DRIVING VALUE FOR BANKING COMPANIES BY ADOPTING CRM SYSTEMS AND CUSTOMER RETENTION STRATEGIES-oral presentation -1%

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Abstract

The paper emphasizes the role of customer relationship management (CRM) strategies and tools in achieving stable customer portfolio and high business performance by banking companies. A qualitative marketing research based on semi-structured in-depth interviews was conducted, aiming to determine the stage of adoption of CRM technological solutions and customer retention strategies in the Romanian banking industry. According to research objectives and results, most banks in the Romanian market have implemented CRM solutions in order to streamline processes within marketing, sales and customer service departments. Furthermore, bank management show a relatively high global satisfaction on CRM adoption, which mainly concerns CRM impact on customer retention rates and cross-selling volumes, and to a lower extent the implementation costs of CRM systems. However, retention plans are not always and systematically included in banking policies, while retention rates are frequently measured only by using the gross customer retention indicator, without clear focus on customer value assessment in terms of sales and profits. These lead to the conclusion that retention benefits are not entirely exploited in order to drive optimal value for business and customers.

Keywords

CRM technological solutions, customer retention, qualitative marketing research, Romanian banking industry, value for business, value for customers.

JEL Classification: M31.

Introduction

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One of the major threats faced by bank managers in the current business environment is the decrease in customer retention rates, taking into account that retail banking clients have multiple choices and opportunities of inexpensively switching behaviour. This is the main argument that, in many cases, leads to bank management decisions to adopt and implement customer relationship management (CRM) strategies and technological solutions.
Achieving customer loyalty and portfolio stability became key success factors in the Romanian banking industry, which significantly influence value for business. In many developed markets, banking organizations' efforts to effectively manage customer relationships focused on CRM systems, in order to develop updated customer profiles, customized marketing strategies and retention programs, designed to increase customer satisfaction and business performance.
The purpose of the present research is to investigate the stage of adoption of CRM technological solutions and customer retention strategies in the Romanian banking industry. The study is exploratory in nature, focusing on the consequences of CRM implementation in the process of driving value for banking companies and their customers.
The paper is structured in several sections. It begins with a literature review regarding the customer relationship management concept, its significance, principles and benefits. Next sections focus on research methodology, results and discussion, followed by paper contributions and conclusions.

1. Literature review on customer relationship management

Customer relationship management has become an intensively debated topic within marketing science, being approached from multiple perspective and receiving various definitions. Zablah et al. (2004) identified five ways in which CRM has been conceptualized over time, as: process, strategy, philosophy, capability and technological tool. According to Payne (2005, p. 4) CRM is "a business approach that seeks to create, develop and enhance relationships with carefully targeted customers in order to improve customer value and corporate profitability and thereby maximize shareholder value".
Considering the specific stages in developing business relationships, Becker, Greve and Albers (2009) have established the following CRM strategic objectives: to acquire new customers or regain the former ones (initiation stage), to keep existing customers by ensuring higher level of satisfaction and by expanding relationships through up-selling and cross-selling activities (maintenance stage), and to retain customers by reactivation efforts targeted to clients who were more profitable in previous periods, but are currently inactive (retention stage).
For Ozgener and Iraz (2006), CRM is a competitive strategy implemented by using information and communication technologies in order to become closer to customers and to create long-term business relationships. CRM involves the use of specific technology that creates an information system aimed to deliver valuable customer data, which underpin marketing processes development. According to Erickson (2009), CRM technologies are divided into three categories: collaborative (facilitate customer and marketing channel interactions), operational (support ordering and delivering activities) and analytical (analyse data bases in order to identify customer behavioural patterns).
Payne and Frow (2005), after reviewing some CRM definitions, states that CRM might be viewed in three perspectives: narrowly and tactically (implementation of a project with specific technological solutions), broadly and strategically (a holistic approach oriented to create stakeholder value) and customer centric (adoption of integrated technological solutions focused on customers). Iriana and Buttle (2007) distinguish between strategic, operational and analytical CRM. Strategic CRM aims to enhance customer lifetime value,

increase customer satisfaction and retention. Operational CRM uses software to automate customer-interface processes, leading to improved efficiency and effectiveness, while analytical CRM applies specific technologies aiming to gather, distribute and exploit customer information in order to optimize business relationships.

Regardless of the perspective adopted by researchers in the analysis of the concept, customer loyalty and retention are in the centre of any CRM strategy. Customer loyalty highlights "a commitment to continue do business with a company on an on-going basis" (Zineldin, 2006, p. 433), while customer retention is defined as "the capability of the business firm's offer to its customer to purchase or patronage its product or service over a specified time period" (Shajahan, 2004, p. 98). The latter is divided in two forms: contractual retention, which involves maintaining a specific contractual relationship between the customer and the organization, and client retention that means attracting customers to make cross-buying activities (Worthington, 1996). Trasorras, Weinstein and Abratt (2009) proved that, in service area, customer retention is determined by value (with its four components: service, quality, image and price), satisfaction and loyalty.

Payne and Frow (2005) identified five CRM processes that must be carefully monitored in order to achieve proper implementation of CRM programs: strategy development, value creation, multichannel integration, information management, and performance assessment. According to Weinstein and Johnson (1999), main steps undertaken in the development of a retention program, leading to customer retention strategy implementation, are the following: determination of current customer retention rate, analysis of the defection problem, setting of a new customer retention objective, investing in a targeted customer retention plan to enhance customer loyalty, evaluating the success of the customer retention program.

Core benefits of CRM that serves as value drivers are, according to Richards and Jones (2008): improved ability to target profitable customers (analytical CRM tools help firms to target customers more effectively), integrated offerings across channels (CRM provides information that eliminate data inconsistencies within multichannel strategies, enabling a complete view of customer profile), improved sales force efficiency and effectiveness (better trained and adaptable employees), improved pricing (by adapting prices to specific customer segments in order to deliver better value), customized products and services (CRM technologies enables product and service individualization according to customer needs and desires), improved customer service efficiency and effectiveness (CRM helps customer service personnel by providing quick access to customer data, which allow efficient handling of client requests) and individualized marketing messages (CRM information on customer behaviour supports communication campaign customization).

2. Research methodology

The objectives of the present study relate primarily to the following dimensions of the problem investigated: to determine the degree of implementation of CRM technological solutions in the Romanian banking industry; to find out which is the level of satisfaction expressed by bank managers on the effects of adopting CRM solutions; to identify the existence of customer retention plans that are included in banking policies; to understand the specific ways in which retention objectives are established in the planning process and the indicators used for measuring retention rates; to find out to what extent banks allocate budgets and designate employees in order to be responsible for customer retention activities.

Information requirements described above indicate that the domain that was intended to be investigated has been relatively unknown. Therefore, authors conducted a qualitative marketing research based on semi-structured in-depth interviews, taking into account the specialized profile of research participants, which included representatives of banking institutions operating on the Romanian market.

The target group of the research consisted of nine banking companies with market activity in Romania. The starting point in authors' decision to select the banking context for conducting the study took into consideration the specific characteristics of business relationships in this field and high dynamics of the international banking industry, which resulted in a series of major changes in legislative, technological and competitive environment.

In defining the structure of the target group of research, authors selected five banks which recorded, according to Romanian official sources, high market share within national banking industry, while the other four companies had market positions close to the average in the sector. Researchers' preference for large and medium size companies was due to the high degree of concentration of Romanian banking activity inside a relatively small number of major banks and, also to the complexity of the problem investigated and increased likelihood of getting relevant information from large and medium banks, compared to small ones. Within the target group including those banking companies covered by the present research, in-depth interviews were conducted with employees responsible for marketing, sales and customer relationship management activities.

Recruitment of respondents was made by using a short selection questionnaire, serving to choose research participants, according to the previously defined structure for the group investigated. The questionnaire was, essentially, aimed to ensure that the following conditions are met by individuals selected for interviews: to be banks' employees and to have certain experience in banking, and also marketing, sales or customer relationship management areas, so that relevant information to be obtained for each dimension of the subject investigated. The process of information collection was made possible by using an interview guide that was structured on several sections, arranged in logical sequence from general to particular, according to the research objectives. Within each section, open questions were formulated in order to guide the discussion and to simultaneously allow interviewees to freely express their opinions. Each section has been assigned an approximate duration to ensure good time management. The introductory part was meant to create an open atmosphere, favouring communication.

Information collected through semi-structured in-depth interviews were subject to content and mixed analysis, which involved identifying various topics, variables, attributes and keywords specified by bank representatives, as research participants. By codifying these elements and determining the frequency of occurrence was possible to highlight main results, conclusions and usefulness of the study. In some cases, it was necessary to conduct a series of quantitative evaluation, by using semantic differential scales, in order to achieve better structuring of answers and to identify the intensity of respondents' attitudes towards various effects of CRM systems implementation.

According to marketing research trends, a growing number of authors use mixed methods of data collections and analysis within interviews, agreeing that "collecting quantitative data during the qualitative interview process enhances interpretations by helping researchers better contextualize qualitative findings" (Frels and Onwuegbuzie, 2013). Therefore, the informational output of qualitative researches can achieve greater value by applying descriptive statistics (i.e., measures of central tendency) and forms of inferential statistics.

Taking into account the context of the present study, the authors identified a set of opportunities for applying mixed research methods in data collection and interpretation, synthesised by the specialized profile of research participants. Given the banking experience and expertise in marketing, sales and CRM areas, respondents achieved without difficulty, quantitative evaluations on various aspects of CRM adoption in the bank.

3. Results and discussion

Research results are presented in close connection with the objectives defined in the methodology and the questions in the interview guide.

First goal of the research aimed to determine the degree of implementation of CRM technological solutions in the Romanian banking industry. According to information provided by participants, a CRM system had been implemented in 8 of the 9 banking companies that form the target group of the research. These systems have a lifetime history between 1 and 15 years, but it was noted that, on an average, most banks operating on the Romanian market have four or five years of experience in the use of CRM technological solutions, without a visible correlation with the company size. The only respondent who said "they are not using, nor yet implementing a CRM system" in the banking institution where he is engaged, motivated this situation by "high costs that would be required in the implementation process of CRM solutions".

Regarding the companies that have implemented CRM systems, research results show that these technological solutions are used to streamline the processes and activities within one or more departments of the banking organizational structure. Therefore, in 4 of the 8 banks, CRM solutions are used simultaneously in the departments of "marketing", "sales" and "contact centre". One of the companies in the target group uses CRM technology in "sales" and "call centre" departments, while another institution applies CRM tools exclusively in the "marketing" department. Representatives of the other two banks mentioned the functioning of CRM systems in order to standardize and automate "contact centre" activities, particularly for achieving "effective management of customer complaints".

Another research objective, which was in close correlation with the previous, consisted in finding out satisfaction levels expressed by bank managers on the effects of adopting CRM solutions. In this context, it was first determined the global level of bank management satisfaction on the overall effects of CRM adoption. To this end, respondents were asked to mention the satisfaction level that they consider relevant on a five-step scale, ranging from "very high" to "very low". However, responses of the participants in research focused on only two levels of the semantic differential applied, so that representatives of five banking companies indicated a high level of satisfaction, while employees of the other three banks stated the middle or neutral step of the scale. Then, numerical values were assigned to each level of the five-step scale, starting from value 1 for the "very low" level of satisfaction, up to value 5 for the "very high" level of satisfaction. By applying the principle of weighted arithmetic average, we obtain an average value of 3.625, which highlights the assessments within the target group and prove a relatively high global satisfaction on CRM adoption.

Further, if we analyze participants' opinions in correlation with demographic profile of the banking companies inside the research group, it appears that 4 of the 5 institutions, for which the results prove a high degree of satisfaction on the overall effects of CRM implementation, are placed in top 10 companies in the banking industry based on the market share indicator, while the fifth company is the most experienced in the use of CRM technology, the latter having already implemented such a system for more than 15 years. In the category of those companies where a middle level of satisfaction was recorded, there are two medium-sized banks and a third institution that was relatively recently extended on the Romanian market.

Similarly, respondents were asked to express a certain level of satisfaction on various individual aspects or specific effects of CRM implementation, influencing the global satisfaction of bank management. The assessment was made by bank representatives by indicating both perceived effects of CRM adoption and then the adequate level of satisfaction within a semantic differential scale with five steps, ranging from "very satisfied" to "very dissatisfied". Based on participants' feedback and taking into account similarities between received responses, the effects of using CRM were structured in 9 different categories. Similar to the method of analysis adopted before, and taking into account both the answer frequency within target group and the level of satisfaction stated by respondents, it was then possible to calculate average satisfaction values for each category, which are given below in descending order of satisfaction scores: CRM impact on customer retention rate (4.125); CRM impact on cross-selling indicators (4.125); CRM impact on customer satisfaction (4); CRM impact on sales (3.875); CRM impact on profits (3.875); CRM impact on efficiency and speed in the delivery of services required by customers (3.75); CRM impact in improving employee activity and work performance (3.625); CRM impact in terms of operating costs/maintenance (3.25); CRM impact in terms of implementation costs of specific technologies required (2.75).
As shown above, satisfaction level varies when analyzing the impact of CRM adoption on business performance. The level of satisfaction is high for the market results recorded by banking companies with respect to "customer retention rate", "cross-selling value and volume" and "customer satisfaction global index", which favourably affect sales and profits in the medium and long term. The lowest level of management satisfaction is towards the "costs of implementing CRM technologies", given the long time and significant investment required for this purpose.
Next important objective of the research was to identify the existence of customer retention plans that are included in banking policies. In this respect, the nine banking companies surveyed fall into two categories: the first group includes a number of five institutions that have developed an explicit plan of customer retention, while the second segment includes the other four banks that have not designed so far a formal plan, but which are carrying out a series of actions geared towards customer retention. The delimitation of the second segment of banks based on the research results, may suggest that CRM strategic objectives of banking companies are not entirely feasible, because there are no clear indications about effective plans of implementation.
Regarding the aim of understanding the specific ways in which retention objectives are established in the planning process and the indicators used for measuring retention rates, research results show that retention targets are set differently on customer segments, based on the criteria of "customer profitability" or "customer value". This situation is found in 8 of the 9 banking companies within the research group. In the same time, one respondent noted that additional to "profitability" criteria, "the bank is considering setting different retention targets, depending on demographic and behavioural profile of its customers". However, in the target group of the research there is also a banking company that owns a relatively modest position in the sector, for which, according to the statement of its representative, "retention goals are set with no specific distinction to all customers, without considering the profile differences between them". In this latter case, the explanation may lie, according to previous statements of the same respondent, in the absence of a CRM system functioning in that bank, being also correlated with the lack of a formal plan for customer retention.
For measuring retention rate, most banks use the "gross customer retention indicator", a situation that is found in 6 of the 9 companies in the research group. One of these banks,

actually having a strong position in the Romanian banking market, resort to the use of multiple indicators for measuring retention. Thus, its representative stated the use of “sales adjusted customer retention indicator” and “profits adjusted customer retention indicator”, additional to “gross customer retention indicator”. Within the target group of the research there is also a respondent mentioning the use of “sales adjusted customer retention indicator”, and another participant indicating “profits adjusted customer retention indicator” as key measures of customer portfolio stability in the banking companies they are working in. In the last three cases described above, research results show the existence of explicit plans for customer retention, and also the adoption of CRM systems for a longer period of time compared to the situation of banks that exclusively use the “gross customer retention indicator”.

Surprisingly perhaps considering the intense competition in the banking industry, is the case of a banking institution that, according to the statement of its representative, “do not use specific indicators to measure customer retention”. Therefore, the company faces the risk of a negative gap position against other competitors and will, most likely, be unable to timely identify environmental threats affecting its current customer base.

Another research objective was to find out to what extent banks allocate budgets and designate employees in order to be responsible for customer retention activities. Within the target group of the research, 7 of 9 banking institutions allocate specific budgets for customer retention activities, and only 2 banks of the entire group “did not set a certain budget” to support such actions. Similarly, seven companies in the research group designated employees responsible for customer retention activities. According to the statements of banks’ representatives, the other two organizations have not assigned “explicit tasks or responsibilities of customer retention to bank employees”.

Regarding the areas in which persons responsible for customer retention are employed, bank management is frequently considering the following organizational departments: customer service, sales and distribution, CRM, data center/call center, and marketing. Although less frequent in the research results, banking representatives also mention, in the category of employees responsible for retention activities, the staff working in credit and product departments or, in general, the employees working in front office.

Conclusions

Increased competition in the Romanian banking industry, rapid technological developments in distribution and communication, all have been requiring the development of a strategic thinking, focusing on maintaining and developing customer relationships as main corporate value.

In this context, the present paper highlights the importance of retention strategies that aim to decrease customer switching behaviour and drive value for banking institutions.

According to research results, companies in the Romanian banking market are recommended to use CRM systems in a more integrated manner in order to effectively benefit from customer information and to customize retention plans according to current and future segment needs, so as to achieve a more stable and profitable customer portfolio.

The work contributes to customer relationship management literature, while having implications for practitioners in the field of banking services. It emphasis recent concerns in marketing science and provides clues on the extent to which banking companies in Romania adopt a customer-oriented business perspective, by analyzing the stage of CRM implementation and exploring the effects in terms of business performance.

Research limitations are those specific to exploratory studies, although authors aimed to greater exploit information through the use of mixed research methods in data collection and analysis. Extensions of the research may consider the structure of the loyalty programs developed by banks in order to achieve customer satisfaction and commitment.

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