Journal of Business; ISSN: 2233-369X; e-ISSN: 2346-8297; Volume 6, Issue 2, 2017

Customer Retention with Bundle Services Matrix for Banks in the Second Decade of 21 Century

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Abstract

The problem of consumer retention is well known in marketing literature. Actually, attraction of the new customers is sometimes three times more costly than their retention – but what is the key for that? Scientific marketing literature and a lot of marketing researches at the financial services market shows that old loyalty of customers towards financial institutions is in reducing stage – is being reduced. What makes customers to come back to the bank again and again? This main research question made us make a special customer survey in the banking sector of Georgia. We made literature review too and – based on literature review the Bank Customer Retention Matrix has been established which seems to be comprehensive for the banking business in future. The data for marketing research was obtained from a convenience sample of 5 bank customers in Tbilisi, capital of Georgia. According to our hypothesis – if the decision to change the bank in the past period was a function of price, reputation, service quality, effective advertising competition, involuntary switching, distance, switching costs and demographic characteristics, in future it can be seen - observed in other factors. Convenience sample analysis and some factor studies were used to analyze the data and identify and rank the factors that impact the bank switching behavior of customers in Tbilisi, Georgia.

Keywords: customer retention, marketing of financial services, social media

JEL: M30

Introduction

In last decade the process of competition increased in the financial service markets, especially, in the banking industry. The overwhelming competition encouraged by the process of deregulation improved the chances of small companies to rival – compete with big and experienced financial institutions. Even a little Hedge Fund – established in a small office of a big city could indirectly compete with the big bank. Such a great role of competition, made big banks think more about customers who were already attracted previously. In order to strengthen the relationship with old customers, financial institutions learned to understand how important retaining existing customers and increasing their loyalty to the financial organization was. To understand what retention is it is vital to know what defections means. In our marketing research we wanted to understand which social groups are vital for retention and sustainable development at the banking market, which groups could serve as the basis for long term retention, what the main process activated by bank retain customers could be. These research questions made us study the process in depth.

Literature Review

In marketing literature about customer retention many authors focused on the attention of beneficial effects of customer retention. As it can be seen, customer retention became an essential part of relationship development to build long-term exchange with customers. “The economic value of customer retention is widely recognized. Bain and Co found that customer retention has a more positive effect on profits than market share, Scale economies and other variables that are commonly associated with competitive advantage” (Harrison, 2009). Marketing literature tries to see a distinct difference between client retention/defection and contract retention/defection. But this distinction has been blurred recently. Generally, client retention amounts to all current and prospective exchanges that can be established between them and a financial service organization. The contract retention is narrower and deals with concrete exchanges. As a process of customer defection, we have

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the following stages: problem identification, effort, emotion, evaluation, exit, post-exit evaluations.

The economic impact of retention is very relevant. “The notion of building relationships and delivering quality service in order to encourage loyalty is perhaps of particular importance in the service sector where it is often argued that customer attraction costs are significantly higher than retention costs” (Ennew & Bin, 1996).When researchers found the grounds of customer switching, they realized that customers end bank relationships after an involving process of problem(s), effort, emotion and evaluation. A discussion of the findings concluded that banks need to develop relationship management systems and skills (Stewart, 1998). The financial world is changed. Now all great institutions go digital and online. Some research shows significant relationships among quality. For example, online customer, online information system quality and banking service product quality and customer satisfaction (Rod et al., 2009). It is seen that “service quality, perceived risk factors, user input factors, employment, and education are the dominant variables that influence consumers' choice” (Gan et al., 2013) to the traditional banking and its new form – electronic banking. As it can be seen, a relationship strategy can be a double□edged sword: implemented well it can have the desired effects; implemented badly it can have a negative impact that will leave the organization with more problems than if they had done nothing at all (Colgate & Stewart, 1998). Garland (2002) found that attitudinally based intention□to□buy scales and at least the equal of the Conversion Model was important in marketing research of those who were going to defect from the bank.

One very interesting study shows the reasons for switching banks classified into three main problem areas:

- service failures,
- pricing problems and
- denied services (Colgate & Hedge, 2001).

As it is known, automated service quality has been recognized as the factor which determines the success of mobile financial services. In one research we found that customers’ perceived automated service quality is based on “five factors: 1- ATM service, 2- Internet banking service, 3- Telephone banking service, 4 - Core service, and 5 - Customer perception of price” (Al-Hawari, Hartley, & Ward, 2005).

Some interesting studies have shown that construction of customers' “post-switch consideration sets is therefore antecedent specific, and concludes that while the previous main bank brand may have been forsaken, it is certainly not forgotten” (Lees et al., 2007).

It is interesting what role had retention studies into idea development of Banking Marketing – the role of retention studies in the idea of banking marketing is worth noting. “Five major factors deter customers from switching to an alternative service provider: switching costs; interpersonal relationships; attractiveness of alternatives; service recovery; and inertia. These factors are mediated by dependence and calculative commitment” (White & Yanamandram, 2007).

Also, it was very interesting to see customer behavior in the banking industry of China. Some instruments of the marketing mix like “price, reputation, service quality, effective advertising, involuntary switching, distance, and switching costs impact customers' bank switching behavior. Findings also reveal that young and high□income groups are more likely to switch banks than older ones (Clemes, Gan, & Zhang, 2010). Some other studies, especially, in the Asian banking industry show that long term relationship with empathy can turn a casual customer into a loyal one. This study emphasizes that “empathy shows the highest positive correlation with customer satisfaction in the current study. The core concept of empathy is employee-customer interactions. Therefore, Bangladeshi bank managers would be well advised to emphasize the employee training programs so that they can offer personalized service. The main aim should be to develop a long-term relationship with customers” (Siddiqi, 2011).

In the period when banks went online and their products became digital, easiness of technology has become meaningful among the factors that make customers loyal. “It was found that customer service and technology usage easiness and reliability have positive and significant impact on customer satisfaction and customer loyalty. It was also found that technology convenience and customer satisfaction have significant and positive impact on customer loyalty” (Ganguli & Roy, 2011). In the marketing study of the Indian Banking market, some other factors received very high status. “Results reported that price, reputation, responses to service failure, customer satisfaction, service quality, service products, competition, customer commitment and involuntary switching have their significant effect on customers’ switching behavior” (Vyas & Raitani, 2014).

Having considered many types of research about retention of customers in the banking sector we realized that almost no studies were done about bundle services of the banks and, thus, retention with it. But in the practical field of marketing consulting, a very interesting case of BEA – Bank of East Asia made us realize the importance of new realities.

The Case of Rebranding of BEA

The Bank of East Asia - BEA, in close collaboration with a famous marketing consulting agency – Prophet, in 2013 established new Supreme Gold Service to attract new and retain old customers. This service was defined - “As you make your journey through life, Supreme Gold is always at your side, serving you with professionalism and care to ensure your financial success and personal fulfillment. Supreme Gold lets you manage your wealth with convenience and ease, and enjoy the finest things in life with a host of lifestyle and entertainment privileges” (Bank of East Asia, 2018). A consulting Company Prophet has worked with BEA for two years, helping a large independent bank to significantly stand out from competitors with a bold and impactful rebranding campaign to better fit the needs of today's young affluent customer. The rebranding concept was - "Wealth Health" inspired richness, colorful materials and comfortable furniture -- a place for customers to relax and enjoy. The desired image was – a comfortable relaxed area for customers to enjoy at their own pace. The lounge included a product information area for brand literature and checking online activities, such as, stocks and shares. This actually means bundle services that offer some benefits to customers at the actual rather than the functional level of the financial service offered by the bank (Gan et al., 2013).

"Overall, the customers feel very positive about the change. More than 80% of customers reckon that the new look has enhanced the BEA brand image, and nearly 60% of current customers are willing to recommend BEA to others" (Prophet, 2018).

Methods of Research

This study was conducted in two stages. Stage one involved literature review and a pilot study which was conducted by telephone interviews to refine the research instrument. Question ambiguity was a specific issue addressed. One hundred sixty five respondents were interviewed in the pilot testing phase with all surveys being included in the exploratory analysis. Main questions were about actual level of the financial services offered by the bank:

a. How do you feel yourself in the office of the bank?

b. Is there any place where you could charge your phone and other gadgets?

c. What does the bank do to help you recharge your life instruments and spirit?

d. What do you want to see in the bank office, beside financial services, to stay interested to stay connected?

e. Have these bundle services made you a loyal visitor of the bank you select?

f. How often must the bank renovate some bundle services to make you be more connected?

g. What is loyalty in our time for you and your friends?

Results illustrated that some individuals must be invited to focus the group interview to clarify what they wanted to see in the halls of bank companies as bundle services. We made preliminary findings from a qualitative study of Bank customers. The focus of the research was to explore consumers' reasons for purchasing particular services, their reasons for postponing purchase decisions and their reasons for resisting other product purchases. The underlying framework for this research is that of diffusion of innovation, particularly, as it is used by consumer behavior researchers. This paper argues for a new approach to the study of Bank consumer innovativeness.

Stage two involved the focus group with 16 persons. Only respondents, who switched to at least one of the banks, were accepted in this sample. A brainstorming method was used to know more about switching and retention of some customers to the banks. We understood that interesting things make people stay and the boring environment in connection to some bias or misconduct from the side of banks make consumers switch. Respondents were asked to give their perception to some bundle services of the banks.

Matrix

After this study, having discussed cases of innovative banking companies, we guess that a new and the interesting world of banking financial services goes to the heart of customers only through some bundle services. But these bundle services cannot be only some challenging gadgets from future. Today they is new and very innovative digital equipment, what is under discussion still and we can taste it only in offices of our "rich and very kind brother" as one respondent mentioned about bank. We liked this idea - At present, the new and very innovative digital equipment is still being discussed, which can be tried only in the offices of the bank - "our rich and very kind brother", according to one of the respondents.

If today the bank demonstrates to its clients a very interesting element - less accessible digital equipment, tomorrow it can find other interesting things to attract its customers. Here we need marketing – this is where marketing is necessary. The Bank must know the appetite of clients towards surprise and innovation. In this concept of "Rich and Kind brother" it is worthy to assess the role of customer diffusion. Admittedly, the theory of customer diffusion divides customers into several groups according to how they deal with innovations. There are "five adopter categories of innovativeness. These categories fall along the normal frequency distribution curve. In simple terms, the first 2.5% of a given social system to adopt a particular innovation are labeled as innovators. The next 13.5% who adopt are considered early adopters. The third category, the early majority, constitutes 34% of the population under study, followed by a group of the same size (34%) known as the late majority. The final category is made up of the last 16% to adopt (as well as, presumably, non-adopters). The individuals in this category are known as laggards" (Lowrey, 1991).

Admittedly, the first group of customers who adopt innovation with great enthusiasm and sometimes sleep in very large lines of other consumers; waiting for sunshine to go home with totally new gadget is not too large. The number of such revolutionary innovators does not exceed 5% in any society. It is very difficult to find them and it can be more worthy if we base our concept of the second group of customers, Early Adopters. So, the number of early adopters is really big in any society. They follow innovators and if they are interested in new offerings of any company, other groups will continue to follow them soon.

Accordingly, our marketing research shows the pillars of a new concept:

- Early adopters and innovators as a viable group of bank customers who should be ambassadors of the bank brand in future because they themselves feel well in the challenging offerings of the bank who shares the concept of "very kind brother/sister".

- Showrooms with many innovative and challenging, accessible new things, digital, robotic, wellness and fashion, appetite and beverages oriented touchable and testable halls of the bank.

  The concept can have some form of a matrix:

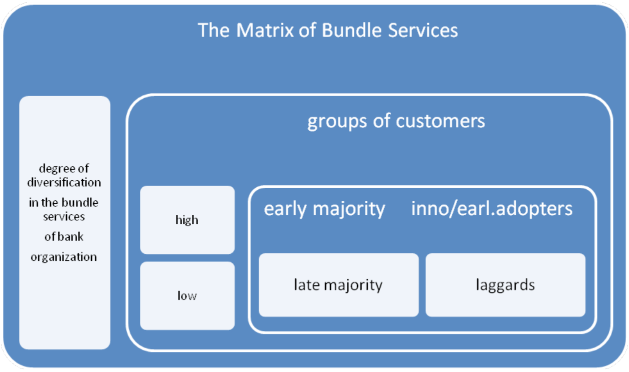

Figure 1. Matrix of Bundle Services from the Concept of the Bank as a Very Kind Brother/Sister

How to understand this matrix? First of all, to offer customers some innovations, we should know what kind of customers we have? To attract innovators whose number in any society does not exceed 2,5% from the whole population, the bank needs much total innovativeness. But, for the attraction of early majority, whose number in whole society is very relevant and amounts to 13,5 % , we need not only innovativeness but also sustainable communication with such a great group of these customers who believe in innovations. We understand that this process can be very costly for banks in future. But, to attract and retain especially young and affluent customers, you need some additional bundle services together with core financial services, which must be done at a very high level. If the bank attracts and retains such interesting customers entitled as innovators and early majority, this organization can grow fast, exceeding its local boundaries and play well on global markets. As described by Rogers, innovators are more venturesome, early adopters are quite respectable; the early majority seems to be deliberate. The following groups like late majority are more skeptical. The final group contains conservators. This group called laggards is too traditional.

Results of Marketing Research

As a result of our marketing research, we created a special tool for banks for retention of their customers by bundle services assuming that basic functional services of the bank are appreciated by them. The matrix of bundle services (Figure 1) shows four mains opportunities:

1. If the bank already has a big share of innovators and early majority members among its customers, it can establish bundle services in its offices and offer show rooms of digital, fashion, online, robotics, entertainment technologies.
2. If the bank has a big share of early majority members, the bank still can innovate and reshape its client community, doing very interesting bundle service offerings.
3. If the bank has a big share of late majority members among its clients, this organization must provide essential services only and should not spend money on bundle service offerings to its clients.
4. If the bank identifies many laggards among customers, it seems not worthy to make any bundle services; exceeding services satisfying biological and some social needs and wants of customers.

Conclusion

As Rogers distinguishes, five factors what can characterize innovation are:

- relative advantage;
- compatibility;
- complexity;
- trial ability;
- the ability to observe (Rogers, 1983).

There are many types of innovative things that really need support from other industries. The financial service market itself is quite innovative. But it can bring many other innovations to the public trial in the bank office either in the bank office or special hall. The Bank itself can do many good things in this direction; it must be the creator of new ideas and, thus, retain customers.

Taking into consideration the research done for this study we have following suggestions to the banks:

- Non-virtual offices of the banks in future can be seen as a meeting place of business people who have definite goals and tasks. Why not to help them to increase their knowledge and skills by new and amassing things, promising best solution of the problems that business people share in the 21st century;
- Non-virtual offices of the banks will definitely attract non-business customers who constantly suffer from the problems of stress, time-deficit, emptiness and lower skills for future. So, banks can help people to manage their problems through special circles increasing customers happiness, mastery, self-confidence and internal harmony – through diversification in banking services, making customers more loyal to banks;
- Virtual offices of the banks, through their popularity can do much diversification in their services to establish unlimited, long-term conversational circle to final customer. The popular Customer Relation Service – can be deepened to the level of Customer Conversation Services. Then, banks can know their customer better.

Journal of Business; ISSN: 2233-369X; e-ISSN: 2346-8297; Volume 6, Issue 2, 2017

- For example, Virtual offices of the banks can effectively plan the daily schedule of their customers and ensure that they do not waste their time and come to the bank not only for banking services but also something else, what will do these customers to be linked to such great banks;
- It seems obvious that banks in future will use much more bundle services and offer them to their customers, to make them loyal. What kind of bundle services we can attach to banks can be realized in next marketing research what will be done in our next round of marketing study – The next marketing research, which will be carried out in our next round of the marketing study, can focus on what kind of bundle services we can attach to banks.

Finally, we hope to see great transformation of financial service marketing in future, more devoted to final customers and less to banks. So, we can avoid Marketing Myopia in the banking industry.

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