



A STUDY ON DETERMINANTS OF CUSTOMER RETENTION IN BANKING SECTOR

Madhav Gupta

Research Scholar, DAVV, Indore.

ABSTRACT

The banking industry is exceedingly cutthroat competitive, with banks not only challenging among each other; but also with non-banks and other financial organizations. Most banks' merchandise developments are uncomplicated to duplicate and when banks provide nearly similar services, they can only differentiate themselves on the basis of price, security in transactions, convenience, image, quality of services etc. Therefore, customer retention is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment. In this study, the determinants of customer retention has been measured and found the most important determinants from the employees and customers' perspectives. For this study total 500 customers and 200 employees from public and private banks were chosen. Through analyzing the mean, rank was assigned on the basis of the highest loadings.

KEYWORDS: Customer Retention, Competitive Advantage, Determinants, Image, Quality of Services.

INTRODUCTION:

It is more economical to keep customers than to acquire new ones. The costs of acquiring customers to "replace" those who have been vanished are sky-scraping. This is because the disbursement of acquiring customers is incurred only in the beginning stages of the commercial relationship. In addition, longer-term customers purchase more and, if satisfied, may produce positive word-of-mouth promotion for the organizations. Furthermore, long-standing customers also take less of the company's time and are less sensitive to price changes. Banks have the prime responsibility of providing financing requirements for businesses and carry the overriding responsibility of deposit safety. With these diverse challenges in the banking sector, most banks have moved out from the conventional strategies of product development and diversification, antagonistic promotion campaigns, promotional strategies and establishing branding strategies which are all focused on the external customers. In this case, use of customer service to provide a competitive edge is fast becoming everyone's strategy and customer retention has become the most cost effective way of gaining a competitive edge.

Customer retention is an activity a business undertakes to reduce customer defections. An organizations ability to retain and attract new customers, is not only related to its services or products, but related to the way it services its existing customers and the reputation it creates within the marketplace. Customer retention is the driving force behind Customer Relationship Management (CRM), relationship marketing and loyalty marketing. Studies across a number of industries have revealed that the cost of retaining an existing customer is only about 10% of the cost of acquiring a prospect customer, so customer attrition rate should be reduced and make them for a longer time in terms of economic growth. Banks are considered to be the most important service providers where



the customers keep in their hard earned money. The entire relationship is based upon trust as a result naturally the expectations of the customers are peak high and they seek high level of service.

The Harrison Company (2003) has defined this term Customer retention as “engaging the customer in a fair and equitable marketing promise

Customer service is a key ingredient in relationship marketing and therefore in customer retention. Relationship marketing can therefore be seen as a focal point for integrating customer service and quality with a marketing orientation. Much of the literature on retention marketing draws on the philosophy of relationship marketing and focuses primarily on the impact of retention marketing on company profitability and various strategies and plans to improve customer withholding rates. Dawkins and Reichheld, (1990), argue that service firms dedicate most of their resources to attracting new and prospective customers, but few take identical difficulty to retain existing customers.

- There are various reasons behind any customer defection and retention. These are the following ; First, while price is significant in attracting new customers, it is a slight issue in mounting loyalty and retaining customers.
- Secondly, such physical factors as a ‘more convenient location’ are also ranked quite low, as are competitors’ action and invention.
- Third, one of the most general and momentous reason for customer switching and disloyalty is the indifference and inattention of the business and, from the customer’s point of view, the lack of any real reason to stay.
- Fourth, most surveys highlight poor service as a more common reason for switching suppliers than price advantage.
- Fifth, sophisticated customers do not only expect and demand more, they are also more articulate in saying so.
- Sixth, buying even the simplest product or service customer wishes, is a very complex decision making process. Seventh, competition has increased considerably – globalization, advanced technology and many other factors have led to businesses to become more rapidly, having an elevated quality, being faster to innovate and being more price-competitive.

DETERMINANTS OF CUSTOMER RETENTION

Physical Appearance: It included modern infrastructure, appealing environment, physical facilities are matching with the services expected by our customers, customers feel relaxed when they enter into the premises of our bank etc.

Responsiveness: This consists of Proper information about usage and benefits of the product/services are communicated to customers, employees have the knowledge to answer the customers’ questions, all true and meaningful information to customers are provided, convenient opening and closing time of the banks is satisfactory for our customers, Customers are informed regularly about latest and forthcoming schemes offered, Various problems which occur during electronic transactions are timely responded by the bank officials etc.

Grievance Redressal System: It denotes an effective of grievance redressal system, able to handle the customers’ complaints easily and immediately, Personal attention to customers is provided whenever they required etc.

Reliability: comprised of trust and the Bank is reliable because it is mainly concerned with the investor’s interest, cash transaction system of this bank is trustworthy, bank has accuracy in performing financial transactions, Bank has sound and attractive return policies for investors etc.

Service Orientation: reflects in the consistency of services, to train the employees for bundling of services, Bank officials are more committed towards their customers, and Computerized information system provides best and quick services to the customers.

Convenience: is comprised of location, speedy documentation, clear departmentation according to the needs of customers.

Customer Orientation: reveals the Long term relationships with the customers, Bank adapted new technologies to improve communication with customers, Bank officials build mutual trust between the bank and its client, Bank encourages customers to purchase their products and services, Adaptability of different measures to meet customers' urgent requirements, care for customers etc.

Security in Transactions: This factor mentions that Banks ensure proper security system to protect customer's transaction, implementation of core banking solutions, and Customers get instant alerts regarding their transactions on their communication devices.

Loyalty Programs: Through this programme customers are easily benefited with promotional offers provided by the bank, promotional schemes that offer good value for money, benefitted by receiving extra rewards points on higher spending, earn rewards points etc.

PRICE: includes flexible rate of return for various products or services that meet the needs of customers, fair pricing on SMS updates, ATMs transactions, locker services, issuing of check book etc. and best interest rate on FDs to its customers.

CRM Strategies: reflect that Product features are developed to allow customization, Technology enabled customers' interactions, promoting a culture of diversity, Measurable objectives, NRI banking services are provided to customers by our banks etc.

Corporate Image: is denoted by proactive, good reputation, financially affordable for its customers and high credibility.

RATIONALE/PURPOSE OF THE STUDY

A major challenge in banking industry is attraction as well as retention of customers. Customer retention favourably affects the profitability. Retention is more difficult to achieve in competitive environments. The former Finance Minister, Mr. Pranab Mukherjee pointed out that in view of the enhanced competition amongst banks, it is customer service which "becomes the sole differentiating factor" that has to be leveraged to stay relevant and forge ahead in the business. "Good customer service is the heart of banking service delivery. For the last two decades, due to an increasingly competitive, flooded and vibrant business environment, banks in many countries have adopted customer-driven philosophies to address the rapid and changing needs of their customers. As service-oriented entities striving for survival in such challenging marketing scenario, retail banks have tended to offer almost identical products and financial services. Banks have come to realize the importance of differentiating themselves from their competitors on the basis of superior customer service and relying on effective defensive marketing strategies instead of the traditional offensive ones. With this prevailing focus on customers and service quality, banks have been concerned with continuously monitoring how effectively they meet or exceed the needs of their customers. As a result, the conception of customer satisfaction has emerged as a key factor in modern marketing and consumer behavior analysis. Winning customer satisfaction through superior service has become an effective strategy that service providers in general, and retail banks in particular, meticulously strive to pursue. Such a strategy aims at ensuring 100 percent satisfactory performances from a customer's viewpoint ultimately protecting and retaining the loyalty of existing customers. Hence, this study has given some important determinants for retaining the customers for a long time.

REVIEW OF LITERATURE

Msoka and Msoka (2014) in their study 'Determinants of Customer Retention in Commercial Banks in Tanzania' examined determinants of customer retention in commercial banks in Tanzania. Four specific objectives were developed related to latent variables: customer service, quality of the products provided by banks, pricing of bank products as well as services and customer satisfaction. The variables' relationships were established through explanatory studies under positivism paradigm. The study discovered that

academics need to incorporate quality of products provided by the banks together with pricing of banks products in customer retention models.

Kaur, Sharma, and Neha (2014) found in their study there are five types of switching barriers and supports and two dimensional loyalty construct. Three of the dimensions could be associated with more positive or reward-based switching barriers and two with more punitive types of switching barriers. The findings suggest that both attitudinal and behavioral loyalties are highly correlated and that switching barriers have a stronger effect on behavioral loyalty, in particular when dealing with punitive switching barriers, such as switching costs. The results demonstrate that banks should mainly use reward-based switching barriers to prevent customers from switching to another bank, which is in line with the findings of Vázquez-Carrasco and Foxall (2006) that claimed that positive switching barriers play a greater role than the negative ones in determining customer satisfaction and retention.

Sabiret. al. (2014) studied the factors affecting Customer Satisfaction in Banking Sector of Pakistan and to find the relationship between Service Quality, Customer Satisfaction and Customer Loyalty. Results of this study have shown that there is significant relationship between service quality attributes and customer satisfaction. It also revealed that positive relationship exists between customer satisfaction and customer loyalty. With the help of this study it is concluded that service quality leads to satisfied customers and customer satisfaction leads to customer loyalty. In today's competitive world banks can get competitive advantage by providing superior services to their customers.

Benjamin et. al. (2014) focused on the important factors as determinants of customer satisfaction for better performance of the banks. The factors identified are Quick services delivery, Productivity, Clear defined customer policy, Communication, Responsiveness, being friendly and approachable, Creativity, Access, Honor promise Competence. In order to gathering the data for study, a random sampling technique was used. The research has recommended that the Banks should try to maintain customer by giving those good products or services should have appropriate customer perception and improve the services delivery to all customers.

The purpose of the study by Odindo (2013) is to provide insights into issues related to customer satisfaction, loyalty and retention which will prove useful to managers in financial services. Customer satisfaction and service quality are often presented as closely related with some commentators even considering customer satisfaction to have a direct effect on service quality while others believe that satisfaction is affected by pre-existing ideas of quality. Service quality can be described as an attitude that is related, but not equivalent to customer satisfaction, and which results from a comparison of customers' expectations with the actual provision of a particular service by an organization.

Oumaet., al (2013). Their study set to examine evaluate customers' retention strategies on customer satisfaction in the banking sector in Kenya case of Equity bank Thika branch, Kenya. Despite their central role in the economy, banks are faced with intense competition as a result of many similar products offered in the market, fast changing technological advancements and demanding customers. Specifically the study investigated how customers' demographic factors (age, gender, income and level of formal education), service quality and corporate image affect customers' retention in the banking industry in Kenya. The study result found that the quality of services offered by the bank has a great effect on customers' retention. However, customers' demographic factors like age, gender, level of formal education and marital status had no influence on customers' retention. Further, the study found that the bank stability, reliability and involvement in community work will influence customers' retention.

OBJECTIVES OF STUDY

The primary objective of this study is to measure the determinants of customer retention in banking sector.

To know the rank assigned on the determinants.

HYPOTHESIS OF THE STUDY

H₀1: There is no significant difference in the mean among determinants of customer retention from employees' perspectives.

H₀2: There is no significant difference in the mean among determinants of customer retention from customers' perspectives.

RESEARCH METHODOLOGY

In this study, survey research design is adopted. Survey research design was chosen because the sampled elements and the variables that are being studied are simply being observed as they are without making any attempt to control and manipulate them.

Study Area: In the study, the researcher has included employees and customers of banks in Indore city as the study area.

Data Collection: Primary Data collection was collected through Specific self-designed Questionnaires based on the 5-Point Likert Scale to measure the mean score of employees and customers. Also, Secondary Data was procured from Internet Websites, Journals and E-Journals, Books / Magazines, Research Papers.

Sampling Technique:

For effective coverage and lower cost purposive sampling techniques were used to select the participating respondents.

Sample Size: 200 employees and 500 customers were selected from the above mentioned segments.

Data Collection Instrument

The questionnaire was developed into many parts in such a way as to reflect the attitude of employees and customers towards determinants of retention as the researcher aimed to keep the parts of questionnaire similar in content in order to get a comprehensive view.

The results of the reliability analyses determined that the Cronbach's α values was 0.932 for employees and .879 for customers. This value is higher than 0.7, meeting the requirement suggested by Guiford (1965). Thus, it is concluded that the questionnaires used in this study have high reliability.

Data Analysis Tests: Mean & Rank were applied to measure the determinants.

RESULTS & FINDINGS

TABLE 1. MEAN AND RANK ON CUSTOMERS

SR. NO.	FACTORS	MEAN	RANK
01	Physical Appearance	3.3	10 th
02	Responsiveness	4.6	1 st
03	Grievance Redressal System	3.5	8 th
04	Reliability	3.6	7 th
05	Service Orientation	4.0	4 th
06	Convenience	3.2	11 th
07	Customer Engagement	3.1	12 th
08	Security	4.1	3 rd
09	Loyalty Program	3.9	5 th
10	Price	4.2	2 nd

11	Customer Satisfaction	3.7	6 th
12	Customer Retention	3.0	13 th
13	Corporate Image	3.4	9 th

Discussion: From the above mentioned table on customers that out of 13 determinants customers have assigned rank 1 to responsiveness which have 4.6 mean value, 2 rank to price (4.2), 3 to security in transactions (4.1), 4 to service orientation (4.0), 5 to loyalty programs for various schemes and promotional offers (3.9), 6 to customer satisfaction with the quality of services (3.7), 7 assigned to reliability in financial transactions (3.6), 8 to grievance redressal system (3.5), 9 assigned to corporate image for credibility (3.9), 10 to physical appearance (3.3), 11 to convenience (3.2), 12 to customer engagement through the lucrative offers (3.1) and the last 13 rank assigned to customer retention which have 3.0 mean value. Hence, the result of hypothesis concluded that there is no significant difference in the mean among determinants of customer retention from customers' perspectives is not supported because mean scores have differences.

TABLE 2. MEAN AND RANK ON EMPLOYEES

SR. NO.	FACTORS	MEAN	RANK
01	Physical Appearance	3.7	6 th
02	Responsiveness	3.69	7 th
03	Grievance Redressal System	3.65	8 th
04	Reliability	3.74	3 rd
05	Service Orientation	4.5	1 st
06	Convenience	3.609	12 th
07	Customer Orientation	3.63	9 th
08	Security	4.1	2 nd
09	Loyalty Program	3.61	11 th
10	Price	3.73	4 th
11	Employee Satisfaction	3.62	10 th
12	Customer Relationship Strategies	3.71	5 th
13	Corporate Image	3.604	13 th

Discussion: From the above mentioned table on employees that out of 13 determinants customers have assigned rank 1 to Service Orientation which have 4.5 mean value, 2 rank to security in transactions (4.1), 3 to reliability (3.74), 4 to price (3.73), 5 to Customer Relationship Strategies (3.71), 6 to physical appearance (3.7), 7 responsiveness (3.69) 8 rank assigned to grievance redressal system (3.65), 9 assigned to Customer Orientation (3.63), 10 employee satisfaction with the working environment (3.62), 11 to loyalty programs for various schemes and promotional offers (3.61), 12 rank assigned to convenience (3.609) and the last 13 rank assigned to corporate image which have 3.604 mean value. Hence, the result of hypothesis concluded that there is no significant difference in the mean among determinants of customer retention from employees' perspectives is not supported because mean scores have differences.

CONCLUSION

To conclude, the study has examined the determinants for retaining the customers in banks as in this competitive environment, there is a tough competition between private and public sector banks. Hence, it is a necessity to retain the customers for expanding the economies of scale. In this context, banks have tailored marketing strategies such as, loyalty programs, promotional offers, convenience, ICT services etc. so that

maximum customers can be managed. To integrate these programs banks have accumulated and implemented new modern technologies in terms of the database and data mining to have most updated customer database for their purpose. The findings revealed that retention strategies are an essential for any type of banks as in today's scenario those retailers who follow these practices for the benefit of customers, definitely they win.

The best way that the banks can use is to have enough strategies to serve for the large customer base of the banks. These determinants are helpful to employees and they can easily know what customers expect and serve them better at the same time give feedback to the banks authority regarding service levels of their staffs. They can be sure that customers' complaints are solved in time, information delivered in timely manner and when a customer is dormant can find the reason as to why a customer is not using bank services for the long period of time.

SUGGESTIONS & RECOMMENDATIONS

Banks serving ethnically diverse customer bases are continuously challenged to deal with differing perceptions of service quality and satisfaction. As a result, banks need to firstly identify these customers and their rapidly changing needs and wants and secondly strategically focus on providing services targeted at all ethnic customer groups. For banks to survive in this competitive market, they need to determine what the satisfaction levels of specific groups of the ethnically diverse customer population resemble, as well as which service areas customers of different ethnicities perceive as important. Using the above mentioned information effectively, may help banks achieve higher levels of customer satisfaction, retention, and profitability.

Managers should use a Customer Lifetime Value based framework: the first step being to predict the customers who are most likely to be acquired. The second step is to predict the customers who are most likely to be retained, based on the customers acquired. The third and crucial step is to predict the customers who are most likely to be profitable based on the acquired and retained customers.

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Madhav Gupta
Research Scholar, DAVV, Indore.