

CRM : A Tool For Customer Attraction, Retention And Loyalty In Banking Sector

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Abstract

Info-tech based banking era, Customer Relationship Management – CRM, is a simple philosophy, which places the customer at the heart of the business processes, activities and cultures for improving customer satisfaction and maximizing profits, since Good customer service is the best brand ambassador for any bank. Therefore, banks are required to compete with each other in respect to attract, retain and even to make customer be loyal to them. Thus, this article is examined the simple philosophy of CRM as a tool to attract the new customer, retain the existing customer, and to make the customer loyalty further.

Keywords: CRM, Evolution of CRM, customer profitability, retention and loyalty

Introduction

Relationship marketing is the process of building long term mutually beneficial relationship with the customers. The Financial institutions in the developed countries are using this marketing tool very effectively by taking full advantage of Information and Communication Technologies. The Indian Banking Industry which was operating in a bureaucratic style prior to 1991 had to undergo large scale transformation with the opening up of the economy. The Sector has been facing unprecedented challenges with the wave of liberalization, privatization and globalization of Indian Economy. Banks in India are under intense pressure in today's volatile market place. Steep competition, globalization, growing customer demand and exposure to higher credit risks are forcing the banks to find new ways of improving profitability. On the other hand, cost-cutting measures have forced banks to manage operations with few Customers Relationship Managers and Product Specialists. Industry consolidation also poses fresh challenges to this sector.

Even today, most of the banks in India rely on the legacy of Customer Information System. In such a scenario, it is difficult to have a complete customer view across divisions. They face unprecedented challenges to sustain their growth path for survival. The challenges include customer retention, reducing transaction costs, risk management and regulation compliance.

The result was a huge proliferation in customer's choice. The strategic tool that was chosen for aiding this process was Information Technology and most of the banks went through adoption of various stages and forms of IT over the years and the process is still continuing. The rapid growth in Information Technology and its potential to serve the customers in a new way awakened the marketers and enabled them to transform these challenges into opportunities. Under these circumstances, customer satisfaction became an important aspect of the business. The search for new strategies began to meet not only the high expectations of customers but the need to retain them. The competitive world witnessed many banks participating in the race to optimize their profits. It increased the pressure to perform leading to adoption of advanced technology and better skilled work force. Therefore, business model changed from bank-centric approach to customer-centric approach. The customer became not only an essential but the most important part of the business.

The service sector has emerged as a key sector in Indian Economy. The contribution from this sector to our Gross Domestic Product (GDP) is approximately 55 per cent, as per the current year's Budget Report (2008-09). The continuous growth of GDP at 8 per cent and above has become possible due to the good performance of this sector. In the post-reforms era, there has been a sea change in the financial sector. In such a scenario, the services have growth rapidly and the customer has been more often a purchaser of services rather than a product.

The financial services are the backbone of service sector. This is important not only for the banking sector but of the Indian economy as a whole. This is so because banking is a catalyst and life of modern trade and commerce. It is an integral part of all the businesses and social activities. This rapid transformation of

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service in the banking system has led to the evolution of a highly competitive and complex market where there is a continuous refinement of services. Hence the increased role of banking in India's economic development on the one hand and the changes in the business climate on the other has put increased pressure on them. These changes are compelling the banks to reorganize themselves in order to cope with the present conditions.

Now, the financial institutions are trying to provide all the services at the customer's doorstep. The customer has become the focal point either to develop or maintain stability in the business. Every engagement with the customer is an opportunity to either develop or destroy a customer's faith in the bank. The expectations of the customers have also increased many folds. Intense competition among the banks has redefined the concept of the entire banking system. The banks are looking for new ways not only to attract but also to retain the customers and gain competitive advantage over their competitors. The banks like other business organizations are deploying innovative sales techniques and advanced marketing tools to gain supremacy.

Evolution of CRM

One of the important marketing tools in the developed countries is relationship marketing. The CRM is a comprehensive approach for creating, maintaining and expanding relationship with the customers. It has emerged as one of the most widely prescribed solutions for diminishing market share and sluggish growth of many industries in general and banking and financial sector in particular. CRM is a simple philosophy, which places the customer at the heart of the business processes, activities and cultures for improving customer satisfaction and maximizing profits. In one of the encompassing definitions, CRM is described as "the establishment, development, maintenance, and optimization of long term, mutually-valuable relationship between the customers and the organizations. It is a comprehensive approach for creating, maintaining and expanding relationship with the customers.

The concept of CRM is very important to the business sector. The essence of the business has been described by Peter Drucker, the management Guru as, "the purpose of the business is to attract and retain a good customer" Good customer service is the best brand ambassador for any bank. The entire business process consists of highly integrated efforts to discover, create, arouse and satisfy customer's needs. The modern business has realized it and is making all out efforts to become 'customer-centric' across the globe. Hence, CRM is not a once-for-all affair but a continuous process. It is the integral approach of dealing with customers by deploying the advanced information technology.

CRM is the Information Technology face of the business process that aims to establish enduring the mutually-beneficial relationships with customers in order to drive customer retention, value and profitability. It is meant for a common and equal good of the two stakeholders-businesses and their customers. It calls for capturing pertinent data about the prospective and current customers in respect of their buying pattern, shopping behaviour and usage habits. It represents the current philosophy that the businesses should be customer-oriented. CRM is a tool for delivering a variety of marketing dreams such as:

- .. To target and serve customers on an individual basis. It permits one to one marketing as opposed to mass marketing.
- .. It helps in establishing durable relationship with customers.
- .. It is to dis-intermediarize channels of the wasteful barriers and distortions.
- .. It helps in reducing marketing cost progressively.

Need for CRM in the Banking Industry

The important factors that establish the need for CRM in the banking industry are detailed below:

Intense Competition

There is intense competition among the Private Sector Banks, Public Sector Banks and Foreign Banks and they are all taking steps to attract and retain the customers. New technologies, research facilities, globalization of services, the flood of new products and the concept of all the facilities under one roof to provide better customer service leading to customer delight.

Well Informed Customers

The customers in banking industry today are well informed. With the introduction of new technology, the world has become like a small village. Thus, if a bank wants to have more customers, it should develop a good relationship with its present customers and try to maintain the same in the future also.

Decline in Brand Loyalty

In the present scenario, brand loyalty is on decline. The customers are switching over frequently to avail the better facilities from other banks. Newer and superior products and services are being introduced continuously in the market. Thus, the banks have to upgrade their products, improve customer service and create bonds of trusts through proper care of customer needs and regular communications. With the help of CRM, strong customer loyalty and a good image for the organisation can be developed.

Improved Customer Retention

In the intensely competitive banking industry, retention of existing customers is vital, which can be achieved through the process of CRM.

Literature review - CRM in Banks

M.P.Gupta and Sonal Shukla (2002) in their article "Learnings from Customers Relationship Management (CRM) Implementation in a Bank" attempted to highlight the learnings from Customer relationship Management (CRM) implementation in the banking sector. The important issues examined include organizational information, the CRM strategy, strategic changes resulting from CRM implementation, implementation priorities for the banks and the factors indicating the performance after CRM implementation. The study was supported by a case study of CRM systems in a major Japanese Bank, Bank of Tokyo, Mitsubishi and also a field survey of scenario in the Indian banking sector. The study revealed that CRM is gradually picking up and is definitely considered as a viable proposition by banks in improving services to their customers. Since there is a resistance to change, while implementing CRM, high commitment is required in those who are implementing it.

Dr.S.T.Ramachandra, (2002) made a study on "Customer Relationship Management-Emerging Strategies". The main objective of the study was to develop a scale to measure the depth of relationship and stages of relationship development. Further this study also attempted to identify effective and timely cross-selling and up-selling of the products and services. The study concluded that for laying the right foundation for a better CRM, the banks should be customer-centric and give importance to the retention of existing customers than acquiring new ones for it promote cross-selling and repurchase of products.

Alok Mittal, et al., (2003) together presented an article on "An Exploratory study of CRM orientation among bank employees". The paper aimed at exploring the aspect of CRM orientation among bank employees of both public and private sector banks. The findings of the research highlighted that there is need for improvement on some of the components of CRM such as customer communication, customer orientation, customer care and handling of complaints in both public and private sector banks. The aged employees in the public and private banking institutions need to improve CRM skills in order to compete with their younger counterparts.

Gani and Bhat (2003) in their study titled, "Service Quality in commercial banks: A comparative study" attempted at studying the service quality in commercial banks with a view to making overall service quality in banks more effective and efficient. The study was conducted in selected states of northern India which include Jammu and Kashmir, Punjab, Haryana and Delhi. The study is restricted to five banks in northern India namely, State Bank of India, Punjab National Bank, Jammu and Kashmir Bank, Citi Bank and Standard Chartered Grindlays Bank. In this study, the main area of questioning and analysis related to customers expectation and perception in relation to service quality dimensions. For examining service quality and its dimensions in the banks SERVQUAL the model was used. The results of the study revealed that the service quality of foreign banks was comparatively much better than that of Indian banks and suggested heavy investment by Indian banks in tangibility dimension to improve the quality of service to customers.

Dhillon et al., (2003), in their study "Paradigm Change; Relationship Marketing and Service Quality of Banking Services", highlighted the changing dimensions of marketing of banking services in public sector

banks and private sector banks in India after liberalization in the 1990s. The study focused on the emerging banking scenario particularly in the post-liberalization era in Indian banking, changing dimensions of banking services, comparison of customers satisfaction rendered by private sector banks and public sector banks. The result of this study revealed that the private sector banks were fairly doing well with innovative technologies, better understanding of customers and better services. Good relationship marketing strategies like better segmentation, enquiry management, welcoming the customer, getting to know the customers, customer development, managing problems and winning back the customers contributed to the growth and market share of private sector banks in India.

Eapan and Ganesh (2003) in their study titled, "Customer Service in Banks: An Empirical Study" mainly focused on the 'speed' aspect of customer service by assessing customers' experience with regard to time taken to transact business with public sector banks and old generation private sector banks operating in Tiruvananthapuram district of Kerala. The study revealed that there was no difference between the public and private sector banks in the customers' time consumed for transacting business in banks.

Debashish Sthya Swaroop (2003) conducted a study in Delhi to study service quality in banks. He used the Rust and Oliver model to study the service quality in banks. The study revealed that ICICI bank and SBI provided better quality service. However, on the whole the public sector banks failed to satisfy their customers.

Arvind Singh (2004) in his article "Customer Relationship Management-New Horizons in Banking" argues that the truly most productive and desirable assets are not buildings and fixtures but a profitable customer base. He states that enhanced customer relationship implies taking customer service and associated profitability to new heights by increasing interactive banking and client links. He suggests that banks globally must consider themselves as innovative solution providers satisfying customers rather than just a product-driven or a profit driven distributor. He discusses extensively how the advancement in technology have changed the face of banking and have compelled banks in the UK and the USA to reconsider their strategies. He also suggests that banks must reassess their strategies and must acquire a mind-set in managing customer relationships to be successful in the ever changing markets.

Dibh and Maureen (2004) in their research paper, "Relationship Marketing and CRM: A Financial Services Case Study" considered the shift towards relationship marketing principles and the implementation of CRM in retail financial service sector. Many players offering banking and related products have now 'bought in' the concepts behind relationship marketing and are investing heavily (particularly in new information technology) to enhance customer relationship and improve retention rates. This trend is considered from the perspective of an organisation that is one of those leading the change. An in-depth case study reveals the progress made in the recent years towards the company's goals focusing especially on the introduction of new systems and moves to enhance customer data. However, the analysis also suggests that major challenges remain if the benefits of CRM are to be fully realized with particular concerns for the implementation of CRM principles.

Upinder et al., (2004) together made a study on "Service with a Difference: A Comparative Analysis of Private and Public Sector Banks". Their aim is to study different service quality factors in private and public sector banks, both for the employees, as well as for the customers to understand the emerging trend in competition, service feature required by the customers, quality expectance and perseverance. The study reveals that the employees have felt that competence and tangibility are higher in public sector as compared to private sector and the customers have felt that public sector has higher tangibility. Responsiveness is higher in private sector.

Rajewari Krishnan (2004) in her article "Banking CRM makes the difference" observes that customer relationship management can be helpful in customer identification, cross-selling of products, customer acquisition and retention. Operational CRM, which provides required information and Analytical CRM, which traces activities and makes information more sensible are the two tools of CRM. CRM cell, portfolio of products, customer-metrics and latest methodology are some of the requirements suggested by the author for efficient implementation of CRM in banks.

Gopal, V.V. (2004) in his article "Retail Banking going the CRM Way" observes that attracting and retaining the individual, high net-worth and profitable customers is a key challenge to banks today. Customer

relationship management can help the retail bank managers in facing this challenge. He has suggested that in order to derive the maximum benefit from CRM, banks must prepare their process compatible to the customer relationship management.

Ganesan and Rajagopalan (2004) in their article on 'e-CRM in Service Excellence', addresses e-CRM strategies to explore the possibilities in active, preactive and proactive service excellence, they highlight that competitive environment, eroding margins, need to reduce costs and keeping customers are the prime drivers for the organizations to embrace e-CRM. They conclude a well-executed e-CRM strategy can result in a number of quantitative benefits including greater ability to sell and cross-sell, improved customer retention besides reduced cost of service.

Raji Srinivasan and Christine Moorman (2005) in their study on "Strategic Firm Commitment and Rewards for Customer Relationship Management in Online Retailing", say that a firm's strategic commitments may be an overlooked organizational factor that influences the rewards for a firm's investment in CRM. Using the contest of online retailing, the authors consider the effects of two key strategic commitments of online retailers on the performance effect of CRM, their bricks and mortar experience and their online entry timing. They have tested the proposed model with a multi-method approach that uses manager ratings of firm CRM and strategic commitment and third-party customers ratings of satisfaction from 106 online retailers. The findings indicate that firms with moderate bricks and mortar experience are better to leverage CRM for superior customer satisfaction outcomes than firms with both low or high bricks-and mortar experience. Likewise, firms with moderate online experience are better able to leverage CRM into superior customer satisfaction outcomes than firms with either low or high online experience. These findings help resolve disparate results about the value of CRM and they establish the importance of examining CRM within the strategic context of the firm.

CRM: A tool

According to Newell (2000) the real value to a company lies in the value they create for their customers and in the value the customers deliver back to the company. Accordingly, it is important to mark that the value does not lie in more information and in more advanced technology. The value lies in the customer knowledge and in how the companies use that knowledge to manage their customer relationships. Knowledge is the sole of CRM. Unfortunately, few companies are transforming the information to customer knowledge and therefore they miss the opportunity to provide value to their customer.

Customer Profitability, Retention and Loyalty

The concept of CRM is perceived as a tool to contribute on higher customer profitability, customer retention and even customer loyalty. Customer profitability will increase by higher customer wallet-share, up-selling, cross-selling and follow-up sales and satisfied customer refers more customers (Bolton et al., 1991), the retained or long-staying customer buys big quantities frequently. The customers initiatives increases bounding relationships and as a result-loyalty (Foster and Cadogan, 2000) similarly, if companies are transforming the customer data into knowledge and then uses that knowledge to build relationships it will create loyalty, followed by profits (Royals, 2000)

Consequently, the companies particularly banking organizations have to evaluate which customers are profitable, going to be profitable in future and never profitable in future. The key to success in business is to discover economically beneficial customers, acquire them and never let them go (Shone, et al., 1996) According to Budhwani (2002) all the customers are not beneficial; if the customers are taking company's time, energy and resources without generating enough business, they are dangerous customers. Newell (2000) describes that the company must use CRM where they can get good profitable customers as well as the innovations in service to be rendered to the customer is possible. As a result presently banks have been giving the following innovative services deliberately

- The introduction of ATMs.
- Biometric ATMs.
- Single Window Service
- Teller System.

- Internet Banking.
- Introduction of Plastic Money; Credit Card, Debit Card, Smart Card.
- Mobile and E-mail Alerts.
- Electronic Cash.
- Introduction of two in one accounts.

Investment on Customer Management

Managing of customers is inevitable to every banking organizations irrespective of their nature business – retail or wholesale, since, in the present day information era, they are not only the king beyond that they are emperor to decide about success or failure rate of business, but concentrate on customer management involves considerable investment. Therefore, presently banking organizations are forced to concentrate on cost of customer management – amount require to create and maintain customer and their loyalty, however, the concept of CRM is perceived as Lower Cost of Recruiting Customers, Customer recruitment cost will decrease and there will be savings in marketing, mailing, contact, follow-up, fulfillment, services and so on (Sheth, J.K. and Parvatiyar, 1995) further, No Need to recruit so many customers to preserve a steady volume of business Increase in long-term customers relationship will ultimately minimize the need for new customers recruitment (Storbacka et al., 1994) similarly it will reduce costs of sales, Long-term customers are more responsive than the newer ones that will decrease the selling cost. As well as marketing campaign cost will also decrease due to familiarity with the distribution channels (Dyche, 2001) Thus, the investment in CRM can better to have the substantial benefits for customers, employees and to the banker at huge level

Benefits for Customers

- There is a more co-ordinate and professional approach to customer contact.
- With up-to-date customer information, banks can offer more personalized services.
- Customers feel empowered if they have greater access to products and services. For example 24 hours banking.
- Targeted product and service offerings can be timed to coincide with customer events and requirements e.g., education loans and tourism loans.

Benefits for Employees

- Employees are empowered with the information to deliver high quality service and meet customer expectations.
- Employees have more time to serve customers.
- Employees have higher satisfaction ratings.

Benefits for Banks

- Managers are empowered with information that can help them manage customer relationships and make better decisions.
- Optimum use of resources.
- Improved customer acquisition and cross-selling.
- It helps in capitalizing on short windows of opportunities in the market.
- Lower Cost of Recruiting Customers
- No Need to recruit so many customers to preserve a steady volume of business
- Reduced Costs of Sales

- Higher Customer Profitability
- Evaluation of Customer Profitability
- Increased Customer Retention and Loyalty

Conclusion

Customer Relationship Management – CRM, a tool to attract and retain the customer and their loyalty to banks, since the origin of banking industry in the world particularly in India, which have been facing numerous changes, challenges and obstacles dramatically. Info-tech is one of the emerging change that forced all kind banks to compete each other perfectly in respect of attracting the new customers and retaining the existing customer, which have been perceived as a new paradigm to know, understand and recognize customers are not only the king beyond that they are emperor of banking business. Therefore, it is concluded that CRM is a tool to attract, retain and to make the customer be loyal in the present day as well as the days are to come also.

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