The Customer Retention Strategies of Banks in India

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ABSTRACT *Banking sector has become fastest growing service sector in India. The financial reforms in India that started in 1991 have put lot of pressure and laid many challenges in front of commercial banks. Banking sector is going through a dynamic phase where banks performance, quality of services, customer loyalty and customer retention has become major challenges. Bank's focus on efforts on customer retention is increasing because the cost of acquiring a new customer is five time more than retention of the existing one. In recent years, attention to customer retention and its constructs has increased in academic banking literature. This paper studies the drivers that influence customer retention in banks.*

Key words: Banking reforms, customer retention.

Introduction

Many countries have experienced a remarkable revolution in the role and significance of services in the service sector of their economies. The success of service sector depends upon high quality relationships of customers with service providing firms (Panda, 2003) which determines the retention level of customer. As acquiring new customer becomes increasily challenging in this fierce competition, the main focus of service industry's has become customer retention (Fornell, 1992). It is strongly advocated by researchersto adopt customer retention as performance indicator and formulate marketing strategies related to retention of customers after considering the impact of its variables or drivers i.e. service quality, customer loyalty, customer satisfaction and switching barriers. The service management considers such variable as antecedents of customer retention especially the service quality and switching barriers.Delivering high quality service to their customers by service providers is a key for sustainable competitive advantage and ensures the survival in today competitiveworld. If the banks don't give their customers some good reason to stay, bank's competitors would give them very good reason to leave. Customer's retention is that marketer's activity which triggers the buyers repurchase intent.

With privatization and globalization, the banking sector of India has become too competitive due to tech-savvy private banks and diversification of foreign bank's operations where 'one for all' and 'all for one'principle is being followed on. To cope up with emerging market conditions, banking sector has started changing their business practices like developing customer loyalty programs, marketing strategies for customer retention, start giving attention to perceived service quality of bank's services and products and adopting a district and unique approach to hold on their customers and meet future challenge (Mishra et al., 2010). In cut-throat competitive financial market, customer service has become most important non price factor (Kotler, 2003). Hence, banks are required to develop customer focused approach for their future survival and existence in the banking sector.

CUSTOMER RETENTION

Customer retention is a vital element of bank's strategy in today's competitive era. The banks are required to explore these factors that can limit customer defection rate. Customer retention can act as a vehicle of strategic marketing as defensive marketing policies or offensive marketing policies of banks. In a service sector, the longevity of customer relationship with service providers

is customer retention (Menon and O' Connor, 2007). The propensity of customers to stay with their service providers is customer retention.

Ahmed and Butle (2001), explores some benefits of retaining the existing customers as a 5percent increase in customer retention rate leads to an increase between 25 – 85 percent in netpresent value of customers. These benefits are as:-

- Saves customer acquisition and replacement costs.
- Guarantees the base profits as already continued customers are likely to haveminimum spend per period.
- Savings in operating costs as firm can spread this cost over many more customers for along period of time.

Through the use of customer retention strategies service providing firms can be assured ofcustomers' support as they are getting benefits (Peppers and Rogers, 1999), which escorts the firm to higher profits and enhanced success levels (Bergeron, Roy and Fallu, 2008). Moreover, a firm can also anticipate for profits in terms of word-of-mouth marketing strategies, cost savings and an increase in profits and revenues with chalking out well-made customer retention strategy. Additionally, customer defection (when service providers lose their customers as opposed to retaining them)rate can also be decreased. As a result of well-known relationship of the customers with their service providers, some retained customers may feel their risk of making use of, acquiring and maintaining the product or service is trimmed down.
Thus, service providing companies should focus on existing customer's base because they canprovide not only their feedback regarding the services or products but will also help the service providers in value addition to a specific service by developing the process.

DRIVERS INFLUENCING CUSTOMER RETENTION

It's obvious that a key element in customer retention program is switching cost and service quality of service fims. However, service quality and customersatisfaction need not to be the only element of firm's strategic marketing efforts. The barriers to customer defection inservice sector like strong interpersonal relations, customer loyalty, customer satisfaction, priceperceptions, inertia also depicts the additional marketing strategies in service industry. Hence,the driving variables of customer retention should be long-established so as to deal with thepolicies and ways to avert customer defection. These drivers are discussed as:-

1. SERVICE QUALITY

According to Parasuraman, Zeithamal and Berry (1988), "service quality is the global evaluation or altitude of overall excellence of services". It is the difference between the perception and expectations of customers regarding the service quality has been considered as the difference between the customer's expectations regarding perception of services being delivered and services to be perceived (Gronroos, 2001; Parasuraman, Zeithamal and Berry 1988). Service quality has been defined as a form of attitude which is related to the satisfaction. (Parasuraman, Zeithanal and Berry. 1988; Bolton and Drew, 1991). If we closely examine this definition, it suggests the ambiguity between concept of service quality and its definition.Hence, the researcher suggest that service quality and satisfaction are different and separate constructs (Bitner1990; Bolton and Drew 1991b; Prasuraman, Zeithamal and Berry ,1988). The most important explanation of above two is that attitude is a form of perceived service quality, long term overall evaluation parameter, whereas satisfaction is transaction specific measure (Bitner, 1990; Parasuraman, Zeithamal and Berry, 1988; Bolton and Drew 199la). These researchers said that in order to measure the perceived service quality, what a consumer should expect from the service provider is level of comparison while in satisfaction , what a consumer would expect is

appropriate factor to compare. Thus, the distinction between consumer satisfaction and service quality is important to managers and researchers alike.

In the contemporary information era, customer service has become a demanding question in any service industry as there are many insubstantial that state the customer's satisfaction. Various marketing campaigns and the advertisement which seems to induce sharp and sensitive customers, response comes to zero if the service standards do not complement the service quality expectations of the customers. When it is about banking industry, the job is even more confronting as it is mandatory for banks to provide improved and well-organized customer satisfaction to go with the expectations of existing and new customers for retaining them. Customer satisfaction is an antecedent of service quality which leads to customer retention. So, the pre-requisite of customer retention is service quality (Ranaweera and Nelly, 2003) but it is a necessity rather than a mandatory condition.

2. CUSTOMER LOYALTY

The significance of customer loyalty towards serviceproviders is that it is very much linked with firm's continued survival. The customer loyalty is a combination of customer's favorable attitude and repurchases behavior (Kim, Park and Jeong, 2004). The customer loyalty is very significant as it is closely related to the company's survivaland strong future growth (Fornell, 1992; Ahmad and Buttle, 2002). The favorable customer's attitudes states the beliefs like buying additional products and services from the same company or repurchase intentions of the **customers** their willingness to recommend the company's name to others, showing resistance of switching to another rival company (Cronin and Taylor, 1992; Narayandas, 1996; Prus and Brandt, 1995) and customer's willingness to pay price premiums. While the behavioral concept of customer loyalty states the customer's repeat purchase probability. It is customer's intention and willingness to repurchase the product /service from the same company, suggesting the company's name to others and exhibiting a long term choice chances for the brand (Feick, Lee and Lee, 2001). Therefore, customer loyalty is viewed as strength which conceptualizes the relationship between individual's relative attitudes and repurchases intent (Dick and Basu, 1994). In study of service management literature, it is found that loyalty is mainly defined according to behavioral aspect and the most of the customer's loyalty studies were operationalised behaviorally. The customer loyalty shows an intendedbehavior for the product or service or for the company. Hence, it can be concluded that customer loyalty is nothing but just a mindset of the customer's favorable attitude towards a service providing firm and depicts their long term relationship to repurchase the products and services of same firm and recommending names of firm to others (Pearson, 1996).
Customer loyalty and customer satisfaction areinseparable parts of customer retention process. The primary result of customer loyalty is customer retention. By reducing acquisition costs of new customers, customer retention improves theprofitability. The customer retention strategies major focus must be on zero defections of profitable customers).

3. SWITCHING BARRIERS

The growing competition in today's global market shows that it is highly significant forcompanies to retain their existing customers. Switching barriers plays a role of an adjusting variable that defines the relationship between customer retention, customer satisfaction and loyalty. The concept of switching barriers is used as the marketing, strategies which makeswitching costly for itscustomer to another organization. Such barriers make customer defection costlier and difficult. Switching barriers comprises of interpersonal relationships provided switching cost and attractiveness of alternatives Interpersonal relationships means social and psychological relationship that is noticeable itselfas intimacy, trust, communication and care. It refers to the power of personal tie up thatdevelops between customers and their service providers. The interpersonal relationship is highly significant in services given high degree of personal bonding,

heterogeneity of serviceresults, customers play the high-flying role in service production (Bowen, 1986). The switching cost includes transaction cost, set-up cost, pre-switching cost, emotional cost, learning cost,search cost and loyalcustomer discounts (Fornell, 1992). The attractiveness of alternativenessrefers to service quality that the customer expects to the present service provider in best available alternative. It is linked with the notion of service differentiation – providing value added and unique service to the customers whom their competitors do not offer (Jones, 1998; Kim et al., 2004).

The switching barriers are defined as a difficulty faced by a customer who is dissatisfied with existing service, and then switch to the other service provider. Hence, the higher the switching barrier, more the customer, would be forced to continue their relationship with existing serviceprovider. Such barriers give customers some disincentives to leave the current organization. Ifswitching cost is high, that is the most important factor which binds the service providers andits clients The customer satisfaction does not predict the longevity of customer's relationship with serviceproviders (Curasi and Kennedy, 2002). Switching cost is a very important driver or construct ofcustomer retention that results in secure and long-lasting relationships of customers withservice providers (Bendapudi and Berry, 1997; Dick and Basu, 1994; Ganesan, 1994). So far, the major focus of previous research scholar's were on customer satisfaction and / or commitment as main motivational factor for customer's long term relationships with serviceproviders (Garbarino and Johnson, 1999; Morgan and Hunt, 1994; Szymanski and David,2001). In order to keep up their customers in relationship with service providers, the firmstressed upon satisfaction as primary retention tool (Fornell, 1992). On the contrary, the firm influence of switching cost is higher on customer repurchase intent than satisfaction. So, switching barriers and switching cost is highly significant issue for marketing strategy that identifies the strategies and factors influencing the relationship of customers with firms and that may also makes switching costly. So therefore switching barriers are very significant as they can strive hard for greater customer retention and also help the service firms to handle the shortterm fluctuations in quality of services provided by the firms, otherwise that can result in customer defection.

4. CUSTOMER SATISFACTION

Customer satisfaction has been researched widely in the field of marketing, it is one of the most generally used customer-centric matrix by bank manager for the reason that it is of generic nature and widely accepted measurability for all types of products and services. Customer satisfaction refers to the customer response to the state of satisfaction and customer opinion of the fulfilled state (Oliver, 1997). It is an emotional response to the dissimilarlybetween what a customer expects and what he gets on the subject of fulfillment satisfaction of some desire, need. Customer satisfaction is the result of service quality, as satisfaction deals with the expectations of customers what the service is likely to be whereas service quality refers to the desire and ideal i.e. what the service should be. The relationship exists between the desired outcomes and customer satisfaction, customer loyalty and customer retention. A customer plays an important role in banking industry. In fact, only customer is profit centre and else is overhead. Customer is the one which actually uses the products and services. Therefore, it is very significant for any bank to make an impression on customers with the high – classand better quality services who in rank become the ambassadors in market. Hence, customer satisfaction is very vital element which has a great influence on customer retention strategies.

Higher customer satisfaction level leads to so many benefits for a service provider. It reinforcescustomer loyalty and inhibit customer churn, lesser the customers' price sensitivity, buyadditional products, stay loyal longer, less affected by competitors, lower the cost of acquisitionof new customers and failed marketing, advances the effectiveness of advertising and

at last, enhances corporate reputation (Fornell, 1992; Zineldin, 2000). Customers' own perceptionregarding service quality is the key factor which determines the customer satisfactiorn (Zeithamal and Bitner, 1996). As a broad-spectrum rule, customer loyalty and customersatisfaction are very closely correlated. Customer satisfaction is an antecedent of customerloyalty. It also put off the customer churn and merges retention (Fornell, 1992; Zeithamal andBitner, 1996). Customer satisfaction and customer retention are critical factors as both arelinked with profits. Satisfaction increases customer retention. Customer retention depends upon the relationship between the parties i.e. customer and service provider. But some authors argue that even satisfied customers van switch their providers as satisfied customer may or may not intend to get back to the organization. Hence, satisfaction does not lead to increase in customer retention. Even not all retained customer are satisfied with the services; they still remain with the provider only for the reason that there is lack of alternatives available to such customers (Lowenstein, 1995; Reichheld and Aspinall, 1993; Eriksson and Lofmark Vaghult, 2000).

CONCLUSION

It is concluded that in order to enhance the overall efficiency of banks and effectiveness of customer retention strategies, banks should explore the length and depth of their relationship with customers through cross-selling. In attaining this objective, the banks will be able to make enhanced profits through boosted sales, diminishing cost to be focus for new customers, lesser customer -price sensitivity and trimmed cost to serve customers already familiar with bank's service delivery system. It is very important to manage the variables affecting customer retention as it determines the bank's market share and profitability.

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