Customer Relationship Management in Banks: A Case Study of Krishna District, Andhra Pradesh

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Abstract

Customers are the focal point in the development of successful marketing strategy. Customer retention assumes significance in revenue analysis of various organizations. The success of CRM process depends on the active involvement of all managers and employees in the banking field a unique 'Relationship' exists between the customers and the bank. But because of various reasons and apprehensions like financial burdens, risk of failure, marketing inertia etc., many banks are still following the traditional ways of marketing and only few banks are making attempts to adapt CRM. Providing service to customers has been identified as the prime responsibility of the Banks and therefore, Banks considered that CRM is the best tool to perform the job of rendering good services. The lack of understanding on Customer Relationship Management (CRM) is always a concern among the service providers especially banks. Banks have their own way of managing their relationships with the customers. However, the perception of customers on CRM practices among banks should also be taken into consideration. CRM activity attend the needs of customers without delay in time, the banks can create more awareness to customers and can create a customer data base very significantly.

Keywords

CRM, Bank, Customer

I. Introduction

Customer relationship management is one of the strategies to manage customer as it focuses on understanding customers as individuals instead of as part of a group. CRM manages the relationships between a firm and its customers. CRM and knowledge management are directed towards improving and continuously delivering good services to customers. To understand more in customer relationship management, we first need to understand three components which are customer, relationship and their management. Managing customer relationships is important and valuable to the business. Today, many businesses such as banks, insurance companies, and other service providers realize the importance of Customer Relationship Management and its potential to help them acquire new customers retain existing ones and maximize their lifetime value. Banking sector is a customer-oriented service where the customer is the KEY focus. Research is needed in such sector to understand customers' need and attitude so as to build a long relationship with them. Customer Relationship Management includes all the marketing activities, which are designed to establish, develop, maintain, and sustain a successful relationship with the target customers.

The effective relationship between customers and banks depends on the understanding of the different needs of customers at different stages. The objective is to effectively analyze all the available data about the customer. The analysis of such data helps a firm assess a customer's current and potential profitability satisfaction and loyalty. The ability of banks to respond towards the customers' needs make the customers feel like a valuable individual rather than just part of a large number of customers. CRM is a sound business strategy to identify the bank's most profitable customers and prospects, and devotes time and attention to expanding account relationships with those customers through individualized marketing, reprising, discretionary decision making, and customized service-all delivered through the various sales channels that the bank uses. In order to succeed with strategic organizational change banks should also communicate the change to customers in a way leading them to alter their behavior and attitudes accordingly.

II. Research Problem

Banking sector has always been the focus of society due to its essential role in the finance world and the wellbeing of world's economy. In the banking field a unique 'Relationship' exists between the customers and the bank. But because of various reasons and apprehensions like financial burdens, risk of failure, marketing inertia etc., many banks are still following the traditional ways of marketing and only few banks are making attempts to adapt CRM. It is with this background, the researcher has made a modest attempt towards the idea that CRM can be adapted uniformly in the banking industry for betterment of Banking Services. Particularly in banking sector, the role of CRM is very vital in leading the banks towards high level and volume of profits. So there is a need to study the role of CRM in development and promotion of banking sector through the sidelines of the practices, problems and impact of the CRM on banking sector all the time.

III. Objectives of the Study

The main objective of the study is to examine the importance of CRM in banking sector, and its impact on the 'Customer Satisfaction'. The other specific objectives of the study are:
1. To review the literature on the concept and use of CRM in banking sector
2. To analyze the perception of customer on CRM as a tool of banking sector in retention of customers in general
3. To offer pertinent suggestions based on the findings of the study.

IV. Customer Relationship Management

In literature, many definitions were given to describe CRM. During the last decades there has been strong orientation on customers' satisfaction by fulfilling their needs and wants as means for the achievement of organization's objectives. This underlying motivation on customer focus is clear mission to create value for customers, stay profitable and gain desired performance. By creating value for customers organizations would gain customers' loyalty, which in turn would result in business' growth and profits.

The maindifferenceamong these definitions is technological and relationship aspects of CRM.

Someauthors from marketing background emphasize technological side of CRM whiletheothers considers IT perspective of CRM. From marketing aspect, CRM is defined as''a combination of business process and technology that seeksto understand a company'scustomers from the perspective of who they are, what they do, and what they are like''

Technological definition of CRM was given asmarket place of the future is undergoing atechnology-driven metamorphosis''. Consequently, IT and marketing departments mustworkclosely to implement CRM efficiently. They focused on the evaluation of thecritical satisfaction dimensions and the determination of customergroups with distinctivepreferences and expectations in the private bank sector.

The methodological approach is based on the principles of multi-criteria modelingandpreference disaggregation modeling used for data analysis and interpretation. Havefocused on the management of the exchange relationshipsand the implications of suchmanagement for the performance and development oftechnology-based firms and theircustomers. Specifically the customer relationships ofnew technology-based firms hasbeen studied. The managing relationships with theircustomers (especially withemployees, channel partners and strategic alliancepartners) was critical to the firm'slong-term success. It was also emphasized that customer relationship management basedon social exchange and equity significantlyassists the firm in developing collaborative,cooperative and profitable long-termrelationships. They have also hierarchicallysegmented data sources into clusters, automaticallyable the features of the clusters,discovered the characteristics of normal, defectedand possibly defected clusters ofcustomers, and provided clues for gaining customer retention.

V. CRM in Banking Sector

CRM is a sound business strategy to identify the bank's most profitable customersand prospects, and devotes time and attention to expanding account relationships withthose customers through individualized marketing, repricing, discretionary decisionmaking, and customized service-all delivered through the various sales channels that thebank uses. The model developed here answers what the different customer segmentsare, who more likely to respond to a given offer is, which customers are the bank likelyto lose, who most likely to default on credit cards is, what the risk associated with thisloan applicant is. A greater focus on CRM is the only way the banking industry canprotect its market share and boost growth. With intensifying competition, decliningmarket share, deregulations, smarter and more demanding customers, there iscompetition between the banks to attain a competitive advantage over one another or forsustaining the survival in competition.

Over the last few decades, technical evolution has highly affected the bankingindustry. ATM displaced cashier tellers, telephone represented by call centers replacedthe bank branch, internet replaced the mail, credit cards and electronic cash replacedtraditional cash transactions. In recent years, banks have moved towards marketingorientation and the adoption of relationship banking principles. The bank would need acomplete

view of its customers across the various systems that contain their data. If the bank could track customer behaviour, executives can have a better understanding, apredicative future behaviour and customer preferences. Most sectors of the bankingindustry are trying to use CRM techniques to achieve a variety of outcomes. In the areaof strategy, they are trying to:

- Create a customer-focused organization and infrastructure.
- Secure customer relationships
- Maximize customer profitability;
- Identify sales prospects and opportunities;
- Support cross and up-selling initiatives;
- Manage customer value by developing propositions aimed at differentcustomer segments;
- Support channel management, pricing and migration.
- Gaining accurate picture of customer categories.
- Assess the lifetime value of customers.
- Understand how to attract and keep the best customers.

VI. CRM Objectives in Banking Sector

The idea of CRM is that it helps businesses use technology and human resourcesGaininsight into the behavior of customers and the value of those customers. If it worksashoped, a business can: provide better customer service, make call centersmoreefficient, cross sell products more effectively, help sales staff close deals faster,simplify marketing and sales processes, discover new customers, and increasecustomer.

For CRM to be truly effective an organization must first decide what kind ofCustomerInformation it is looking for and it must decide what it intends to do withthatInformation. Companyanalysts can combine through the data to obtain a holistic viewof each customerand pinpoint areas where better services are needed.

VII. Review of Literature

The following literature review section provides a discussion and argument for theservice quality and CRM practices. The phraseCRM appeared in the literature after theevolution in the relationship marketing philosophy.Berry (1983) defined relationshipmarketing as attracting, maintaining and enhancing thecustomers' relationships in multiserviceorganization. After a few decades, the evolution inrelationship marketingphilosophy changed the word relationship marketing to CRM. Accordingto Brown(2000) CRM is a process of acquiring new customers, retaining the existencecustomers,and at the same time understands, anticipates and manages the needs of anorganization'scurrent and potential customers. Furthermore, Mylonakis (2009) described CRMas aninnovative process to create a long term relationship and gaining trust. Further, aclearvision of CRM along with appropriate strategies if applies in banking sectors found outthatbeneficial in maintaining the customer service quality, customer satisfaction andcustomerretention which ultimately leads to the growth of the organization andprofitability (Bansal andSharma, 2008).

Girdhar (2009) observed that by satisfying the internal customers and buildinggoodrelationship with them, the relationship with the external customers can also beretainedand satisfied by the banks. Kumar & Rajesh (2009) reveals that any bank thatwishes to eithergrow in size of its banking operation or improve its profitability mustconsider the challengesaffecting its customer relationship.The challenge before thebanks is not only to obtain updatedinformation for each customer, but also to use theinformation to determine the best time to offerthe most relevant

products (Lau et al.,2003). It is also important to understand that if customersbring in profits for the bank, itbecomes imperative for the bank to provide excellent services tothose customers,otherwise they switch to other banks (Ray, 2007). Service quality in bankingimpliesconsistently anticipating and satisfying the needs and expectations of customers.

Parasuraman et al. (1985) also hold the view that high quality service gives credibility to thefield sales force and advertising, stimulates favourable word-of-mouthcommunications, enhances customers' perception of value, and boosts the morale andloyalty of employees andcustomers alike. Puccinelli (1999) looks the financial servicesindustry as entering a new erawhere personal attention is decreasing because theinstitutions are using technology to replacehuman contact in many application areas. Over the last few decades, technical evolution hashighly affected the banking industry(Sherif, 2002). In today's competitive banking industry,customers have to make a choiceamong various service providers by making a trade-off betweenrelationships andeconomies, trust and products, or service and efficiency (Sachdev et al., 2004).RogerHallowell (1996) conducted a research on customer satisfaction, loyalty, andprofitabilityand found that as compared to public sector, private sector bank customers' level of satisfactionis comparatively higher.

CRM is a key to create a superior customer experience. It manages thecustomerrelationship by creating a clear understanding (Know), by developing servicesandproducts based on the added value for target groups (Target), then enabling theactual sale anddelivery of services and products through the selected channels (Sell),and developing long termprofitable relationships with customers after sales services(Service) (Hussain, et.al., 2009).Many researchers have been done in various industriesespecially in the banking sector thatfocussing on customer oriented services (Ndubisi etal., 2007; Rootman et al., 2008; and Duttaand Dutta, 2009). The literature on CRMsuggests that banks should consider the customer relationship life cycle(Dwyer et al.,1987). In general, there are three core phases: customer acquisition,customerenhan cement, and customer recovery. The acquisition phase describes theinitiation of acustomer-bank relationship.

VIII. CRM Analysis and Findings
CRM has emerged as a popular business strategy in today's competitiveenvironment. Itis a discipline that enables the companies to identify and target their mostprofitable customers. Itinvolves new and advance marketing strategies that not onlyretain the existing customers butalso acquire new customers. It has been found as aunique technique which can bring remarkablechanges in total output of companies.

Through the literature survey and data analysis it can beinferred that CRM tries to findout the relationship between perception and satisfaction,commitment and loyalty thatunderlines the significance in Indian Banking Sector. Customerslargely select theirbanks based on how convenient the location of bank was to their homes oroffices. With the advent of new technologies in the business of banking, such as internet bankingandATM'S, now customers can freely choose any bank for their transactions. Private Bankshavetraditionally viewed themselves as exceedingly Customer Centricity offering whatthey believe tobe highly personalized services to the High Net Worth Customers. It isalso found that thestructured approach of CRM can provide various

benefits to a bank,namely a distinctive andconsistent customer experience, clear identification of theorganization, technological andprocess-related capabilities.

The banking industry is much further along than other industries in recognizingthe value of CRM and implementing decision support systems to support CRM.Thoughmost of the banks have already focused on tactical point solutions, they're ready foratransition toward strategic, enterprise-wide CRM initiatives that cross major businesslines. Aneffective decision support system for CRM enables to collect data aboutcustomer from everytouch consolidate this information into a single view of thecustomer, and use this informationfor customer profiling, segmentation, cross-selling,up selling and retention efforts. As bankscontinue to seek a unified understanding ofcustomer relationships across diverse channels, theimportance and penetration of CRMis expected to grow like anything.

From the analysis it is found that Customer Retention is not a big challenge to Banks asper the opinions of customers of selected Banks. It is found that though CRM activities havenot helped to increase the confidence of the customers in meeting the changing needs, it helpedto increase the confidence of the customers while rendering services in mean time efficiently. CRM activities of the selected Banks are not up to the mark in retaining the keycustomers.During the e-banking era and services based on advising rather than cash services,where the interaction between customer and bank employees is of major importance, banksface the challenge of winning customer's loyalty through product features and serviceexcellence. This is however, related to winning customers' confidence of internet bankingusage.CRM undertaken by employee approach to customers is found very poor. It is furtherobserved that the CRM activities are initiated and implemented by the Banks in a seriousmanner, so that the customers in particular and the society in general benefited a lot. Providingservice to customers has been identified as the prime responsibility of the Banks and therefore,Banks considered that CRM is the best tool to perform the job of rendering good services

IX. Data Warehouse and Data Mining
Data mining has to be more intelligent and offer information on the customer inreal time.It is the database that holds the customer information and serves as the centralcollective memory of the organization. Company effectively utilizes the data mining tosupport their sales and service staff in particular. They have also supported their salesand staff with advanced technology which has helped them uses the data for thepurpose of developing a customized offer. The CRMgroup analyzes results obtainedand designs action plans, such as campaigns,promotions, special marketinginitiatives, etc. Plans developed are then implementedby means of the several channelsused by the bank to reach customers. Evaluation orresults completes the cycle. Theresults become an integral part of the description ofthe bank-customer relationship inthe warehouse. The learning cycle is thus completeand results obtained can be reused infuture analyses and in future marketing plans. Itis easy to understand that the DataWarehouse cannot actually be built 'once for all' but is a kind of living structurecontinuously enriched and updated as the RelationalMarketing activity develops. OLAP (On Line Application Programming) analysesare developed by means ofBusiness Object in its web version. CRM analysts use thistool to issue complex SQLqueries on the Data Warehouse or on the

AnalyticalDatamart and carry out monoand bivariate statistics on the whole customers'population or on selected groups.The Analytical Datamart is derived from the Data Warehouse through thefollowingsteps:

1. Raw data processing: data selection, data extraction, and data verification and rectification
2. Data modeling and variable preprocessing: variable selection newVariable creation, variable statistics, variable discretization.

The aboveprocessing, based on traditional data analysis, is strictlydependent on the investigatedprocess; new variable creation, for instance, isintended to aggregate informationcontained in the raw data into more expressivevariables. A simple example is thenumber of credit transaction on current accountthat contains much of theinformation contained in the individual transactions, butis easier to analyze andrepresent. Variable discretization, based on the distributionof the original variables, is intended to generate categorical variables that betterexpress the physical reality ofthe problem under investigation. The AnalyticalDatamart is customer centric andcontains the following data:

1. Demographic (age, sex, cultural level, marital status, etc.)
2. Ownership of bank's product/services
3. Product/services usage (balance, transactions, etc.)
4. Globalvariables: profit, cost, risk, assets, liabilities
5. Relationship with the bank: segment, portfolio, etc.

X. Customers' Loyalty & Satisfaction

When faced with organizational change customers usually require explanatoryinformation as to why the change is conducted. It has been argued that the quality ofinformation is the key for organizations to succeed with change. In this case managers shouldtreat information about change as product for customers where customers' needs are clearlyrecognized. In relation to the organizational changes, the bank should inform its beneficiarycustomers via personal letter where all the necessary information is provided as to where,when, and how they could do their errands related to services. In my personal opinion, thebank should also use all possible ways for informing its customers, especially in places wherecustomers are interacting with the bank in most. It can be at the desk when receiving service,via personal bank advisor, via e-mail and letter.

The information about the organizational change should be made in a form of shortverbal notice when interacting with customers in other banking matters. This way of informingcustomersis regarded to be the most efficient due to having possibility for making furtherexplanations when customers require such. However, of more significant value for customersis guidance in new system that requires information and education which is positively relatedto customer loyalty. Moreover, the information process, life cycle of information along withcontrol should be well managed by the bank. Furthermore, the bank should constantly work onensuring security and privacy of internet banking and e-card usages since these issues are closely related to the trust and thus customers' loyalty.The focus should be not only onproviding right services for the right customers but also ensure the safety and confidentiality ofthe operations customers engage into with the bank.

The information about the organizational changes is of the most important value for thecustomers. Therefore, the information should be given in time, in a consistent and clear way socustomers

would not be confused with new system. In addition when pursuing itsorganizational strategies the bank should always consider the cost for educating the personneland customers especially in the cases of going to complete banking activity. Customers whocannot manage ATMs, e-cards, internet banking would be put aside of the change which couldresult in less satisfaction of the services offered by the bank. Therefore, it is essential to meetcustomers' expectations by studying customers' demands and needs and try to match or tochange customers' behavior and attitudes with help of well-definedreorganizational strategies.

However, the concept of customers' loyalty which is seen as relation between therelative attitude that customer has to the services he/she receives and the trust directedbehavior he/she shows. Such conclusion could be probably drawn by the personal bankadvisors who interact in a specific personal way with beneficiary customers. Relying on thecustomers' satisfaction of personal advisors one can say that these beneficiary customers areloyal.

XI. Conclusion

The general discussion can be said that the bank is yet to develop an integrativeapproach which focuses on the customer needs and to deliver to it. As shown by the study, thebank is far from developing a customer centric approach both for the customer as well as forthe employees. Thus, for customer relationship management to deliver to its expectations, itshould play an integrative role within the bank and ensure that all processes are integrated inthe bank global strategy, which is far from reality in the study above. In view of this, toimplement a CRM integration strategy, the following recommendations can be adopted:

1. In a competitive environment, the Banks should adopt suitable marketing skills ratherthan depending on the trading skills. Hence, new services should be constantlyintroduced to ensure the growth of the Banks and to be competitive in the market and tokeep up the enthusiasm of the employees and customers etc.
2. Implement a Customer Centric Process in Banks.
3. Employee Relationship Management first before Customer Relationship Management.
4. Increase customer experience through the web site.
5. Develop channel integration for effective Customer Relationship Management.
6. Proper training should be given to the bank personnel regarding the behavioral patternsby the Banks before they come and work in the field.
7. More importance should be given to handling online transaction and using m -commerce and mobile banking services.
8. It should be realized that customer relation cannot be built overnight. CRM should beconsidered as Continuous Relationship Management.
9. Data gathered from the customers should be given proper value and it should beproperly utilized. Decision making authority should be extended to field force andsome resources should be given for faster implementation.
10. The Banking sector is developing and getting higher day by day in urban and semi
11. urban areas; there is large number of customers using the services in the urban and semi urban areas. So a wide scope in rural areas is expected in the days to come.

Particularly in marketing approach, considering customer retention as a big challenge,provisioning the facilities attending the needs without delay in time, meeting the changingneeds creating the database, employee approach to customers, customer awareness impact ofCRM relationship with customer impact over bank objectives, CRM and public image, CRMand updating the data, CRM and customer satisfaction, other nationalized is found quitegood. On the other hand, in terms of retention of existing key customers, enhancing customerloyalty, provisionising technological infrastructure, location of CRM, existence of CRM,approaches of CRM, coverage of CRM by e-Marketing, relationship with the customer,CRM's objectives and making the customer delight, retention of customers benefits of CRMto the organization, loyalty, customer confidence, are found quite satisfactory and in goodcondition with specific bank. It is very clear from the foregoing analysis that the approach ofCRM by banks is to some extent same and one but the reach is quiet distinguishable. It is dueto the profile, their capability and the strategy of CRM in making it and reaching down tocustomers. On the contrary, it can also be asserted that the background of both banks alsofound as a big cause for reaching the top CRM. Hence, CRM is an inevitable tool ofmarketing that can be considered as Critical Responsibility of Market with regard to Banks inpresent context. The results in this study show the respondents either agree or strongly agreeon majority of the statements in the dimensions used. This study is significant to banks asthey get information on what are items that are important to customers so as to maintain therelationship.

The targeted campaigns through Internet and the call center for customers activelyusing one or both of these innovative channels for their banking operations. The sameapproach is now being extended to small and medium businesses and to commercialcustomers.

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