RELATIONSHIP MARKETING - BEST PRACTICE
IN THE BANKING SECTOR

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Abstract
This paper aims to highlight best practice in relationship marketing because of adjusted companies’ strategies in a turbulent, unstable, and dynamic economic environment. By best practice, we understand specific marketing tools and strategies built upon real needs and heterogeneous consumer preferences, addressed directly in a relevant way, aiming at clients’ long-term retention. We should also take into consideration the highly competitive market, with rapid changes in purchase and consumption behavior, while the ever-increasing degree of technology changes fundamentally not only the speed, but also the information content.
Since past years we can talk about consumer behavior analysis based on multiple criteria, including the emotional or moral components, consumers’ expectations, and life style, as understanding such variables is the main pillar of relationship marketing. The main objectives rely upon building long-term relations, client retention, and loyalty. As part of marketing efforts, the communication component has an increasingly important role, approaching niches with tailored messages, inviting clients to open dialogue.
Economic changes, extensive use of technology, migration towards online and optimization of communication channels opened the doors for digital era, when relationship marketing and client relationship management (CRM) represent not a merely working premise, but an essential ground. Best practice in relationship marketing proves that this cannot be applied in any way and at any time, as this paper highlights the main components of building and implementing such a system.

Keywords: Relationship marketing best practice, clients’ retention and loyalty, marketing mix, CRM

JEL classification: G21, M31, M37

Introduction
In the past years, the traditional marketing approach, a transactional type, lost more ground in favor of relationship marketing that highlights the idea of creating common experience among a company and its clients, using a relevant, personalized communication and building long term relations.

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In other words, the core essence of change within organizations is equivalent to focusing objectives on clients, developing direct tailored distribution and communication channels, reducing intermediary costs based on increasing usage of technology, proximity, and financial performance improvement. Focusing on consumer, relationship marketing marks the transition from mass marketing to niche one, as a “process matching both seller and buyer in a profitable, personal, professional, and long term mutual relation” (Pathmarajah, 1993).

The theoretical foundation for relationship marketing is underlined by both the network approach (B to B marketing), proposed by the International Marketing and Purchasing Group (Rao and Perry, 2002, p.600), as well as the services marketing approach, proposed by Ch. Gronroos (1980, 1985, 1994) and E. Gummesson (1987, 1994, 2008).

Relationship marketing, a very visible trend, has been subject to analysis of many researchers such as Mattsson (1997, p.447-461), Coviello, Brodie and Payne (1998), and Gummesson in his paper “Total Relationship Marketing - Marketing management, relationship strategy, CRM, and a new dominant logic for the value-creating network economy” (2009).

As a long awaited change ever since the ‘90s, relationship marketing changes the relationship between seller and buyer, taking into consideration the specific needs and expectations of the latest, and switching the focus from short term decisions to medium and long term ones.

As previously mentioned, relationship marketing is developed as an answer, reaction, result of changes in the economic environment, meaning increasing competition, consumer behavior changes, heterogeneous demand, increased usage of technology and not only. There are two main features of relationship marketing: it uses tailored and interactive tools and aims to trigger a lasting change in clients and suppliers’ attitude, more than just an immediate act of purchase on their behalf. We speak about a switch from extensive to intensive growth, by means of increasing current clients’ retention, followed by their loyalty, given the fact that maintaining existing clients and optimizing portfolio involve significantly lower costs than attracting new clients, especially from competition. This trend is also mentioned in the definition of relationship marketing proposed by Gledhill (2008), according to whom “..it is a form of marketing that emphasizes more clients’ retention and their satisfaction, rather than individual transactions” (Gledhill, 2008, p.41).

As such, mass marketing becomes too narrow in a highly competitive environment, where communication mix has to be specifically adapted, for a relevant targeting of each consumer’s niche, to generate a positive impact such as clients’ attitude or the actual purchase and/or consumption. Simply put, it aims at clients’ retention and loyalty, by means of developing and maintaining relations resulted from commercial demands. For this purpose, it is vital that clients’ segmentation is not based on classic criteria, but uses behavioral criteria including lifestyle, ideas and personal values, preoccupations, interests, etc. Therefore, we speak about knowing consumers’ behavior based on economic, emotional, and moral aspects. Best practice in relationship marketing implies clients’ retention strategies, based on a specific mix, built upon deeply understanding of consumers’ profiles and loyalty programs. However, clients’ retention does not guarantee their loyalty, but the premises for it, as clients’ satisfaction represents the premises to their retention. Relationship marketing uses extended databases, a variety of communication channels, in
depth studies performed to understand specific clients’ needs and expectations, building a high number of quality interactions that bring benefit to the relation.

According to Philip Kotler (Kotler Ph., Armstrong G., 2003), the starting point in studying consumer’s behavior is the stimulus-reaction model, with the four Ps of marketing mix as stimulus: product, price, placement, and promotion.

In the banking system, as in other service-based activity, the marketing mix presents, similar to tangible goods, the same four components known as “the four Ps”. The validation of a marketing mix in given by bank’s objectives achievement rate and client’s satisfaction and refers to creating the most adequate combination of products/services features, distribution channels, pricing levels and marketing communication, to make the product/service more attractive than that of the competition.

In practice, the presence of all elements is not required in order to create the mix (Manole V., Stoian M., 2004, p.87). Philip Kotler refers to marketing mix as “different levels relevant to marketing decisions at one point”.

The product/service is the main component of the marketing mix, because it serves the client’s specific need (Meghisan G., Nistorescu T., 2004, p.137-140). Factors such as quality and performance of financial service, developing, adapting, and renewing financial products and service have a strong impact upon banking portfolio performance, because from the structural point of view, the banking offer is rather homogeneous and the differentiation comes from added-value, client’s satisfaction.

In general, the pricing policy of a bank defines its attitude towards clients, by using relevant tools for different categories of service or products: interest, commission, taxes etc. The price paid must be connected to competition price and must represent a value associated to the benefit perceived by client.

Product or service placement has as main purpose the optimal distribution of financial services and products on the market. Presently, Romanian banks offer their services through territorial networks (branches, agencies etc.), ATMs, POSs, as well as informational systems (internet banking, mobile banking etc.), that become more and more attractive to consumers, given the fact that they feel more empowered with the information required to make their own decisions. Other factors arise from innovation and technology usage, security or self-efficacy behavior (Khalil M.N., Barbuta-Misu N. and Stroe R., 2010, p.2). The distribution of products/services, generated by the marketing mix, envisions several aspects not only logistically related. As such, it is important to study purchase habits, respectively preferred points of sales for consumers, frequency of purchase, quantity, criteria of choice etc. (Dedu V., 2003, p.204).

Choosing the distribution channels can become a sustainable competitive advantage, as it constitutes a real element of differentiation among companies in a sector featuring product alignment and price competition subject to operative stipulations more strict than many other fields of activity.

“Promotion refers to the process through which banks inform clients about the features and benefits of the financial product they offer, using specific communication and sales tools. From this point of view, research has underlined two main trends, respectively consumers’ opinions and suggestions on one hand, and measuring perceptions and consumers’ reactions
in relation to various publicity channels, on the other. When promoting, there are various channels used along with public relations” (Cetina I., Odobescu E., 2007, p.143)

Out of all banking marketing mix components, promotion has the fewest restrictions within the system. Banks’ profitability is built upon clients’ loyalty, requiring trust and transparency. As the banking system is one of intangible goods, clients need more information and constant exposure to communication, especially dialogue. As a result, for the banking system, the relevant literature (Ennew C., Wright M., 2000) emphasizes two new elements of the marketing mix, respectively the banking personnel, offering service and able to know and understand clients needs, and physical evidence, actual materials that go along with the service offered.

1. Key variables of relationship marketing: satisfaction, retention, and loyalty

The decision making process is a series of stages, from acknowledging a need, search for information and evaluating options, to purchase decision and post-purchase behavior, when we can talk about the loyalty building process. Things are more complicated, because when a consumer becomes a client through the act of purchase, the main objective of a company is that of retaining him. A long-term relation maintained through company efforts does not necessarily imply client loyalty.

The cause-relation (figure 1) is valid provided the satisfaction perceived by the consumer is at least equal to his expectations, including the fact that the product delivered to its promise of quality.

![Figure no. 1: Cause relation between consumption behavior and client loyalty](image-url)

The post-buy behavior becomes essential in obtaining client loyalty, as it is understood „indirect behavior response expressed along time by the consumer towards or several brands, depending on his psychological decision making process” (Jacoby, Kyner, 1975, p. 1-9). According to this definition, loyalty is generated through retaining clients on long term, through repeated purchase of the same brand. Client loyalty can be achieved through relationship marketing techniques. Best practice show that client retention also has benefits for the company „economic health”, with a direct influence upon profitability; according to the studies performed by Payne and Richard (1993) on the American market, a 5% increase of client retention rate can lead to a profit increase between 25%-80%.

The relation between clients’ retention and loyalty has been subject to debates by many researchers (Cardozo, 1965; Day, 1977, Day and Landon, 1977; Parasuraman, Zeithaml and Berry, 1985; Bolton and Drew, 1991; Anderson, Fornell and Lehmann, 1994; Shiv, Carmon...
and Arieli, 2005; Folkes and Patrick, 2002). Client satisfaction is assumed to generate positive aspects in terms of attitude, repeated purchase, brand loyalty (Churchill, Suprenant, 1982), reducing costs involved by new clients (Fornell, 1992), and reducing costs relevant to clients’ complaints (Crosby, 1979; Garvin, 1988). The core theme relies on the fact that client satisfaction is the engine for client loyalty.

According to Payne & Richard (1993), „relationship marketing focuses on clients’ retention and building long term relations that, in exchange contributes to loyalty. The higher the satisfaction perceived by the client, the higher the probability for long term relations and increased profitability”.

Rust & Zahorik (1993) developed a mathematical model “to determine the optimal allocation of resources needed to increase clients’ satisfaction”, based on the connection between loyalty and satisfaction-dissatisfaction. They connected the main loyalty factors to a financial program that allocates resources for each and every of these factors. In the banking system such an approach is quite reasonable.

Some experts strongly supported the idea of not loosing any client (Reichheld, Sasser, 1990). In reality, total clients retention is impossible. In fact, it is not profitable, according to an interesting theory by Carroll & Rose (1993), envisioning the economic perspective of clients loyalty, based on the fact that not all clients are value generators and have suggested that companies must focus their efforts and loyalty programs exclusively for those segments of clients that bring value.

The decision whether to maintain a certain client in the portfolio is often based on criteria such as strategic importance of the client, calculated based on duration of relation and purchased volumes, or the clients’ position in the market (in case of business to business relations), because retention costs involve product adaptation costs, discounts and logistics. Along with the increase of a client’s loyalty, retention costs can lower, which again is an important criteria. Still, clients’ retention is harder when they adopt a multi-supplier behavior and the decision to maintain them is based on the clients ratings, value of purchase, client value potential and costs involved by the specific relation, exposing the client to upselling and cross selling programs and strategies. Czepiel & Reddy (1992-1993) use the concepts of relation intensity and perceived performance relative to intermediary variables when trying to anticipate future usage of services, based on previous usage, education, company efforts, and costs. In his analysis about clients retention, F.Reichheld (1993, p.74-73) stated that “clients satisfaction is not a surrogate for clients retention. Even if it may seem logic that an increasing satisfaction leads to client loyalty and profitability, facts prove otherwise. Between 65% and 85% of clients giving up on service or products from a company, have declared that they were satisfied or very satisfied by the previous provider”.

Consumer satisfaction has been analyzed both as a transaction relevant element, meaning a post-evaluation between the level of expectations and actual performance, and as a cumulative satisfaction, reflecting the overall performance of timely transactions, meaning all consumer experiences with the provider.

“Transaction satisfaction can only provide a diagnosis related to the product/service used, whereas cumulative satisfaction in a fundamental index of past, present and future company performance. Cumulative satisfaction is the basis for a company’s investments in increasing clients’ satisfaction”. With a special emphasis on overall satisfaction, Andersen, Fornell &
Lehmann (1994, p.53-66) developed a model for clients retention and loyalty. According to these authors, the main hypothesis is the fact that only loyal clients are willing to engage and maintain a relation and to continue purchasing products/services from a provider. Reichheld suggested that personal relations between sales agents and clients have a high impact on their retention: “employees working on daily basis with clients have a powerful impact on their loyalty”. Such interactions lead to social connections helping the maintenance of the relation. Mummalanenemi & Wilson (1991, p.44-59), concluded that clients loyalty is about more that two variables, consumer’s satisfaction and social connections. These two factors are indeed important, but relevant literature points out that a client’s engagement in maintaining a relation is a complex matter, including more variables. Han & Wilson (1993) use the concepts of social connections and structural bonds considered the two main forces holding a relation. Social connections include personal aspects of the relation, whereas structural bonds relate to corportative matters, variables that last longer than social connections. Social interaction is generally needed to develop trust, anticipating investments in a specific relation. The overall quality of all interactions is the second variable in social connections.

Among the structural bonds, the product/service performance is the heart of the exchange transaction, because a product/service has to match at least the expectations for the relation to continue and to be at least of the value of its competitors. Performance can be measured as consumer’s satisfaction or the consumer’s perception of performance. Another variable of structural bonds is represented by the level of comparison of alternatives, a topic debated by authors such as Thibaut & Kelly (1959) and Andersen & Naurus (1990, p.42-58), who have a fundamental contribution to introducing the $C_{ALT}$ concept. The degree of comparison is the expected level of performance, based on previous knowledge and experiences, in similar situations. The degree of comparison for alternatives is the level of performance to be obtained by means of changing the provider.

To conclude the concepts above, relationship marketing is a strategy aiming at retaining profitable existing clients and attracting new ones based on long-term relations, which generate an overall satisfaction at least equal to their expectations, using social connections and structural bonds. Among the high importance aspects in relationship marketing is tailored targeting of clients segments, starting from their explicit preferences and according to a full profile, containing static information (financial scoring) and dynamic, qualitative variables relevant to emotional, moral features etc.

2. From transactional to relationship marketing

Ten years ago, specialists from various fields where frequently talking about an acceleration of the business environment, a powerful economic development based mainly on territorial extensions, portfolio diversification, automatic processes, and increase of technology usage in a consumption driven society. At that point, we could refer to a domination of the offer. Five years later, Romania was affected by global crisis and regardless of the field of activity, all companies had to readjust their objectives and strategies, serving a more conservative society, highly demanding, with a behavior hard to predict. Demand dropped along with power of purchase, forcing adjustments of offers. Today, the two trends seem to finally align somewhere at the middle, towards equilibrium
when companies place the client, or at least understand to place the client in the very center of their strategies.

What really happened? Efficiency was obtained by moving towards a knowledge-based economy, educating companies to become “more efficient, more human, more rational, more fun, and more useful for the society, more profitable for owners, more satisfactory for members, more obedient to strategic leadership, more democratic, stable, and flexible” (Starbuck and Nystrom, 1981), in order to obtain clients loyalty and calculate the costs related to their retention versus those involved by getting new clients.

If we look at an organization in general (Goian M., 1995, p.216), the forces exerting pressure are of two main categories: from outside the organization (technical and technology progress, competition, governmental changes, internal and international political climate etc.) and forces from within the organization (strategy, management style and approach, employees’ attitude and creativity, shareholders’ decisions etc.).

The management of change is not limited to initiating and leading the change itself, but also continues with actions related to company adjustments to change (Ries A., Trout J., 2004, p.258), correspondent to the elements of novelty introduced, company strategy in the new perspective, human resources improvement and qualifications and not only.

Basically, such structural changes and trends determine companies to adopt new management and marketing approaches, for a better understanding of their clients and developing long-term relations, gaining their loyalty, leading therefore towards new forms or relationship marketing, especially client relationship management (CRM) and permission marketing (Amerein P., Barczyk D., Sbaud B., Weber P., 2002, pg.271-305).

The society is going through continuous change, more rapid than ever, whereas the need for safety and trust has grown exponentially since the global crisis. As a direct consequence, the population expectations towards products and service have also grown, showing selective acceptance of companies and brands, in favor of those communicating realistic, honest, and integrated in daily life reality.

As for the banks-clients relation perspective, choosing a bank is a decision based on the lack of incidents and complaints, when such a criteria should be an essential condition of a normal relation. Clients are very demanding in respect to their relations with banks and put a high value on information from friends, relatives and acquaintances, online resources and social networks, regardless of bank consultants or direct communication initiated by the bank itself. The sources for competitive advantage rely less on costs and more on client satisfaction, respect, long-term relations, loyalty, trust, and transparency.

Given this context, banks, mostly with foreign shareholders and sustained by consortiums with experience from mature markets, seem determined to adjust to the new expectations of their clients, understanding, perhaps due to the heavy loses in 2009-2010, that only a tailored approach can get them profitable clients. But reorganizing their activity and improving business models to obtain sustainable financial growth, putting to use resources on the local market (Baicu C.G., State O., 2012) are also required.

With the increasing affinity towards the online, digitalizing daily life, increased usage of technologies and Internet, extended usage of alternative communication channels such as social networks, blogs and forums, and multi-provider behavior, companies understood that only a niche approach, friendly, transparent, and continuous with their target creates the
premises for success. All these changes led quickly to developing special applications for online and mobile banking, as well as including alternative communication channels such as text messages, emails, forums, blogs, social networks and others in their strategies, thus exploiting advantages such as proximity, real time interactions, direct, relevant and tailored communication, developing special, attractive and unique projects and platforms. However, is it enough?

3. Best practice in relationship marketing in the banking sector

As previously shown, the switch towards relationship marketing is a continuous process to provide a competitive advantage, involving in-depth knowledge of consumers, relevant products and services for each segment, and long-term relations based on dialogue.

When referring to best practice in relationship marketing we understand efforts aiming to retain existent clients and getting new ones. Moreover, behind such a strategy, there are some premises. As such, the most used instrument behind relationship marketing is the CRM type application, a computer based information system, as part of an informational system, for data mining, modeling and storage.

Computer based information systems are of various types and can be used to process transactions, for management purposes, to automatize office work, to support decision-making processes. There are also intelligent computer based information systems for business (Orzan Gh., 2007) that focus on business management, relations with suppliers, online activities and client relationship management. The CRM is such a system, built from applications that allow an integrated vision over clients. An intelligent computer based information system as the CRM, can and should generate complex consumer profiles during their entire life-cycle based on quantitative and qualitative aspects. In other words, it uses scattered information sources to increase performance, while undermining the competitors’ advantage (Vrincianu M., Popa L.A., 2010).

In the banking system, we can bring up a quantitative profile similar to a financial scoring system, built on variables such as region, income, age, products and services used payment history etc. Nonetheless, it is not enough, because in terms of loyalty, it only reflects a purchase loyalty, considered deceiving and relevant to a repeated purchase pattern, but lacking a psychological attachment or clear preference of the client towards the bank (Filip A., Anghel L.D, 2009). Consequently, it is necessary to add a qualitative profile based on social status, consumption and spending free time habits, type of job, usage of loans versus savings, expectations, trust, and satisfaction related to the bank, multi-provider behavior, response rate to marketing campaigns etc.

Such a CRM is a set of applications simultaneously using several databases of the bank. Regarding the quantitative profile, such databases already exist, being subject to in force stipulations, taking the shape of reporting systems. Still, databases for qualitative profiles are yet to be developed and mark the switch towards relationship marketing, since they represent the pillars required to develop tailored products and services for clients. Moreover, knowing the qualitative profile of clients facilitates a relevant communication and is one of the premises to increase client satisfaction, leading to client retention.
Developing and implementing such a CRM in the banking system leads to higher efficiency in terms of clients and bank flow, meaning front office staff, back office, marketing and retail employees, as well as call center/customer service (figure no. 2).

Figure no. 2: Operating flow in a CRM in the banking sector

Source: Banking Technology

In order to develop such a system and clients’ profiles, some variables, standing at the core foundation of the client-bank relationship, must be investigated, evaluated, and correlated. The cross-section between the two profiles, quantitative and qualitative, can generate segments, and tailored communication for each of them, product/service adjustment limits etc. For instance, the financial scoring profile (figure no. 3) can generate the following cluster: clean payment history, high incomes, potential for future development. In the same time, the qualitative profile can generate the following cluster: young professional, family type, dynamic, discontent with bank relationship, multi-provider pattern (works with at least one bank), focused on investing (medium to high loans). When matching the two profiles (figure no. 4), back office decision-making employees can recommend this cluster to be addressed in a specific marketing campaign, exclusively tailored, having as main
purpose to fully win these clients (giving up the other banks) and invest in a full rehabilitation of the relation with these clients.

Figure no. 3: Simulation of quantitative profile for a client  
Source: Microsoft Dynamics CRM

Figure no. 4: Simulation StayinFront CRM 12 – client value  
Source: StayinFront CRM 12
In building such a campaign, best practice in relationship marketing require in-depth analysis of essential variables to improve the relation, according to clients’ perspective. Therefore, these clients should be subject to a quantitative research, followed by a qualitative one. Further, the marketing department can develop products and service packages and can run tailored communication campaigns.

A complex CRM should allow a full client profile, but should also support the marketing activity and the launch of specific campaigns. The call center and front office employees have a key role in gathering information about clients, whereas central departments have a key role in using such information when building strategic approach of products and service development. Moreover, back office employees can select relevant clients for each campaign, to be targeted only by offers reflecting their needs and preferences.

Conclusions

To sum up the above, the banking sector is one of services and relationship marketing can make a huge difference. Clients want more than to loan money or make use of savings. They want a personalized relation with the bank, built upon trust and a minimal control held over this relation. This means they want to be more than just a name in a database. Similarly, packages of service and products represent just a quantitative response to clients’ demands and do not constitute a source of trust or premises for loyalty. At their best, they can offer the cost reduction satisfaction. Banks must address specific financial needs with an extended portfolio, with room for tailoring, focusing more on gaining the clients’ trust, during win-win long-term relations.

The required differentiation comes from trust and satisfaction. Given the facts, relationship marketing becomes a necessity, rather than a practice of huge potential.

Today we speak of strategies focused on clients and their real needs, run through economic, behavioral, emotional, and moral filters. We speak of a focus on clients’ retention, with a better understanding of factors triggering satisfaction, rather than a repetitiveness of consumption. Clients’ satisfaction during the entire life cycle of a stable relation is a high ground for their retention and future loyalty.

Changes in the economic environment, technological factors and changes in consumer behavior patterns have generated powerful mutations in the way information circulates today. Extensive usage of the online environment led banks to develop applications for this channel and to engage in building social communities with their clients, knowing that each communication initiative must be transparent, accessible and lacking traditional corporative communication restrictions.

The ever-increasing usage of technology allows a strong development of information and computer based information systems, used to assist decision-making processes and client relationship management. It is this context that makes CRM a core technical instrument for relationship marketing, developed and implemented to generate not only full clients’ profiles, but also to integrate clients’ feedback in developing products and services able to serve more efficiently their interests and needs. Finally yet importantly, an intelligent computer based information system such a CRM can improve the information flow and decision processes between various departments of the bank.
The number of applications to be included in a CRM system depends on the complexity and typology of information in the existent and/or newly created databases. There are applications for financial scoring used to determine a client’s value, financial potential, or importance ranking for the bank’s client portfolio. Nevertheless, there are also applications generating behavioral profiles, measuring indexes and correlations between qualitative soft variables (trust, satisfaction, expectations, overall quality on interactions with front office personnel etc.).

Best practices in relationship marketing require a comprehensive approach of clients, but also of the employees, in order to build long-term profitable relations.

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