer value can be understood in terms of product value, service value, employee value, and image value. However, this approach is largely derived from the standpoint of a firm not that of customers, or at least not totally customer based.

The broad theoretical framework developed by Sheth et al (1995) was somewhat different in that they suggested five dimensions of value from the customer's perspective (social, emotional, functional, epistemic, and conditional) as providing the best foundation for extending the value construct. However, it is worth noting that not all these dimensions have equal significance at any time, although they are related in some sense. As a result present study, therefore, posits that customer value can be better understood in terms of four key dimensions, each of which may play a different role in the customer perception process and thus contribute differently to the performance of CRM.

Functional value refers to the utility derived from the perceived quality and expected performance of the product or service, and perceived sacrifice refers to the loss derived from the product or service due to the increment of its perceived short-term and long-term costs. Functional value pertaining to the customer’s acquisition and use of the product is generated by price, convenience, access or technology. Unfortunately, competitors can
most easily duplicate functional value (Bristol Group 2004). Customers are becoming more value-oriented and are not simply influenced by high quality or lower price and value for money represents, therefore, the simplest and most easily copied form of functional value. Thus, creating functional value offers a fleeting competitive advantage (Bristol Group 2004).

Social value refers to the social utility derived from the product or service. Emotional value refers to the utility derived from the affective states that a product or service generates. Barnes (2004) has noted that emotional value is much more lasting form of value which elicits an emotional response from customers. It is less easily duplicated by the competition and generally contributes to less emphasis on price. When a firm employs qualified, friendly, helpful employees value is created every time a customer is made to feel welcome, important and valued. The creation of such emotional value for customers is fundamentally different from the creation of functional value through price reductions, increased convenience and technology. Both forms of value are important. However, genuine customer relationships cannot be formed on the basis of functional value alone. Customer relationships require an emotional connection with the firm if they are to thrive. The emotional value is the more lasting, yet the more difficult to create. A reliance on technology alone will not do it (Barnes 2004).

2.5 AN OVERVIEW OF CUSTOMER SATISFACTION

Kotler (2000) defined satisfaction as 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. When customers become satisfied about the value that is offered and sometimes his or her expectation is met and exceeded, can generate many benefits for a firm (Bateson and Hoffman 2002). According to them, positive word-of-mouth coming from existing and satisfied customers sometimes can translate into
more new customers coming to the firm. Also, satisfied current customers often buy more products more frequently and are less likely to defect to competitors than are dissatisfied customers.

According to Bateson and Hoffman (2002) firms that have high degree of customer satisfaction, also seem to have the capacity to shield off competition particularly price competition.

Kotler (2000) pointed out that it is important to measure customer satisfaction regularly through survey to determine customers’ level of satisfaction. He said this is because firms may think that they are getting a sense of customer satisfaction through customer complaints. However, in reality, 95 percent of dissatisfied customers do not make any complain and they just leave. As a result it is important for firms to make it easy for the customer to complain. Dissatisfied customers who usually complain, about 54 to 70 percent will continue to do business again with the organisation if their complaints are taken care off and resolved and may even be 95 percent if the complain receive quick response and action (Kotler 2000).

2.6 AN OVERVIEW OF CUSTOMER RETENTION AND LOYALTY

2.6.1 General Introduction

Bateson and Hoffman (2002) define customer retention as focusing a firm’s marketing efforts towards the existing customer base. This explains the view that instead of trying to acquire new customers, firms engulfed in customer retention efforts must make sure that existing customers are satisfied so as to create and maintain long-term relationships.

Lovelock et al (1999) said in business context, loyalty is used to describe the willingness of a customer to continue patronising a firm’s goods
and services over a long period of time and on a repeated and preferably exclusive basis, and voluntarily recommending the firm’s products to friends and associates. In their view, customers will continue to be loyal to a particular firm if they feel and realise that better value is being offered.

Kotler (2000) assured the most important consideration to attain high customer loyalty is for firms to deliver high customer value. He continued to stress that it has been the practice by firms to devote much attention and effort to attracting new customers rather than retaining existing ones, adding that traditionally firms emphasise more on making sales rather building relationships, on preselling and selling rather than caring for the customer afterwards.

Bateson and Hoffman (2002) noted that firms must put in place effective tactics for retaining customers and subsequently making them loyal. They mentioned tactics such as maintenance of proper perspective, remembering customers between calls, building trusting relationships, monitoring the service delivery process, responding swiftly to customers in need and provision of discretionary effort. According to them despite that every customer is important, firms must not retain certain customers if they are no longer profitable, abusive to the extent of lowering the morale of employees, reputation is so bad that it tarnishes the image and reputation of the company should the firm associates itself with that customer.

Reichheld (1993) believed that the customers who buy because of a personal referral are more loyal than the customers who buy because of an advertisement. He also opined that the customers who buy products at the standard price are more loyal that customer who buy on price promotion.

Fry et al (1973) found that male customers had a higher probability of remaining loyal than female customers. He cited marriage as the reason for
the change in the preference of the female customers. Ndubisi (2006, 2007), on the basis of his research of Malaysian bank customers, argued that the measurement of the ‘underpinning’ of relationship marketing can predict customer loyalty. At the same time, he also found significant gender difference in the trust loyalty relationship and concluded that women are significantly more loyal that men at higher levels of trust.

Zeithaml et al (1996) found strong association between overall service quality and service loyalty across multiple companies. Czepiel (1990) argued that the problem-solving mechanism entails a higher degree of social exchange and mutual client-advisor relation that is likely to strengthen greater loyalty among clients. Ball (2004) said that customer loyalty can be explained to a substantial degree by customer satisfaction, trust, and communication.

Aaker (1991) discussed the role of loyalty in the brand equity process and specifically noted that brand loyalty leads to certain advantages, such as reduced marketing costs, more new customers, and greater trade leverage. In increasingly competitive markets, being able to build consumer loyalty is seen as the key factor in winning market share and developing a sustainable competitive advantage. Oliver (1999) defines brand loyalty as “a deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts have the potential to cause switching behavior.” This emphasizes the two different aspects of loyalty described in prior studies-behavioral and attitudinal. Chaudhuri and Holbrook (2002) suggested that behavioral or purchase loyalty consisted of repeated purchases of the brand, whereas attitudinal loyalty included a degree of dispositional commitment in terms of some unique value associated with the brand. Thus, customer loyalty here was considered bi-dimensional, including both attitudinal commitment and
behavioral re-purchase intention. Based on prior studies (Lin and Wang 2006), customer loyalty was defined as the customer’s favorable attitude toward a brand, resulting in repeat purchasing behavior.

Based on the Delone and McLean (1992, 2003) IS success model, user/customer satisfaction may be assumed to be the determinant of the net benefit or individual impact (e.g., customer loyalty). Consumer satisfaction is believed to mediate consumer learning due to prior experience and to explain key post purchase behaviors, such as complaining, word of mouth, repurchase intention, and product usage (Oliver, 1980. Westbrook, R.P. Oliver, 1991). Anderson and Srinivasan suggested that “a dissatisfied customer is more likely to search for information on alternatives and more likely to yield to competitor overtures than a satisfied customer”. In addition, a past research has indicated that satisfaction is a reliable predictor of re-purchase intentions (Wang et al 2001).

2.6.2 Customer Loyalty Objectives

The development of customer loyalty is one of the most important issues organization face today. Creating loyal customers has become more and more important. This is due to the fact that competition is increasing, as never before, which has a great impact on many companies. To deal with this high concentrated market, businesses are attempting not only to attract and satisfy customers but also to create a long-term relationship with these customers (Gremler and Brown 1996). Creating satisfied and loyal customers is a critical matter for many corporations survival. Organizations’ goal with creating customer loyalty is mainly to increase their profits, since loyal customers have direct value on a company’s profitability. Several other benefits can be derived from loyal customers. Seen from the organizational perspective, loyal customers lead to increased revenues for the organization result in predictable sales and profit streams, and are also more likely to
purchase additional goods and services (Gremler and Brown 1999). To precisely assess the value of customer loyalty, there is the need to look beyond the direct value it has on the organization. That is to say beyond the direct revenue streams and add in the overall benefits related with it. For instance, loyal customers are also more likely to talk about the brand and recommend it to their friends and relatives, which will generate new businesses.

Many researchers (Rust and Zahorik 1993, Rust et al 1995, Loveman 1998) that encompass share of wallet and customer duration in personal retail banking have come from studies attempting to trace the chain of effects from service quality programs upon customer satisfaction, customer loyalty and customer profitability, that is, the so-called service-profit chain (Heskett et al 1994). Results have been mixed but seem to suggest that quality improvements help both customer acquisition and customer retention. New customers are attracted by positive endorsements from existing customers about quality products. Existing customers are encouraged to remain (resulting in higher retention and lower customer churn rates for the bank) and devote a greater share of wallet to their main bank. Reichheld (1992, 1996) has mentioned small increases in retention rates result in measurable effects on profitability.

In a Scandinavian banking context, Storbacka (1994) demonstrated direct relationships between customer longevity with their main bank and share of wallet given to that bank. In New Zealand, Colgate (1999) in his study of customer satisfaction with New Zealand banks wrote that the depth of relationship with customers (the “quality” of the relationship rather than the number of relationships) was particularly important. Gummesson (1999) echoed these sentiments in the context of long-term customer relationships in general, supported by earlier work by Fornell (1992), Anderson et al (1994).
Maximization of customer loyalty is a priority for most industries. It is often stated that industries like banks need to operate on a long-term “cradle-to-grave” customer management strategy where youthful customers are recognized as being unprofitable in their earlier years but becoming profitable as they move on through the family lifecycle (Ron Garland 2002). Concomitantly, customers can become “entangled” with their main bank to such an extent that the perceived cost of defection outweighs the benefits of shifting banking business to a new provider. Hallowell (1996), has identified that there is a relationship between customer loyalty and profitability and suggests that some customers can never be satisfied while it is unprofitable to try to satisfy others.

2.6.3 Loyalty Programs and Its Benefits

Customer Loyalty Programs have developed remarkably in the era of customer retention in recent years. This is due to recent advances in information technology. They have been considered by many organizations and many of them have adapted customer loyalty programs. According to Yi and Jeon (2003) loyalty programs are introduced to build customer loyalty. Dowling and Hammond (2003) stated that customer loyalty programs offer rewards to customers in form of relationships and financial rewards.

Customer loyalty programs have also been willingly embraced by customers; this is due to the benefits associated with it (O’Malley 1998). The importance of benefits for enticing customers into these loyalty programs and according to Yi and Jeon (2003) the goal of customer loyalty programs is to create a high level of customer retention. Gilbert referred to O’Malley (1998) states that the basic idea of a loyalty scheme is to reward customers’ repeat purchasing and encourage loyalty by providing targets at which various benefits can be achieved. The longer a customer stays with an organization the more profit the customer generates (Reichheld and Sasser 1990). This is
an outcome of a number of factors relating to the time the customer spends
with the organization, and includes: the effects of the higher initial costs of
introducing and attracting a new customer; increase in the value of purchases;
increase in the number of purchases; the customer's better understanding of
the organization and vice versa; and the last one positive word-of-mouth It
was recognized by Colgate et al (1996), Storbacka et al (1994) that reduction
in defection can contribute to increases in profits far more than increases in
the market share. The profits of organizations can increase by 100 percent
through retaining 5 percent more of their customers (Reichheld and Sasser

Moreover, seen from a customer perspective, loyalty scheme can be
a way to decrease price sensitivity, increase brand loyalty, reduce the
willingness to consider alternative brands, encourage word-of-mouth support
and endorsement, attract a larger group of customers and increase the amount
product bought (Uncle et al 2003).

Customer loyalty programs are assumed to create value for the
customer and it is due to this value that customer loyalty programs promote
loyalty. On the other hand, the degree to which customer loyalty programs
offer value to customers is uncertain, mostly because customers are not equal
and value will represent different things to different people and will also be
different in different context (O’Malley 1998). In order to make the value of
customer loyalty programs work properly and succeed, an organization needs
to understand the needs and desires of their customers. The value an
organization delivers to its customers needs to be competitive in five
dimensions. Seen from a customer perspective, the dimensions are: cash value
(as a percentage of the proportion spends), aspiration value (how much this
reward motivates a customer), relevance (the extent to which the reward is
achieved), and convenience (ease of participation of the scheme), choice (the variety of rewards offered) (O’Brien and Jones 1995).

Even though a small number of schemes today offer all dimensions of value, it is obvious that companies which want to play the rewards game should be sure that their value measures up to customers’ alternatives (O’Brien and Jones 1995). This is most significant when customer loyalty programs are mainly used as a differentiation. Due to the popularity and benefits derived from customer loyalty programs many corporations have adapted these schemes. Customer loyalty programs can and do build customer loyalty and corporations now realize how important loyalty is for their profitability. One of the main reasons of creating loyalty programs is to increase revenues, which can be done by either increasing purchase and usage levels and also by increasing the range of products bought. However, there are other reasons for creating loyalty programs including: to generate information, to reward loyal customers, to manipulate consumer behavior and as a defensive measure toward competitors (O’Malley 1998).

Getting information about customers, who they are and their purchasing behavior is a very important input for an organization. This information will contribute to a better understanding of the customer and corporations can use this knowledge to improve targeting, creating offers and shift merchandise. Furthermore, this knowledge can also be employed to reward loyal customers and also to motivate customers to try new products, manipulate consumer behavior.

Apart from the benefits that longevity of customers brings, research findings also suggest that the costs of customer retention activities are less than the costs of acquiring new customers. Rust and Zahorik (1993) identify the financial implications of customer retention, citing US Office of
Consumer Affairs research that estimates that attracting new customers may be five times as costly as keeping existing customers.

2.6.4 Involvement of the Customer

In order to implement the loyalty programs, we have to focus on the involvement of the customer. The interaction between customers and service providers is an important determinant of perceptions of service quality (Zenithal et al 1988). In some instances, this interaction will be largely of a transactional nature but more commonly interaction occurs within the context of an ongoing service relationship. Indeed, services marketing places considerable emphasis on the development and management of relationships with customers as a means of enhancing the quality of service delivery (Berry 1983, Christopher et al 1991, Eiglier and Langeard 1977). Those relationships are seen as being of particular importance in situations in which the service is long term in nature, when customers are heavily dependent on credence qualities in service evaluation and where perceived risk is high (Zeithaml 1981). Furthermore, building effective and successful relationships can contribute significantly to customer satisfaction, loyalty, retention and thus to improved performance (Reichheld and Sasser 1993, Rust and Zahorik 1993).

Without customer involvement the provision of many services cannot occur, but the way in which customers participate in the service delivery process can have important implications for both the customer and the service provider (Farquahar 2004, Christine Ennew and Martin Binks 1996). Customers who are willing to participate in service delivery may expect to receive a better quality of service for a variety of reasons. These reasons can be as follow:

First, customer participation should mean that the provider has a clear understanding of their needs and circumstances.
Second, participative customers may also be more aware of the constraints on the service provider in terms of what can and cannot be delivered. Accordingly, such customers are likely to form more realistic expectations about service quality and as a consequence the gaps between expectations and performance may be smaller.

Finally, it is possible that the willingness of consumers to participate actively in the provision of a service can provide the organization with an opportunity to enhance service productivity (Lovlock and Young 1977) by harnessing the contribution of customers.

Ford (1990) suggests that customers will and can only be expected to participate in a relationship if they anticipate that there will be benefits from that relationship. The role of the relationship in reducing perceived risk has already been mentioned but other benefits might be anticipated including enhanced service quality as a result of the delivery of a service which more closely meets customer needs and the formation of more realistic expectations. More generally, the quality of the interaction between buyer and supplier and the degree of customer participation in the relationship has been identified as possible antecedents of customer satisfaction (Solomon et al 1985). Certainly, there is preliminary evidence to suggest a positive relationship between good consumer behavior and relationship satisfaction (Anderson et al 1994). While good consumer behavior is not necessarily equivalent to relationship participation, it would be suspected that the two are closely associated.

2.7 THE EMERGENCE OF FINANCIAL SERVICES NETWORKS

Three major trends have led to the emergence of financial services alliances. First, customers increasingly demand that their financial requirements are comprehensively covered. This forces financial services
companies to offer customer support for all their financial requirements, ranging from account management to life insurance and the granting of a home loan, thus realizing the “one-stop finance” idea. The integration of different financial services is often realized by specialized companies (relationship managers) which have direct contact with customers as distribution intermediaries (Lehmann 2000). Second, threats from new and aggressive market entrants as well as constantly growing customer requirements force financial services companies to focus on their core competencies to remain competitive (Alt and Reitbauer 2005). This development has given rise to a deconstruction of the industry, resulting in specialized companies or business divisions (product providers) that focus on the delivery of specific products and services.

Third, financial services companies increasingly outsource transaction processing to external transaction processors in order to focus on their core competencies (Homann et al 2004). All of these trends have resulted in the emergence of networks consisting of relationship managers, product providers and transaction processors (Heinrich and Leist 2002, Hagel and Singer 1999).

2.8 CRM IN THE FINANCIAL SERVICES INDUSTRY

2.8.1 General Introduction

CRM emerged as a response to decreasing customer loyalty in different industries. The reasons for decreasing customer loyalty in the financial services industry are manifold and closely interconnected. Three fundamental factors can be identified:
1. New technological opportunities: The conceptual nature of financial services makes them ideal for distribution through electronic channels.

2. Increasing competition from new market entrants: Supported by new technological opportunities and deregulation, the market for financial services is being transformed into a globally-connected emporium.

3. Customers’ changing behavior: Financial services customers are increasingly self-confident, better informed about products and services, and increasingly demand services.

These factors have led to the emergence of concepts that focus on the nurturing of customer relationships (Peppard 2000). CRM emerged as an amalgamation of different management and information system approaches, particularly relationship marketing (Sheth and Parvatiyar 2000, Scullin et al 2004), and technology- oriented approaches such as Computer-Aided Selling (CAS) and Sales Force Automation (SFA) (Gilbert et al 2003). Following Shaw and Reed (1999), we define CRM as an interactive approach that achieves an optimum balance between corporate investments and the satisfaction of customer needs in order to generate maximum profits. It entails:

- Acquiring and continuously updating knowledge on customer motivations, and behavior over the lifetime of the relationship;
- Applying customer knowledge to continuously improve performance through a process of learning from successes and failures;
• Integrating marketing, sales, and service activities to achieve a common goal; and

• The implementation of appropriate CRM systems to support customer knowledge acquisition, sharing, and the measurement of CRM effectiveness.

To integrate marketing, sales, and service activities, CRM requires the business processes that involve customers to be fully integrated. These customer-oriented CRM processes are mostly semi-structured, and their performance is predominantly influenced by the underlying supply of knowledge on products, markets, and customers (Day 2000). In many financial services networks, however, customer-oriented processes and systems lack integration.

Profitability of banks and growth of client base are interlinked. With keen competition in the market, it is very important for the banks to understand ‘how customers choose their banks’. Then only banks can take proper marketing efforts to increase client base. Improper identification of true determinants of consumers’ bank selection decision may lead to poor results for marketing efforts. Management’s failure to identify customers’ desire is one kind of quality gap (Zeithmal et al 1990).

Khazeh and Decker (1992) analyzed the determinants of consumers’ bank selection decision through a survey covering 1,198 business school alumni of Salisbury State University in Maryland using a questionnaire containing 22 factors that were identified to influence the banking selection. Service charges, the reputation of the bank, interest rates on loans, time required for loan approval and friendly tellers were identified as the top 5 determinants of bank selection decision. Effective advertising was considered as least important (Rank 22) while ATM availability, proximity to workplace,
closeness to home, were ranked 12, 16 and 17 respectively. Focusing customer attention on low ranking factors may do little to attract new customers and on retaining the existing one.

Thuwaites and Vere (1995) studied the student buying behavior of banking service and concluded that students were not convinced about the concept of financial supermarket and were more inclined to shop around for the best offer. They were also found conducting business with more than one institution and were not particularly loyal.

Edris and Amahmeed (1997) conducted a study in Kuwait and concluded that the true determinants of bank selection decision made by business customers were more likely to be a function of both perceived importance of bank attributes and the difference among banks in a given region with regard to each of these attributes.

Nielson et al (1998) conducted a survey of CEOs of business firms and banks to find out how well banking industry in Australia understands the needs of their business clients. Significant variations were found in the six factors, which business firms consider prior to establishing a banking relationship. Business firms were found to place far more importance on the banks willingness to accommodate their credit needs, the efficiency of banking operations and the fact that banks have knowledge of their specific business. On the other hand, banks felt it was more important for them to offer competitive prices, full range of services and provide a person banking relationship.

Phuong and Har (2000) undertook a study of bank selection decisions in Singapore using the Analytical Hierarchy process through a study of banking preferences of college students. The findings indicated that the most important criteria affecting undergraduates’ bank selection decisions
were higher interest rate for saving, convenient location and overall quality of service. They are followed by the availability of self bank facilities, charges on service provided by banks, low interest rate on loans, long operating hours, availability of students privileges and recommendations by friends and parents specifically. The respondents considered overall quality of service more than twice as important as recommendations by parents/friends.

Almossawi (2001) studied the bank selection criteria by students of University of Bahrain. Findings revealed that the chief factors determining the bank selection by students were. Bank’s reputation, availability of parking space, friendliness of the bank personnel and availability and location of ATMs. Study also found that the priorities of male and female students differed.

Devlin (2002) analysed the customer choice criteria in retail banking market in the UK on the potential variations in choice criteria, which were classified as either intrinsic or extrinsic, with respect to customer financial knowledge. Intrinsic attributes were defined as those specific to a particular service rather than generalizable across services like price and service specific features. Extrinsic attributes were those factors that were not specific to a particular service and could be generalized across offering like service quality factors, corporate brand and relationship factors. It was found that lower knowledgeable groups were particularly influenced by extrinsic factors were found to influence higher financial knowledgeable groups also, higher knowledgeable groups were found more likely to take account of intrinsic attributes such as service features, rate of return and low fees in their choice.

The late 1980s and 1990s saw the sudden surge in the use of technology as a differentiator for Banks in the US. This is the period when ATMs became the prime interface between the banks and the customer.
Branches became secondary. “The whole branch area has been neglected over the past five to 10 years, partly because many bankers believed the branch would become less important at a time when the Internet was seen as upcoming. It was believed that the lower transaction costs would spell the end of branch banking. “They recognize now that that’s not going to happen” (Marenzi 2002). So far the trend has not shown any bias against branches. Studies suggest that customers do not want to bank purely by Internet, ATM or phone, but want to use several channels, especially branches. Though ATMs are popular among customers, studies by Dove concluded that only 10% of deposits in the US and only 2% in the UK are made through ATMs.

In spite of the availability of new technology driven channels, the customer expects a humane relationship with high banker in addition to low pricing, flexible terms, etc., and there seems to be no substitute for a face-to-face meeting either on advice on loan, a house purchase or insurance service (IBA bulleting, March 2004). Even in developed economies, especially the US, while the number of banks is coming down, the actual number of branches is on increasing trend (Rao 2004).

The compounded annual growth rate of internet banking has been 80% since 1994. In February 2003, more than 100 million households worldwide used online banking and 25% of the US households have adopted online banking (Community Banker 2003). Several factors accounted for the fast growth in internet banking in Europe and the US. First, PC and internet banking have significantly reduced barriers to entry in banking industry in both the countries. Secondly as e-commerce is rapidly accepted by business and consumers, bank consumers have come to expect convenience and technical innovations in service provided by their banks. Thirdly while internet banking operations are not yet profitable to most banks, the cost of attracting and maintaining customers with online banking is so low that investment in electronic and internet banking are irresistible to the banks and
non-banking financial institutions. The impact of electronic banking and internet banking is more pronounced in the US where nationwide branch banking is prohibited than in Japan and European Union, where branch banking is widely allowed (Chong et al 2002).

Bhat (2005), using SERVQUAL scale, studied the service quality of Indian banks and service quality variation across demographic variables. The study, conducted in four north Indian states of Jammu & Kashmir, Punjab, Haryana and Delhi, was restricted to five banks such as State Bank of India (SBI), Punjab National Bank (PNB), Jammu & Kashmir ank (J & K Bank), CITI Bank (CB) and Standard Chartered Grindlays Bank (SCGB). The results suggest that foreign banks are relatively close to the expectations of their customers in comparison with Indian Banks. The study confirmed that poor service quality among Indian banks is mostly due to deficiency in tangibility and responsiveness. The analysis of service quality across income variable shows that service quality of Indian Banks as vis-à-vis less variations across income segments as perceived by clients of foreign banks. The reason could be that proportion of transaction done through ATMs is higher across clients of foreign banks compared with Indian banks and ATM machines do not differentiate customers. The analysis of service quality as perceived by different age groups reveals that service quality of banks is comparatively better among higher age groups whereas reverse is the case among lower age groups. Service is perceived to be better in states where competition is higher and banks provide better quality service to business group customers in comparison with service group customers, as they are small in number but have higher income level.

2.8.2 Key CRM Issues in Financial Services Networks

Redundant competencies: Almost all the companies exhibited redundant competencies in respect of some of their partner companies in the
network. Because some customers may be clients of both companies, this may result in ambiguity regarding the responsibility for the provision of these services.

Generally, redundant competencies in a network are contrary to the idea of core competencies, since competitive advantage is achieved through the concentration of resources and economies of scale (Snyder and Ebeling 1992). On the other hand, redundancy is – at least to some degree – desirable to reduce the risk of competency loss. This is especially important in loosely coupled financial services networks in which partnering companies can change rapidly.

**Privacy constraints:** The privacy protection laws make it more difficult for network partners to exchange customer data. Because customers own their personal data, customer data are thus essentially bound to the company that collects it, and can only be used for the stated purposes. Companies therefore either have to include a very broad declaration of data sharing in their “general terms and conditions” when signing their first contract with the customer, or have to obtain explicit permission to use these data for each new purpose (including providing it to another company in a network).

However, special privacy laws prevent banks from sharing any customer data without a court order – even with their customers’ permission. Consequently, partners may share data with banks, but banks cannot share data with partners. This makes it difficult for them to analyze customer preferences in order to improve, for example, product innovation.

**CRM process integration:** Because customer-oriented process activities are distributed across different enterprises, these processes have to be integrated among the partnering companies. Some networks also have different contact persons for a single customer. This is a typical characteristic when process
integration is lacking, leading to inefficiencies and poor service quality (Peppard 2000).

**Customer information exchange:** Customer information exchange is a big issue in all the companies and is closely connected to the privacy issue. Privacy constraints can lead to insufficient information exchange between partnering companies. However, even when the necessary customer consent for data exchange purposes has been obtained, it is often difficult for these companies to exchange customer information. This issue becomes especially important when dealing with corporate clients, since much important knowledge is only stored in the heads of customer consultants and very little in information systems.

The initiation phase requires a significant time slice of the sales process as a whole, because knowledge has to be gathered and consolidated from various sources. Sometimes, because of missing information regarding “who knows what”, important business opportunities are missed or deals may not be closed.

**CRM systems integration:** Rudimentary CRM systems integration is a major issue that is often responsible for insufficient customer information exchange between partnering companies.

### 2.8.3 e-Financial Services

Puccinelli (1999) looks the financial service industry as entering a new era where personal attention is decreasing because the institutions are using technology to replace human contact in many application areas.

The banking sector can hardly be regarded as a model of innovation. Indeed, its tradition, probity and established ways of doing
business have been a source of pride to the sector. Banking, which has been characterized by its “tried and tested” processes of service delivery, is greatly affected by environmental change.

Technology continues to make a dramatic and profound impact in service industries and radically shapes how services are delivered. The primary motivation for the increasing role of technology in service organizations has been to reduce costs and eliminate uncertainties as well as being used to standardize services by reducing the heterogeneity prevalent in the typical employee/customer encounter (Durkin 2004).

A different organization got affects from this revolution; banking industry is one of it. In this technology revolution, technology based remote access delivery channels and payments system surfaced which included Automated Teller Machines (ATM) displaced cashier tellers, telephone represented by call centers replaced the bank branch, internet replaced the mail, credit cards and electronic cash replaced traditional cash transactions, and interactive television will replace face-to-face transaction.

This is a gain in time and spares callers from dealing with the wrong department before they can convert its call centers from cost centers to profit centers. Therefore, they have to encourage callers to purchase new products, direct them to the less expensive distribution channels, and help the bank to cross-sell.

In recent years banks have moved towards a marketing orientation and the adoption of relationship banking principles. The key motivators for embracing marketing principles were the competitive pressures that a rose from deregulation of the financial services market. This essentially exposed clearing banks and the retail banking market to increased competition and led
to a blurring of boundaries in many traditional product markets (Durkin 2004).

Regarding e-mail communication, messages have to be dealt with through a powerful artificial intelligence system, to enable the bank to send out standardized replies. It is important to send the right reply to a request, and therefore an individual answer should be provided to the client if there is any doubt. Indeed, if the artificial intelligence system does not have the capacity to reply to an e-mail message, it must be directed towards an employee who will be able to individualize the response the client requires.

The past four decades have witnessed acceleration in technological innovation within the banking industry. The increase in innovation adoption is a largely defensive measure against increasingly sophisticated and highly demanding consumers, escalating competition, and the necessity to control and reduce rising costs (Barra 1990).

Over the last few decades, technical evolution has highly affected the banking industry (Sherif 2002). For more than 200 years, banks where using branch-based operations, since 1980s things really getting changed with the advent to multiple technologies and applications.

Global changes brought new trends, directions and new ways of doing business, which also brought new challenges and opportunities to the financial institutions. In order to compete with newly increasing competitive pressures, financial institutions must recognize the need of balancing their performance by achieving their strategic goals and meeting continues volatile customer needs and requirements. Different ways must be analyzed to meet customer needs.
The banking sector occupies a pivotal position in the global economy. The slogan “the customer is king” has never been truer for the banking sector than it is today. Legislation has increased customers’ rights; technology and competition have increased their choice of products and providers. The Internet will bring about changes in the working environment, living conditions and patterns of banking use (Hagel et al 1997).

CRM is the combination of marketing efforts, business processes and technology which will lets the firm to know and recognize its customers from numerous perspectives (Chang, H.H., 2007).

According to Foss (2002) most of the financial services industries are trying to use CRM techniques to achieve varieties of outcomes. These areas are:

- Creating consumer-centric culture and organization;
- Securing customer relationships;
- Maximizing customer profitability;
- Aligning effort and resource behind most valuable customer groups.

It is possible to identify four stages Foss (2002) as follows:

1. Building the infrastructure and systems to deliver customer knowledge and understand customer profitability;
2. Aligning corporate recourse behind customer value-developing segment management strategies to maximize customer profitability and satisfaction;
3 Incorporating a market perspective into understanding of customer value, to avoid any possibly adverse effects and maintain customer relationships;

4 Integrating strategic planning and customer value management.

The bank would need a complete view of its customers across the various systems that contain their data. If the bank could track customer behaviors, executives can have a better understanding a predictive future behaviors and customer preferences. The data and applications can help the bank manage its customer relationship continue to grow and evolve (Dyche 2001).

In the past few years, insurers and retail banks have made most of the running in CRM. Increased competition and shrinking margins have forced them to deploy CRMS and technologies in order to respond to the needs of shareholders and clients. More recently, investment banks have begun to realize the intrinsic value of CRM.

The bank defines CRM as a marketing strategy that allows it to

- Focus on profitable clients through discriminated segmentation.
- Understand different combinations of clients, products, and volumes Indeed,
- Information about “who buys what and how much” enables the bank to have commercial approach based on the client and no longer solely on the product.
- Have a proactive approach, which consists in creating the demand – as result of better information – instead of just
experiencing it. Set-up a mix of distribution channels with standardized or specialized services according to the individual client’s importance for the bank.

- The principles of CRM hold true for this sector. Just because investment banking is a business-to-business application does not take away the fact that recognition of the client is still the key for CRM success. However, most of CRM in investment banking is still work in progress. It is a missed opportunity since it offers banks a chance to rethink their fundamental approach to client management, to redesign their coverage strategies and to use technology to bring this about.

- Technology that tracks and analyzes customer behavior allows companies to easily identify the best customers and focus marketing efforts and reward those who are likely to buy often. Acquiring a better understanding of existing customers allows companies to interact, respond, and communicate more effectively to significantly improve retention rates.

2.8.4 CRM activities in Financial Services

In recent years, banks have moved towards marketing orientation and the adoption of relationship banking principles. The key motivators for embracing marketing principles were the competitive pressure that arose from the deregulation of the financial services market particularly in India. This essentially exposed clearing banks and the retail banking market to increased competition and led to a blurring of boundaries in many traditional product markets (Durkin 2004). The bank would need a complete view of its customers across the various systems that contain their data. If the bank could track customer behaviour, executives can have a better understanding, a
predicative future behaviour and customer preferences. The data and applications can help the bank to manage its customer relationship to continue to grow and evolve (Dyche 2001). According to Stone (2002), Stone et al (2002) most sectors of the financial services industry are trying to use CRM techniques to achieve a variety of outcomes. In the area of strategy, they are trying to:

- Create consumer-centric culture and organisation;
- Secure customer relationships;
- Maximize customer profitability;
- Integrate communications and supplier – customer interactions across channels;
- Identify sales prospects and opportunities;
- Support cross and up-selling initiatives;
- Manage customer value by developing propositions aimed at different customer segments;
- Support channel management, pricing and migration.

CRM is a sound business strategy to identify the bank’s most profitable customers and prospects, and devotes time and attention to expanding account relationship with those customers through individualised marketing, reprising, discretionary decision making, and customised service through the various sales channels that the bank uses. Any financial institution seeking to adopt a customer relationship model should consider six key business requirements (Chary and Ramesh 2012), they are:

1. Create a customer-focused organisation and infrastructure.
2. Gaining accurate picture of customer categories.
3. Assess the lifetime value of customers.
4. Maximise the profitability of each customer relationship.
5. Understand how to attract and keep the best customers.
6. Maximise rate of return on marketing campaigns.

CRM is developing into a major element of corporate strategy for many organizations (Rangarajan 2010, Shibu 2011). A greater focus on CRM is the only way the banking industry can protect its market share and boost growth. With intensifying competition, declining market share, deregulations, smarter and more demanding customers, there is competition between the banks to attain a competitive advantage over one another or for sustaining the survival in competition.

CRM suggests that banks should consider the customer relationship life cycle (Dwyer et al 1987). This life cycle describes ideal phases that occur regularly in a customer relationship. In general, there are three core phases: Customer Acquisition, Customer Enhancement, and Customer Recovery. CRM implementation is a long term longitudinal phenomena.

Quality guarantees are supposed to convince the potential customer (Moorthy and Srinivasan 1995). In addition, recommendation by other customers, such as using Word-Of Mouth (WOM) communication achieves the same effect (Haywood 1989). Villanueva et al (2008) maintain that customers who are acquired via WOM add more long-term value to the firm than customers via traditional marketing channels. Many researchers have pointed out that firms should create WOM communication (Godes and Mayzlin 2004). A stimulation strategy provides customers incentives to enter into a relationship with banks. Short-term stimulation serves to generate a
single transaction, such as special sales. Long-term stimulation is aimed at multiple transactions and designed to develop a lasting customer relationship. It may include discounts and package deals.

According to Sunil Mithas (2005) “Customer relationship management applications help firms gather and use customer knowledge through two mechanisms. First, CRM applications enable customer contact employees to record relevant information about each customer transaction. After this information is captured, it can be processed and converted into customer knowledge on the basis of information-processing rules and organizational policies.” Many banking service systems, such as ATM, Internet banking, and call center play the role of “touchpoints”. One of the characteristics of successful CRM implementation is the capability of the business to develop better or more suitable products and services via these “touchpoints” (Davenport et al 2001). The most obvious evidence of these “touchpoints” is the use of Internet which decreases the communication cost with customers (Sharma et al 2000). Deploying IT support functions fosters one-to-one relationships with each individual customer at any time (Shoemaker 2001). Profitability of individual customers may change over time. In the CRM paradigm, one of the key goals is to determine different resource allocations for different tiers of customer. The customer’s tier membership depends on the economic value of that customer or segment of the business (Zeithaml et al 2001). A common finding is that businesses overspend on marginal customers and the most profitable customers do not receive their fair share of attention (Reinartz et al 2004). Businesses systematically attempt to mature relationships by cross-selling products with high purchase likelihood (Kamakura et al 2002). In the mature phase for instance, when the customer potential has been maximized the business goal is to maintain the sales level by providing up-selling and customized offerings. Sometimes strengthening the customer relationship is unlikely in the maturity stage of the lifecycle. So,
banks reinforce the switching barriers. The switching barriers will ensure that a customer is dependent on the banks and that the related turnover and profits are secured.

Smith and Bolton (1998) maintain that customers demand and expect service recovery if failures took place. Service recovery is critical as it provides an opportunity to retain customers. If the customer has been lost but is still attractive, recovery offers could be made to the customer (e.g. cancellation in the initiation fee; taking care of formality caused by the switching) or value added services could be offered.

In the customer-centered paradigm, Customer Asset Management (CAM), Customer Equity (CE), return on quality and service profit chain are similar to CRM (Berger et al 2002, Blattberg et al 2001). These management concepts are based on customer-centered viewpoints. One of the similarities shared by the above concepts is customer knowledge as the key factor. The ability to obtain customer knowledge is a competitive advantage in the contemporary paradigm (Hogan et al 2002). Collecting customer data and analysis are the foundation of these management concepts. Moreover, Oliver (1999) found that the key concept, i.e., customer satisfaction, is a central foundation across all these concepts. However, there are differences between these concepts. The service profit chain and return on quality approaches emphasize on service quality issues while CAM, CE, and CRM on identifying profitable customers and treating them adequately (Reinartz et al 2004). There are also differences between CAM, CE and CRM. On the basis of homogenous customer segments, CAM and CE still apply traditional marketing strategies to manage customer assets. Consequently CAM and CE approaches do not break the segments into smaller units. CRM, on the other hand, puts more emphasis on the individual customers, treating them individually on a large scale. So, the CRM perspective centers on individual
customer relationships, instead of the segments that are regarded as assets by CAM and CE.

Using IT, it enables a specific and immediate recognition of the clients, provides the employee with the right data immediately, and allows clients to be forwarded to the right people, according to their need and importance (Lindgreen 2004).

For the purposes Jayawardhana’s paper, customer expectations from electronic banking can be conveniently categorized under four different categories, namely, view-only functions, account control functions, new services and reconciliation functions. Each of these categories has been further divided into subsets of functions, which are by no means exhaustive.

1. View-only functions:
2. Action/account control functions:
3. Applying for new banking services:
4. Integration and reconciliation (Jayawardhena 2000).

According to Reynols (2002) Customer relationship management applications can commonly include:

- Call Center Automation
- Campaign Management
- Contact Management
- Data Warehousing
- Email Management
- Field Service Automation
- Knowledge Management
• Marketing Automation
• Personalization
• Sales Force Automation

Rapidly improving technology has allowed organizations to make the best of each customer contact.

CRM is a management concept that has the potential to positively impact the cost-revenue ratio by aligning the company with its customers and focusing its resources on high-value customers. Romano and Fjermestad (2003) provide an overview of current research directions. In many financial services networks, an integrated approach to CRM remains to be developed. For example, “many CRM systems used by financial conglomerates cannot even tell whether a banking customer also has, say, a mortgage or a stock broking account with its various subsidiaries” (The Economist 2003).

Stamoulis et al (2002) assessed the business value of e-banking distribution channels. These can be used to assess the business value along two points: the internal view, where the channel is considered as a resource whose utilization must be maximized, and the external view, where the channel as an interface to the bank’s customer base should enable and support customer relationship management. These models only focused on customer interaction in the communication channel. They report a study that was undertaken in a bank faced with the challenge of assessing the value of its main e-banking channel in operation.

Adopting consequently a working definition of IS business value as developed by Cronk and Fitzgerald (1999). Their approach “is to start with a more generic definition, as sign dimensions of value that in total reflect the true meaning of the construct and allow the IS context to direct the choice of
measures from each of the dimensions that represent IS business value’. The three dimensions the authors proposed are system dependent dimension, user dependent dimension and business dependent dimension, envisaging IS business value as a prism whose three faces are the above dimensions. Supposing that the e-banking channel is a ‘light beam’ that hits on to the prism, the light is scattered at different angles (evaluation perspectives) that correspond to the faces of the prism (the dimensions of the IS business value). (Stamoulis et al 2002).

Following on from this conceptualization of IS-derived business value they set as a target to measure the channel’s value by identifying initially which of the metrics, methods, and techniques that were already used by the bank could also apply to this particular case. To do this, the team initially looked at various business units that collect business data for evaluation purposes. They found out that four major functions, namely marketing and sales, finance, Information Technology (IT) and strategy were using metrics that could be related to e-banking channels. Then, they decided to enrich those inherited metrics and consequently categorized those under evaluation perspectives according to their original source, i.e. (Cronk and Fitzgerald 1999).

Garvin (1987) noted that high quality means pleasing customers and not just protecting them from annoyances, and identified eight ‘critical dimensions’ or ‘categories of quality’ around which the competition for customer satisfaction takes place. These dimensions of quality were judged to be sufficient and were adopted by the team for assessing customer attitudes towards the channel. For each of these dimensions, several metrics as indicators of success can be identified, depending on the particular e-banking channel being assessed.
E-banking channels are in essence interfaces between the Bank and its customers and hence of strategic importance. The more strategic a system becomes for an organization, the more appropriate a qualitative assessment is. To evaluate under the strategic perspective, such methods as SWOT analysis, Resource-Based View and PEST analysis are deemed appropriate. The strategic perspective looks at the channel as a competitive weapon with which the Bank expects to differentiate by means of enhanced customer propositions. Ideally, the informational, transactional, and advisory types of services offered by a channel must be scored relatively to those by the competitors. The evaluator need not have access to internal competitor data; he can simply use the channel as a customer in a role-play mode and can also interview other people who are using it. Under the strategic perspective, the position of a channel in relation to the others owned by a bank should also be considered. As is often the case, the ‘killing’ of a service that a specific channel supports is done intentionally in order to move its customer base to another. Evaluation data under this perspective aims at assisting the Bank to reassess and manage the distribution channel mix offered to the customer (Stamoulis et al 2002).

The financial services industry is in the middle of a structural change (Lehmann 2000). Increasing competition and customer demands require that financial services companies focus on core competencies in order to deliver better value to their customers. Consequently, companies that were formerly highly integrated have split into divisions or independent companies focusing on different parts of the value chain (Heinrich and Leist 2002). On the other hand, many customers demand a complete range of financial products in order to satisfy their financial needs “one-stop”. This forces financial services companies to collaborate with providers of complementary products and services. Ultimately, networks of financial services companies
emerge (henceforth referred to as “financial services networks”) (Alt and Reitbauer 2005).

### 2.8.5 Relationship Positioning with the Customer

According to equity theory, when a person perceives disparity in relationship, he/she will try to change the balance in an actual or psychological manner; otherwise, he/she would attempt to end the relationship (Hatfield et al 1979). So equitable relationship building is important in the long-term relationship management. Through proper relationship positioning, it is possible to manage the customer life cycle so that firms may implement an equitable relationship strategy; by maximizing customer equity as well as enhancing the customer value.

### 2.8.6 Types of Customers by their Behavior

“a customer whose identification and contact information exists within the firm”. Once able to identify its customers, a firm can make its customer-base more loyal by collecting, processing, and applying customer profile and transaction data to create in-depth understanding of customer needs and provide fair value to all customers.

As the firms nurture their relationships with their identified customers, some of them will evolve to become, what we call, core customers. Core customers are typically a small group of customers who are truly loyal to the firm and create enormous value for the firm. Despite their significant contribution to the firm, identifying these core customers is not always as easy as it sounds. In fact, defining core customers is regarded as one of the most critical strategic processes (Blattberg and Deighton 1996).
2.8.7 Types of Customer Information

According to the content and interaction types, customer information can be classified into three types:

1. Information of-the-customer;
2. Information for-the-customer; and
3. Information by-the-customer.

First, “of-the-customer” information includes personal and transaction data about a customer. It is the type of information most widely collected for CRM implementations. Firms obtain the personal data and are able to understand the customer’s sales volumes, profitability, purchasing patterns, frequency, preference, etc. For example, banks and credit card firms keep enormous amount of “of-the-customer” information in their database systems for opening, maintaining, and customer accounts billing and also to identify the most or least profitable customers. Database marketing, also called target marketing, is based on the strategic use of “of-the-customer” information.

Second, product, service and organizational information that are perceived useful by customers is referred to as “for-the-customer” information. This type of information is presented through diverse communication media so that customers acquire and process it to make more informed decisions. Firms can provide such information by direct mail, Automatic Response System (ARS), or Internet home pages.

The third type is “by-the-customer” information. This is the non-transactional customer feedback in formation that includes customer complaints, propositions, claims, A/S information, etc. Information of this type must be included in the expanded customer data profile because such
information is what makes customer interactions powerful (Wells et al 1999). Since it contains customers’ direct complaints, needs and suggestions, this type of information can be applied to develop new products and services or improve critical business processes.

2.9 AN INTEGRATED FRAMEWORK FOR DYNAMIC CRM

Nunes and Cespedes (2003) argue that while “demographic segmentation can still tell you what people buy, demographics no longer tell you how people shop … it’s a poor basis for channel design. The only rational basis is to integrate buyer behavior”. In support of this approach, any approach to segmentation that is not focused on clustering customers according to their motivations “is simply an approximation based on the assumption that descriptors (i.e. characteristics) and motivations (i.e. needs/behavior) are closely aligned—usually they are not”.

2.9.1 Segmenting Customers to Personalize Services

In addition to identifying strategically significant customers, the analytical CRM system will help profile and segment existing customers. Customer profiling combines multiple aspects of customers into a coherent evaluation, such as customer details, historical records and contact details, customer attractiveness, or customer satisfaction (Xu 2005).

Even though customer profiling is oriented more towards the operational function than the analytical function, it does provide a comprehensive view of each customer. This is the information required to understand the true value of the customer and gain insights to understand customer behavior. Existing customers can be segmented in many ways. This can lead to greater understanding about which customers and products have the most impact on the company’s operation and strategy. The segmentation
enables the company to provide more personalized and, therefore, more attractive product and service offerings to individual customer groups (Xu 2005).

A lot of large banks have been adopting information-driven customer acquisition and CRM, but at this stage few can show clear bottom-line rewards from this effort. However, a number of large banks in the USA, UK, Europe and Australia have invested in data warehouses and data-mining tools in the past few years. They have been building models of consumer-segment profitability and behavior, which help them target direct marketing campaigns for the “right” groups of customers. They have been analyzing and classifying consumer needs, assessing the risk of loss and trying to predict demand and delivery methods for various types of customers. They have been leveraging information for selling and for enhancing the effectiveness of new customer marketing campaigns (Foss 2002).

The essential of acquiring customer knowledge is to know not only who they are (customer profiling and segmentation) but also how they behave and what pattern they follow. Customer knowledge acquisition should be treated as a dynamic and continuous process, to collect information about existing customers (internal), defecting customers (cross organizational boundary) and new customers. Knowledge about prospective customers and customers that are loyal to competitors (external) should also be obtained (Xu 2005).

2.9.2 Tracking and Modeling Customer Behavior Patterns

Customer behavior modeling is a process that includes segmenting target customer groups, establishing criteria for measuring behavior, monitoring and tracking behavior changes, generating behavior patterns, and predicting possible future behavior (Xu 2005).
First European Bank considered it essential to develop a real-time database as a means to fully understand which types of clients it was dealing with. In fact, clients interact with sales services and client support services through the distribution network, which contains every possible channel to contact the bank: Agencies, call centers, self banking, home banking, client service, and so on. The bank’s interactions with its clients should provide transparent information, which can then be used by the “back office” for better marketing and peripheral services (Lindgreen 2005).

Findings of a preliminary study that was undertaken to provide some insight into the state of the relationship between Northern Ireland banks and their small business clients, in what is a mainly “branched- based” banking environment at present. The study was also used as a means of establishing the current level of adoption and usage of electronic banking channels by SMEs in Northern Ireland and the level of satisfaction with the same. In the 1990s, Kaplan and Norton (1992) presented the BSC concept in Harvard Business Re-view. Their basic idea is that evaluation criteria should include not only financial measures but also other perspectives such as customer satisfaction, internal business process, and innovation and learning.

2.9.3 Metrics of CRM Effectiveness

A company interacts with the customer using various communication channels such as e-mail, Web sites, virtual communities, call centers, and service centers. This information needs to be integrated and analyzed in order to obtain a complete and accurate picture of the customers—their preferences, needs, complaints, and attributes that can make them life-long members of the organizational “network” of products and services (Berson et al 2000).
2.9.4 Associating Evaluation Metrics with the Business Value of e-Financial Channels

By simply comparing metrics data with results can offer little insight for evaluating the contribution of an e-banking channel to the overall value that a bank produces as an enterprise. To do this, the evaluator should consider an e-banking channel both as a resource whose utilization must be maximized (internal view), and as an interface to its customers whose usage should directly support CRM (external view). Together, those two view points constitute the frame work against which the evaluation metrics can be meaning fully interpreted in order to assess the channel’s value (Stamoulis et al 2002).

2.10 SUMMARY OF THE CHAPTER

The chapter’s overall goal was to provide an overview of the literature in the areas covering this research: An overview of Relationship Marketing, CRM, Customer Retention and Customer Loyalty and Customer Satisfaction. 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.