

# [Tangible rewards of retaining customers marketing essay](https://assignbuster.com/tangible-rewards-of-retaining-customers-marketing-essay/)

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## ABSTRACT

In this paper, the research has projected a conceptual framework to investigate the significance of customer retention as a challenge in financial services. In order to drive sustainable competitive advantage, customer retention must be on top of the all marketing strategies. The world has taken up the emergence of the service sector as a high flying contribution to its financial system over the last few decades. 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 industry depends upon high quality relationships of customers with their service providing firms. As the cost of getting hold of new customers and fierce competition increases, the main focus of service industry’s marketing strategic efforts is on customer retention. This study is an attempt to examine the drivers inducing customer retention in the banking sector. The drivers of customer retention programs are dynamic. The Indian banking industry is now operating in a dynamic confronts relating to both customer base and performance. To grip on the service sector, drivers like service quality, customer loyalty, switching cost, customer satisfaction etc. to be considered. In a bid to fortify relationships with their customers marketers are screening rehabilitated results in customer retention programs. In order to smooth the progress of managerial action, we discuss what are those drivers and how are these connected to the customer retention. Our approach and findings have meaningful inferences for managing customer retention in the financial services industry.

## Keywords: - Customer retention, Customer Loyalty, Customer satisfaction, Service quality, Switching Barriers

## Introduction

Dawkins and Reichheld (1990) fetched the tangible rewards of retaining customers into eminence. Based on their consulting practice, they asserted that a 5% boost in retention rate led to a raise in the net present value of the customers of between 25 - 85% in a widespread range of industries, from motor services to office building management and from credit card to insurance brokerage. In spite of its prospective benefits, customer retention did not attain much consideration in strategic or marketing planning processes. The banking industry is extremely spirited, with banks not only contending among each other, but also with financial institutions and non banks (Kaynak and Kucukemiroglu, 1992; Hull, 2002). The majority of the bank’s product developments is easy to replicate and when banks providing nearly indistinguishable services, they can differentiate themselves on the core of price and quality. For that reason, customer retention is potentially an effective contrivance that banks can exercise to gain a strategic pro and survive in today’s escalating banking competitive situation. The world has taken up the emergence of the service sector as high-flying contributor to its financial system over the last few decades. Many countries have experienced a remarkable revolution in the role and significance of services in the service sector of their economies (Sharma, 2002; Edwards and Croker, 2001; Nankervis and Pearson, 2002). The success of service industry depends upon high quality relationships of customers with the service providing firms (Panda, 2003) which determines the retention level of customer. As the cost of obtaining new customers and fierce competition increases, the main focus of service industry’s marketing strategic efforts is on customer retention (Fornell, 1992). It was strongly advocated by previous researchers to adopt customer retention as a 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 variables as antecedents of customer retention especially the service quality and switching barriers. The contention for customer retention is moderately straightforward. Company’s day to day focus of their strategic efforts on customer retention is increasing and service quality as cost of acquiring is five times more than retaining an existing one and quality satisfaction is the most important aspect of customer satisfaction. This is because the outlay of attaining customers is incurred only in the beginning juncture of the commercial relationships (Reichheld and Kenny, 1990) Research has shown that customer retention influences organizational results such as performance superiority increasing sales profit (Duncan and Elliot, 2002), the service quality of banks, improving customer relationship with service providers that overall increases the profitability (Reichheld and Sasser, 1990), enhances corporate image, promote customer loyalty (Newman, 2001; Szymigin and Carrigan, 2001; Caruana, 2002; Ehigie, 2006). Delivering high quality service to their customers by service providers is a key to sustainable competitive advantage and ensures the survival in today’s fierce competitive banking environment. In the present era of the challenging economy and competitive business environment, customer retention is critical factor in an organization. If they don’t give their customers any good reason to stay, bank’s competitors would give them a very strong reason to leave. Customer retention is that marketer’s activity which triggers the buyers’ repurchase intent. During the last two decades, there have been rapid improvements in the financial system of India. Due to liberalization and privatization, the banking sector has become dynamic and fastest growing service sector subject to day-by-day increasing competition with great potential. The Indian banking industry at present is going on through a dynamic phase where both customer and bank’s performance, service quality, customer retention, switching costs, customer loyalty are now the major challenges. The service quality, customer satisfaction, customer loyalty and switching barriers are the drivers which affect customer retention strategies. Only because of these variables, customer retention is considered as a major factor for market share and profitability. Due to globalization, public sector banks are required to restate their service quality parameters in order to regain their market share and compete with private sector bank’s corporate image. The financial reforms in banking sector started in 1991, put lots of pressures and challenges before the banking industry of India as never earlier. In 1969 and 1980, the ownership of commercial banks was transferred to the government after the nationalization of commercial banks. Then, the government decided the pattern for directing the flow of credit and determining the way of credit flows to some specific sectors of the banking industry. With the passage of time, the prevailing market conditions created a mindset, where everyone started to look for guidance for everything like an approval on confirmation of their actions taken from the higher authority. The banking personnel have lost their zeal, competitiveness and stopped thinking and operating like a business organization (Mishra et al., 2010). In the aftermath of worldwide financial crisis, the banking sector of India has been well-regarded and applauded globally for its resilience to get ahead of the crisis. There are a number of factors responsible for its success, namely, strict and prudent norms and regulations which end result is enhanced productivity, well – organized banking industry and also made banks stronger and healthier. 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 starts changing their business practices like developing customer loyalty programs, marketing strategies for customer retention, start giving attention to the perceived service quality of the bank’s services and products and adopting a distinct and unique approach to hold on their customers and meet future challenges (Mishra et al. , 2010). In a cut-throat competitive financial market, customer service has become most important non price factor (Kotler, 2003). Hence, banks are required to develop a customer focused approach for their future survival and existence in the banking sector. While there have been several studies emphasizing the implication of customer retention in the banking industry, there has been little little study which examines the constructs that may possibly lead to customer retention. This research has projected a conceptual framework to investigate customer retention as a bigger market challenge in financial services. In order to drive sustainable competitive advantage, customer retention must be on top of the all marketing strategies. The Indian banking industry is now operating in a dynamic confronts relating to both customer base and performance. Grip on the service sector, drivers like service quality, customer loyalty, switching cost, customer satisfaction etc. to be considered. In a bid to fortify relationships with their customers marketers are screening rehabilitated results in customer retention programs. The primary objective of this investigation was to identify certain distinguishable factors thatconstitute the retention of customers of banking institutions . In order to smooth the progress of managerial action, we discuss what are those drivers and how are these connected to the customer retention.

## Review of literature

Earlier studies have recognized the paybacks that customer retention hand over to an organization (see Colgate et al., 1996; Reichheld and Sasser, 1990). Marketing scholars highlights the impact of customer satisfaction on customer loyalty (Fornell et al. 1996). As the relationship management literature accentuated switching cost and customer loyalty as major drivers. Sim, Mark and Jones (2006) observed the antecedents and consequences of customer satisfaction and customer retention in the hotel industry. They also observed how these are related to switching intentions. They found that customer retention as a latent variable was measured through loyalty and intentions to switch while customer satisfaction as a latent variable was measured through ambience and hospitality. Both customer satisfaction and customer retention are influenced by added value. Cohen, Gan, Yong and Choong (2006) have identified the various constructs that affect a customer’s decision to remain with or leave their banks. They found out that most important constructs were customer satisfaction, followed by switching barriers and corporate image. Gerpott, Rams and Schindler (2000) have studied the customer retention (CR), customer loyalty (CL) and customer satisfaction (CS) as important goals. They found that with the help of LISREL analysis that overall CS have strong influence on CL which in turn affecting a customer’s intention to extend/ terminate the contractual relationship with his mobile cellular network operator which is equal to CR. Seo, Ranganathan and Babad (2008) focused on understanding the drivers related to customer retention behavior, both behavioral aspects such as switching costs and customer satisfaction. It was found that there was a strong relationship between switching costs and customer retention behavior. Service plan complexity, reflecting price and wireless service usage and handset sophistication can increase switching costs which is positively related to customer retention behavior indirectly. Matos et al. (2009) empirically tested the antecedent, moderating and mediating function of switching cost of customer on the relationship between customer loyalty and satisfaction. The authors suggested that the bank management to make an investment on marketing strategies and advertising campaigns strictly diverted towards the conversion of switching perception of customers into customer loyalty after taking into account the mediating and moderating effects. Clemes, Gan and Zhang (2010) identified the variables influencing switching behavior of customers in the retail banking industry. The results reveal that service quality, price, reputation, effective advertising, distance, involuntary switching of service provider and switching cost affect the switching behavior of banking customers.

## The Drivers of customer retention

Customer retention can be observed as the mirror icon of customer defection, where a high-pitched retention rate has the equivalent implication as a low defection rate. In order to understand the complexity of customer retention, it is imperative to be aware of the evaluations, intentions and attitudes that affect behavior of the customers (Oliver, 1999). Mainly we focus on following prominent drivers of customer retention in the marketing literature: Competitive advantage, customer loyalty, customer satisfaction, service quality and switching behavior.

## Competitive advantage

In a highly spirited cut throat market, the shortest route to single out is all through the enlargement of brands and vigorous promotion in cooperation with final consumers and intermediaries (Parasuraman, 1997). In the long run, branding, targeting and positioning all would be much more valuable if the supplier had certain sustainable advantage to offer consumers (Baker, 1993). The same is also discernible in the banking industry, where most of the banks are offering more or less the indistinguishable products for nearly one and the same prices. If a bank can be able to extend its quality of products ahead of the core service by way of additional and prospective service features and worth, it is improbable to gain a sustainable competitive and cutthroat advantage (Chang, Chan, and Leck, 1997). Consequently, the most possible way to retain together customers and enhance profitability is by means of adding value via strategy of distinction and excellence (Baker, 2003) while enhancing margins through elevated and higher prices. Nowadays customers do not just buy underlying quality products or services, they moreover purchase a multiplicity of added value or benefits. This obliges the service providers for instance banks to take customer retention as a bigger market challenge and should also take up a market orientation approach which recognizes consumer requirements and designs new and innovative products and redesigns existing ones (Woodruff, 1997; Ennew and Binks, 1996). Further competitive pressures afterwards push other financial firms to keenly target consumer segments by amalgamating customer retention strategies , brand loyalty and service quality (Ennew and Binks, 1996).

## Customer loyalty

As identified by previous researchers, the significance of customer loyalty towards service providers is that it is very much linked with firm’s continued survival. The customer loyalty is a combination of customer’s favorable attitude and repurchase behavior (Kim, Park and Jeong, 2004). The customer loyalty is very significant as it is closely related to the company’s survival and 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 the 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 a strength which conceptualizes the relationship between individual’s relative attitudes and repurchase 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 intended behavior of the product or service or for the company. Hence, it can be wrapped up by the conclusion 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 are inseparable parts of the customer retention process. The primary result of customer loyalty is customer retention. By reducing acquisition costs of new customers, customer retention improves the profitability. The customer retention strategies major focus must be on zero defections of profitable customers. There is a difference between a loyal customer and retained customer. The concept of customer inertia implies that customers can only be retained; they do not express any loyalty towards service providers. Beyond doubt, loyal customers are more adhered to increase the number of purchases and less price-sensitive. Customer satisfaction with bank’s product and services plays a vital role in generating loyalty that could be absent in retention situation. Hence, customer loyalty is distinct from simple repurchase buyer’s intent. The customer loyalty and customer retention is not same.

## 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 a 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 dissimilarity between what a customer expects and what he gets on the subject of fulfillment of any 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 the banking industry. In fact, only customer is a profit center 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 –class and better quality services who in rank become the ambassadors in the market. Hence, customer satisfaction is a 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 reinforces customer loyalty and inhibit customer churn, lesser the customers’ price sensitivity, buy additional products, stay loyal longer, less affected by competitors, lower the cost of acquisition of new customers and failed marketing, advances the effectiveness of advertising and at last , enhances corporate reputation (Fornell, 1992; Zineldin, 2000). Customers’ own perception regarding service quality is the key factor which determines the customer satisfaction (Zeithamal and Bitner, 1996). As a broad-spectrum rule, customer loyalty and customer satisfaction are very closely correlated. Customer satisfaction is an antecedent of customer loyalty. It also puts off the customer churn and merges retention (Fornell, 1992; Zeithamal and Bitner, 1996). Customer satisfaction and customer retention are critical factors as both are linked to 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 a 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 customers are satisfied with the services; they still remain with the provider only for the reason that there is a lack of alternatives available to such customers (Lowenstein, 1995; Reichheld and Aspinall, 1993; Eriksson and Lofmark Vaghult, 2000). In industry, where the causal products have turned out to be a commodity-like, quality of services depends profoundly upon the quality of its workforce. This is well recognizable in a study of Leeds (1992), who acknowledged that inexact 40 percent of customers switched their banks for the rationale of what they well thought-out to be poor service. This study also demonstrated that enlarged use of professional behavior and service quality/sales improved customer satisfaction and reduced customer attrition. Presently, organizations ought to know how to persevere with their customers, even if they emerged to be satisfied. Reichheld (1996) puts forward that unsatisfied customers may desire not to defect, because they do not look forward to receive better services elsewhere. Moreover, satisfied customers may look for other service providers because they strongly believe that they might receive better services elsewhere.

## Switching barriers

The growing competition in today’s global market shows that it is highly significant for companies 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 make switching costly for its customer to another organization. Such barriers make customer defection costly and difficult. Switching barriers comprise of interpersonal relationships perceived switching cost and attractiveness of alternatives. Interpersonal relationships means social and psychological relationship that is noticeable itself as intimacy, trust, communication and care. It refers to the power of personal tie up that develops between customers and their service providers. The interpersonal relationship is highly significant in the services given a high degree of personal bonding, heterogeneity of service results, 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 loyal customer discounts (Fornell, 1992). The attractiveness of alternatives refers 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 service provider. Such barriers give customers some disincentives to leave the current organization. If switching cost is high, that is the most important factor which binds the service providers and its clients. The customer satisfaction does not predict the longevity of customer relationship with service providers (Curasi and Kennedy, 2002). Switching cost is a very important driver or construct of customer retention that results in secure and long-lasting relationships of customers with service providers (Bendapudi and Berry, 1997; Dick and Basu, 1994; Ganesan, 1994). So far, the major focus of previous research scholars was on customer satisfaction and / or commitment as a main motivating factor for customer’s long term relationships with service providers (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 firm stressed upon satisfaction as a primary retention tool (Fornell, 1992). On the contrary, the influence of switching cost is higher on customer repurchase more intent than satisfaction. So, switching barriers and switching cost is highly significant issue for a marketing strategy that identifies the strategies and factors influencing the relationship of customers with firms and that may also make 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 short term fluctuations in the quality of services provided by the firms, otherwise that can result in customer defection.

## Corporate image

Today’s clients have added selections for their monetary needs than ever earlier. Technology, increased competition , globalization and increased consumer mobility have severely distorted the way persons bank ( Harwood, 2002). Numerous financial institutions are giving an impression at branding techniques to discriminate themselves as a contrivance to construct an image which is relatively critical in a state of affairs where all banks are presenting the same kind of products. Therefore, it is radical that banks have an inclusive knowledge of customers’ values, needs, attitudes and perceptions of numerous services which the bank offers and the picture which customers come up with about the bank itself (Kaynak, 1986 ). Consequently, banks must be able to construct and administer their bank’s icon to clearly state the distinctions between their competitors and bank. Furthermore, Marthur (1988) and Gronroos (1984) anticipated image as an option to product differentiation.