

A Study of Effectiveness of Relationship Marketing Practices in Banking Sector



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Abstract

The banking industry is witnessing intense competition during the past few decades and they have become more customer-orientated aiming at the satisfaction of their customers. Relationship marketing is essential about extending and deepening businesses with bank customers. Crucial factors are the trust and commitment for the building enduring relationships. It is difficult to build a competitive advantage on products and prices in banking. Today banks are as racing to re-establish their connections to new as well as existing customers to boost long-term customer loyalty. The present research has been carried out to study the role of Customer Relationship Marketing in banking sector and to analyze the need to increase customer value in CRM applications. In this study opinion of 100 customers from Jaipur city have been taken.

The findings revealed that significant numbers of customer do not have much knowledge about bank's products such as internet banking and investment advices on their accounts are also not regular. The paper concludes that in coming year's relationship marketing will be preferred mode to win the customer loyalty and trust in banking sector.

Keywords: Relationship Marketing, Competitive Advantage, Customer Satisfaction, Trust, Loyalty.

Introduction

During the last decade the banking industry has been in the process of fundamental changes. These days with the intensive competition and the application of new technology as well as the changing economic environment, it is easier for the customers to switch banks and make use of services of several banks in order to satisfy their needs. Banks are facing more competition from domestic and foreign banks as well as non-bank financial institutions. Having finally embraced the concept of marketing, banks enter the new millennium in an increasingly competitive and fragmented marketplace, consisting of financially literate consumers and direct low cost competition from recognized high street brand names. Banks have become more customer-orientated aiming at the satisfaction of their customers.

It is difficult to build a competitive advantage on products and prices in banking. More and more believe that customer relationships are a source of competitive advantage (Woodruff 1997). As customers increasingly interact with banks through remote technological channels (e.g. phone, Internet, etc.) the implications for bank-customer relationships are important. Thus customer relationship marketing in addition with customer trust and commitment, are crucial for the banks to create a competitive advantage in the marketplace.

A major challenge that emerges for banks is how to differentiate themselves from competitors, given the fact the products are easily copied in the financial service industry, and the processes involved are virtually identical. In the backdrop, Relationship Marketing strategies can be utilized as important strategic tools for banks.

Relationship Marketing

Relationship Marketing focuses on the interaction between buyers and sellers and is concerned with winning and keeping customers by maintaining links between marketing, quality and customer service (Christopher et.al. 1994). The underlying logic of relationship marketing is that selling organization should take a long term view of customer relationship to ensure that those converted are also retained (Turnbull and valla, 1990). Indeed some researcher have expressed surprise that the marketing literature has concentrated more on attracting customers, than on retaining them (Schneider, 1980), particularly as the hard economic truth is that it is financially more lucrative to retain existing clients than to attract new business (Perrien et.al., 1993). This situation applies to a wide range of industry sectors and is caused mainly by the decreasing cost of

customer relationships over time. Research in the US credit card business has shown that when customer retention rates are increased by five percent, company profits can grow by sixty percent (Reichhid, 1993).

The current interest in relationship marketing has been brought into focus by four factors: the maturing of service marketing, the potential benefits which relationship marketing offers customer benefits and technological advances (Berry, 1995). Relationship Marketing is an integrated and coordinated effort to identify, maintain and build up a network with individual customers and employees and continuously strengthen the network for mutual benefits of both sides through interactive, individualized and value added contacts continuously over long period of time (Shaw and Chalasa, 1992).

When it comes to consumer literacy and protection. As banks have reach more and more of the population, banks have to be sure that consumers understand the products they are being sold, have the information to make sensible decisions. Caveat emptor or let the buyer beware is typically the standard used in financial markets – that is so long as the buyer is not actively misled, they are responsible for researching their product choices and making purchase decisions. While this puts a lot of burden on the buyer to do due intelligence, it also gives them a lot of freedom to make choices, including of course the freedom to make bad choices.

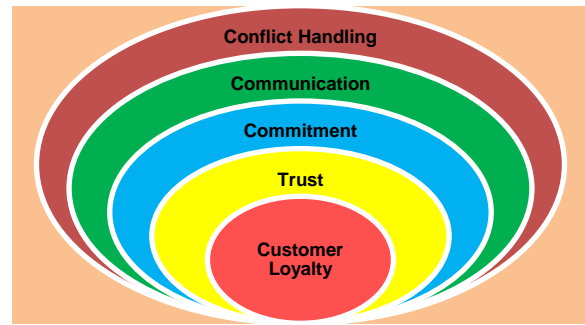
The customer loyalty in banking has seen a major concern to practitioners due to severe competition and higher customer expectations. Further to that, one way to enhance customer loyalty in banking is by focusing on offering excellent services and meeting the needs of customer. Banks need to have a good understanding of their customer behavior so that appropriate marketing strategies directed towards relationship building and customer retention can be developed. According to Christopher et.al (2002), the real purpose of business is to create and sustain mutually beneficial relationships, especially with selected customers. With the main proposition which assume that successful relationships is the two-way flow of value.

The Indian information and communications technology industry has a proud history of accomplishment. Financial firms can join hands with it to build a technology- enabled financial sector that can reach every nook and cranny of India, and even across borders, to foster growth. This will entail new, uniquely Indian models.

A Model Design for CRM in Banking Sector

Customer Relationship Marketing is one of the leading promotional strategies in banking sector, looking at new ways to enhance the customer potential and service quality. This model of relationship marketing in banking sector introduces new constructs and uniquely combines them in specifying that the customer loyalty is a function of trust, commitment, communication, and conflict handling in the relationship marketing. In which, personal demographical factors are used as a moderating variable.

Relationship Marketing



In our study, we tried to expose the situation regarding the Relationship Marketing strategy usage in Indian banks, analyzing the banks presence in RM platforms and the expert's perception regarding barriers and challenges in adopting RM in the banking system. This paper includes the objectives, research methodology, hypothesis and analysis and ended with conclusions, findings and suggestions.

Review of Literature

1. Dr. Sarita Bhatnagar (2014), in her article "Relationship Marketing Strategies- for MSME business of banks" concluded that Relationship Marketing strategies have a positive impact on customer retention and satisfaction. Although, internationally, banks which have adopted this approach to service MSME segment have benefitted in terms of revenue and profitability but they too have found to be utilizing a small magnitude of the approach. In Indian banking the proposed approach will help banks to compete efficiently.
2. Guo, Holland and Kreander (2013) in their study "Establishing Bank Corporate Relationships and Building Competitive Advantages" illustrate the value creation process in relationship banking. Their research revealed that, long term bank corporate relationships were established through trust based personal communication, and bank's customer information and knowledge advantages were created. Further this study found that bank customer relationship was seen by the interviewees as a source of competitive advantage.
3. According to Jagdish N. Sheth et al. (2012) there is a general acceptance that relationship Marketing focuses on a collaborative relationship between the company and its customers and defines it as "Relationship Marketing is the ongoing process of engaging in collaborative activities and programs with immediate and end-user customers to create or enhance mutual economic, social and psychological value, profitably". Indirectly, it is believed that relationship marketing favors the customer satisfaction and trust.
4. Taleghani et al. (2011), in their article "The role of relationship marketing in customer orientation process in the banking industry with focus on loyalty" suggested that banks should be trustworthy and committed to the service ethic, should communicate timely and accurately, and must resolve conflicts in a manner that will

eliminate unnecessary loss and inconvenience to customers.

5. Veghloom (2011) concludes in her research "Relationship Marketing and Management of Corporate Image in the Bank- MSME Relationships" that for a bank to develop meaningful relationship with its customers and create a favorable image, it must provide its bankers not only with technological support but also with incentives and training to improve their level of competence and knowledge, so that they may better serve their customers. The adoption of relationship marketing strategies can consequently increase customer's positive feelings toward their bank.
6. Danciu V (2009) in his research "The relationship Marketing era for the Roman Banking institutions: Could it bring something different" concluded that in relationship marketing, the banking marketing acknowledges the customer satisfaction throughout creating and delivering value under the form of banking services as the main goal to any banking institution. A bank that is really oriented to a customer is the bank that believes that the financial objectives could be best achieved by the recognition and satisfaction of the customers' needs and expectations throughout the entire life cycle of the relationship.
7. Nicolas, Fatima and Lars (2009) note in their research "Technical and functional determinants of customer satisfaction in the bank-SME relationship" that the relationship variables such as personal interaction are a strong determinant for customer satisfaction in the bank relationship. Hence there is a need of for banks to focus training on understanding the issue of banks on broader scale rather than solely on the sale of individual products.

Objectives of the Study

Marketing professionals and scholars are witnessing the emergence of relationship marketing as an effective and efficient communication tool for directing their marketing messages. So after seeing the utmost importance given to relationship marketing in marketing communication the researcher have following objectives:

1. To study the knowledge and awareness of customer about relationship marketing in banking sector.
2. To analyze how the banks can use relationship marketing strategy to improve their client engagement and their retention.
3. To know the customers view/ opinion about challenges and opportunities for relationship marketing to achieve business objectives.
4. To assess the implications of relationship marketing for customers.

Hypothesis of the Study

The study focuses on the impact of relationship marketing strategies on the bank-customer relationship. After a review of concepts and the relevant literature pertaining to relationship marketing, researcher has identified and organized following two hypotheses in this study:

Null Hypothesis (Ho)

Relationship Marketing does not have a positive impact on banks image, customer loyalty and trust.

Alternate Hypothesis (Ha)

Relationship Marketing have the positive impact on banks image, customer loyalty and trust.

Null Hypothesis (Ho)

Relationship Marketing does not enhance customer base. It does not help to attracts new and retains existing customers.

Alternate Hypothesis (Ha)

Relationship Marketing enhances customer base. It attracts new and retains existing customers.

Research Methodology

The study is based on a survey conducted on a representative sample of 4 banks (SBI, ICICI, Punjab National Bank and Axis Bank). The study was carried out in 20 branches of above selected 4 banks (5 branches of each bank) and 5 customers from each bank's branch office in Jaipur city have been taken. The sample size of the study was 100 customers as respondents and purposive random sampling was used to select respondents. The respondents were chosen for their understanding of the topic under study. The research has been carried out during 3 months, from August to Oct. 2015.

A well structured questionnaire was prepared for the collection of necessary primary data on different aspects of relationship marketing practices. Both primary and secondary data were used for the study. The questionnaires sought relevant information on the nature of relationship marketing in commercial banks. Secondary data was collected from the literature surveys, existing data sources, Catalogues, internet and World Wide Web.

Data Analysis and Findings

Age of the Respondents

Table A
Age of Respondents is Categorized into Four Groups

Age Group	No. of Respondents	Percentage
25-34	33	33%
35-44	47	47%
45-54	14	14%
> 55	6	6%
Total	100	100

Interpretation

Table A reveals that researcher has selected total 100 respondents out of them 33% are of younger age between 25-34 years, 47% are of middle age between 35-44 years and rest 20% respondents are of more than 45 years. A large proportion is aged over thirty five years.

Gender of Respondents

Table B

Gen	No. of Respondents	Percentage
Male	58	58%
Female	42	42%

Interpretation

Table B reveals that researcher has selected total 100 respondents out of them 58% of the respondents were male while 42% were female. This

implies that the study have a gender balance and are not biased toward one gender.

Selection Criteria for Selecting the Bank

Table C

Criteria	1	2	3	4
Brand Image			15	
After Sale Service / Relationship		29		
Location				8
Charges	48			

Interpretation

Table C reveals that maximum respondents 48% consider a major criteria to select a bank is charges by bank on product, 29% respondents consider the criteria after sale services and other criteria brand image and location are also considered but not in priority.

Source of Product Awareness

Table D

Source	No. of Respondents	Percentage
Relatives and Friends	32	32%
E-Mail from the Bank	22	22%
Face to Face Communication	18	18%
Advertisement	20	20%
Others	8	8%
Total	100	100

Interpretation

Table D reveals that 32% selected respondents find their relatives and friends as a source through which they come to know about products offered by the bank, 22% respondents find e-mails as their source, 18% respondents find face to face communication as main source and rest 28% find advertising and other sources to know about banks product.

Reasons to Select and Transact with A Bank

Table E

Reasons	No. of Respondents	Percentage
Competitive interest rate	22	22%
Easy accessibility	46	46%
Lack of alternative banks	6	6%
Good customer relations and services	24	24%
Others	2	2%
Total	100	100

Interpretation

Table E reveals that 46% respondents find easier accessibility of the bank is the main reason to transact with the bank, 24% respondents find good customer relationship and service quality is the reason, 22% consider interest rates charged by the bank as a main reason and rest 8% respondents find lack of alternative banks availability and other as reasons to select and transact with a bank.

Opinion of Respondents about Customer Relationship Marketing Strategies of Their Banks

Table F

Opinion	Yes	%	No	%	Total
Bank attentively identify and understand customer concerns	45	45%	55	55%	100
Bank responds promptly to customer, despite a busy workload	38	38%	62	62%	100
Bank consistently provides courteous service	42	42%	58	58%	100
Apologize for mistakes and take minimum time to sort out the problem	48	48%	52	52%	100

Interpretation

Table F reveals that 45% of the respondents agree that banks attentively identify and understand customer concerns and rest 55% disagrees. 38% respondents agree that banks respond promptly to customer, despite a heavy work load and rest 62% disagrees. 42% respondents agree that banks consistently provide courteous services and rest 58% disagrees. And 48% respondents agree that bankers apologize for their mistake and take minimum time to sort out the problem and rest 52% disagrees. Above data shows that more than 50% respondents disagrees that bankers take customer problem in priority and try to solve them in first hand.

Relationship Leading to Customer Loyalty

Table G

Opinion	No. of Respondents	Percentage
I don't think so	20	20%
I think so	68	68%
Not Sure	12	12%
Total	100	100

Interpretation

Table G reveals that 68% of respondents think that their loyalty to the bank has a link with their relationship with the bank. On the other hand, 20% of respondents do not think that their loyalty to the bank is as a result of their relationship with the bank. Rests 12% respondents are not sure about their opinion.

Satisfaction with the Quality of the Relationship Marketing Provided by the Bank

Table H

Satisfaction Level	No. of Respondents	%
Extremely satisfied	13	13%
Satisfied	37	37%
Neutral	19	19%
Dissatisfied	25	25%
Extremely dissatisfied	6	06%
Total	100	100

Interpretation

Table H reveals that a large percentage of respondents that is 37% are satisfied with relationship services provided by the bank and 13% respondents are extremely satisfied. 19% respondents are neutral. 25% respondents are dissatisfied and rests 6% respondents are extremely dissatisfied. This implies that approximately 50% respondents are satisfied.

Results

Customer relationship marketing is crucial in the performance of the bank. The types of strategies put in place by the bank are in line with good customer relationship strategies. The response obtained from the selected respondents (customers) shows that the strategies generally adopted by the banks satisfy the customers. The study revealed that customers' long term loyalty with a bank will depend on how they are treated by the bank. It is therefore important for the bank to note that the degree of responses to the needs of the customers forms a significant part in their decision to stay with the bank.

Interpretation of table G reveals that a large percentage of respondents think that their loyalty to the bank has a link with their relationship with the bank. Table H also reveals that approximate 50% respondents feel satisfied with the relationship marketing tactics of the bank that's why they are dealing with the bank. On the basis of the above analysis researcher conclude that relationship marketing have the positive impact on banks image, customer loyalty and trust. Hence researcher state that the *Alternate Hypothesis (Ho)* i.e. Relationship Marketing have the positive impact on banks image, customer loyalty and trust stands as accepted and null hypothesis is rejected.

Interpretation of table C reveals that for respondents after sales services / relationship maintained by the bank is also an important criterion to select a bank. Interpretation of table D concludes that many of the respondents came to know about the product through others experience which also depends on relationship maintained by the bank. Table E reveals that respondents find good customer relationship and service quality is also an important reason to transact with the bank. On the basis of the above analysis researcher conclude that there is an impact of relationship management of banks on attracting new customers and to make a strong customer base. Hence researcher state that the *Alternate Hypothesis (Ho)* i.e. Relationship Marketing enhances customer base. It helps to attracts new and retains existing customer's stands as accepted and null hypothesis is rejected.

It is found that to win customer's trust and commitment, banks need to shift to customer orientation. Customization of solutions to meet customer's needs is the main factor for the development of trust and commitment, followed by the competence of customer service staff. Generally, a bank's strategy of only low rates and charges of financial products and services cannot attract the customer's commitment to continue business with the bank. This might be useful for the development of competent customer service personnel capable of customizing products and services to meet specific needs. For the better collaboration and communication among banks and customers the relationship personnel must extract information from the customers about present sources of services and levels of satisfaction.

It is clear that the basic goal for the bank should be to attain trustful and profitable customers. The bank has to know that not all relationships have to be managed. Banks must use segmentation

policies of the customer portfolio to determine which relationships are suitable for value enhancement because not all customer relationships have value for the bank. Another implication is that the bank needs to increase its support tools for the management of customer relationships, starting with customer profiling systems and those for measuring customer equity. Generally, all the above implications focus on making investment in customer trust consistent with the prospects for both financial and intangible returns and at increasing the organizational commitment and trust. In this study researcher identified that most of the respondents feel that the bank resolves customers' complaints within a short period and has put in place channels to address such grievances that are brought before the banks officials. Identifying customers' needs and providing what they need is also very critical to enabling good customer relations that will enhance loyal and trustworthy customer base. Banks wishing to retain and develop loyal customers and banks should be trustworthy and committed to the service ethic, should communicate timely and accurately, and must resolve conflicts in a manner that will eliminate unnecessary loss and inconvenience to customers.

Conclusion & Suggestions

It is found that to win customer's trust and commitment, banks need to shift to customer orientation. Customization of solutions to meet customer's needs is the main factor for the development of trust and commitment, followed by the competence of customer service staff. On the basis of the study followings suggestions can be given:

1. For the better collaboration and communication among banks and customers the relationship marketing person must extract information from the customers about present sources of services and levels of satisfaction and about the firm's attitudes, motivations, aspirations and profitability.
2. Customers are not well aware about all the products and services offered by the banks. Banks should move to a norm where they present a suite of offered products to their customers in an easy way, but as products get more complicated, financial sector providers must bear more and more responsibility to show that the buyer was appropriately counseled before they purchased.
3. Technology can magnify the reach of finance for bad purposes as well as good. Technology can also offer answers to check fraud. Bankers must help to enlist social media in enabling the public to identify fraud and help regulation.
4. Sometimes customers feel dissatisfied about the service or product and the response to their complaint by the bank. The bank does not put in enough effort to resolving them. For this reason some customers have sort to not making complains. This is risky as it could lead to lose of customers within a short period.

The study also recommends that the players in the banking need to consult widely and advise the policy makers so as to enable the creation of an environment where relationship marketing can thrive. Therefore it is concluded that customer loyalty can be

created, reinforced and retained by marketing plans aimed at building trust, demonstrating commitment to service, communicating with customers in a timely, reliable and proactive fashion, handling conflict efficiently, paying attention to shared values, improving the empathetic and reciprocal abilities of the salespeople, and developing strong bonds between buyers and sellers.

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