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A study on establishing a relation between Relationship Marketing and Customer Loyalty in Banking Sector

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ABSTRACT

Relationship Marketing has become very crucial for organisations, especially the service oriented ones. Companies use Relationship Marketing to get the best out of their customers thus improving their top line. Satisfying customers should therefore be of great importance to vendors in keeping their customers loyal. Customers who are satisfied with their bank probably develop a positive attitude towards the bank. Banks are crunching data and studying customers' habits to personalize their experience. This paper tries to find out the relationship between Relationship Marketing and customer loyalty in the banking sector.

KEYWORDS

Literature Review-

(Al-Hawari & Ward, 2006; Herington & Weaven, 2009) Findings of some researchers investigating electronic delivery channels (including internet banking, ATMs, and telephone banking) confirm that banking success and profitability are dependent on service quality.

(Gin-Yuan Lee, Po-Young Chu, Yu Chao 2011)Domestic and foreign banks that are currently in this electronic financial territory can increase their added value and attract more customers through Internet banking. Since the advent of the e-commerce era most Taiwanese companies have remained either small or medium in size. Thus, it is important to create a friendly e-commerce environment.

Numerous researchers have attempted to identify the various influences on customer retention. The key to business survival and success is building and maintaining strong customer relationships. Crosby, Evans, and Cowles (1990) noted that services are intangible and complicated, and that customers have little knowledge of their nature. Message delivery can take a long time owing to high customer uncertainty regarding services. In order to build and retain a good sales relationship with customers, businesses must establish good quality relationships. A good relationship can satisfy customers, cultivate trust, and consequently reduce service uncertainty.

Rapid advances in information technology are accelerating a revolution in the financial industry. Internet banking, which has revolutionized the banking industry worldwide, is a product of this innovation (Malhotra & Singh, 2010). A Nielsen online survey (2007) revealed that as more consumers around the world begin to use Internet-based banks, a bank's brand image and customer opinions shift from the street to the network. Of Internet users worldwide 32% use Internet banking services two to three times per week and of these, 14% report using online banking services every day.

Relationship marketing is mainly designed to increase customer coherence. The relationship between buyers and sellers is the key to successful business operations and is crucial to maintaining a competitive advantage.

Relationship quality is focused more on long-term customer relationships rather than on short-term transactions. Previous researchers have shown that a high quality relationship can earn life-long customer commitment and is valuable for a business. Such a relationship reduces uncertainty for customers and helps maintain a good business relationship. Crosby et al. (1990) suggested that relationship quality comprises two parts, trust and satisfaction, which are each considered an "emotional state that occurs in response to an evaluation of these interaction experiences" (Westbrook, 1981, p. 68).

According to the 80/20 rule, 80% of business profit comes from 20% of its customers. If a business can increase its number of customers by 5%, it may be able to increase profitability between 25% and 85%, depending on the nature of industry (Reichheld & Sasser, 1990). Lowenstein (1997) found that a 2% retention increase is equivalent to a 10% cost reduction in the development of new customers. Thus, retaining loyal customers is crucial. It has been noted in previous studies that loyalty impacts positively on buying behavior (McMullan & Gilmore, 2003; Reichheld, Markey, & Hopton, 2000a). Loyal customers exhibit buying behavior through proactive support and purposeful buying rather than by the passive acceptance of products or services.

Noble and Phillips (2004) examined reasons consumers would not wish to maintain a relationship with a retail company. Based on in-depth interviews, they developed a list of themes relating to factors that hinder relationship development and maintenance. These included upkeep themes (the effort consumers feel they have to make to engage in relationships), time themes (the time involved in engaging in relationships), benefits themes (the unattractiveness of relationship benefits) and personal loss themes (the loss of privacy or anonymity)

Many definitions of loyalty have been presented in the literature. Jacoby and Chestnut (1978) gave a summary of many of them. Their conclusion was that the only way to reveal real loyalty is to measure customers' attitudes and intentions towards the brand in question. Based on this, Oliver (1997) defined customers' loyalty as `a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior' (p. 392). This means that customers must perceive the bank as better than competitors and that customer must like the bank better than competitors (affective loyalty).

Customer satisfaction makes it costly for a competitor to take away the firm's customers (Fornell, 1992, p. 10). Satisfying customers should therefore be of great importance to vendors in keeping their customers loyal. Customers who are satisfied with their bank probably develop a positive attitude towards the bank.

Banks are crunching data and studying customers' habits to personalize their experience. For instance, if you have recently checked certificate of deposit rates but have not opened a new deposit account, the bank may offer you a better rate if you open an account. Or transactions that don't seem like yours might be flagged to be verified later.

As customers increasingly interact with banks through remote technological channels (e.g. phone, Internet, etc.) the implications for bank-customer relationships are important.

Research Gap- Less research has been done on the relation between Relationship Marketing and Customer Loyalty. The purpose of this research is to examine the Impact of Relationship Marketing on Customer Loyalty in banks. In most Research papers authors have given importance to Service Quality, Customer Satisfaction, brand image etc. But, establishing a relationship between two important concepts i.e. Relationship Marketing and Customer Loyalty has not been established. Moreover, it has not been studied if Relationship Marketing impacts Customer Loyalty in the Banking sector. Less research has been done on Internet related Relationship Marketing.

Considering the above mentioned Research Gap, my research area would focus on 'Impact of Relationship Marketing on Customer Loyalty in banking sector'.

References-

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