Chapter X

The CRM Process and the Banking Industry: Insights from the Marketing Literature

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ABSTRACT

This chapter’s aim is to synthesize and present insights relevant to CRM process implementation in retail banking drawn from the marketing research literature. The authors first summarize strategic concepts from the marketing discipline that they believe are fundamental to the CRM process, but appear to be frequently forgotten in actual implementations that focus on the enabling technologies. They then describe a comprehensive framework for conceptualizing, operationalizing, and measuring CRM process implementation and its impact on firm performance, and illustrate its use to identify activities that must be performed for successful CRM in the context of a published case study of CRM implementation at a European Bank. Subsequently, the authors summarize research in one area of great importance to CRM managers at banks, namely, customer response to self-service banking technologies. The chapter concludes with some interesting directions for future research drawn from recent work in the marketing research literature.
INTRODUCTION

There has been an explosion of interest in the discipline and practice of customer relationship management (CRM) in the worlds of business and academe over the last decade. According to a projection made by the Aberdeen Group in 2003, worldwide spending in the CRM application area would grow at a compound annual growth rate of 6.7% until 2006, by which time it would cross $17.7 billion in spending, with the U.S. accounting for more than 50% of this expenditure (Barlas, 2003). Other projections from groups such as the Gartner and TowerGroup suggest that about half of total CRM spending in 2006 will be allocated toward analytical CRM software, which includes market-centric applications, and it is expected that financial services firms will be the single largest market for CRM systems, accounting for about a third of the total market (Pastore, 2002; InsightExec, 2006).

Factors Driving Business Interest in CRM

The origins of the great surge of business interest and investments in CRM over the last decade can be traced to powerful empirical research findings demonstrating the benefits of a customer-focused as opposed to product-focused approach to business management which emerged and were publicized in the beginning of the 1990s (e.g., Reichheld & Sasser, 1990; Reichheld & Teal, 1996). These findings focused business executives’ attention on, first, caring about customer retention as much as customer acquisition, and, second, examining how customer profitability with retained customers can be grown over time. More specifically, startling observations—such as that by decreasing the customer defection rate by 5%, service companies can boost profits by 25% to 85% (Reichheld & Sasser, 1990), calculated by comparing the net present values of the profit streams over the average customer life at current and 5% lower defection rates—sparked immense business interest in better understanding and exploiting this phenomenon. Subsequent assertions about the positive impact of CRM on customer satisfaction (e.g., highly satisfied customers increase repeat sales and retention, Bolton & Lemon, 1999) and firm performance (e.g., higher firm value is correlated with higher customer satisfaction, Zeithaml, Rust, & Lemon, 2001) continued to stoke this interest.

At the same time, there were significant advances in the data-capture, storage, and analyses technologies and tools enabling more fine-grained “one-to-one” marketing efforts (Peppers & Rogers, 1993). The concomitant advent of the Internet and e-commerce have also enabled producers in many industries, especially services businesses (e.g., airlines, banks, and insurance companies), to bypass middlemen and directly interact with end customers, for example, via online banking and investment programs, direct selling of books, airline tickets, insurance, and so forth. This growing disintermediation process has made relationship marketing—including customer co-creation of value, for example, consumers assuming the responsibilities of direct ordering, personal merchandising, and product use with little help from the producers—more popular (Parvatiyar & Sheth, 2001-2002; Prahlad & Ramawamy, 2000). All of these forces have contributed to the rapid growth and evolution of CRM, especially in financial services such as banks.

CRM’s Appeal to Banking

Within the last two decades, the competitive landscape in the banking industry has dramatically changed all around the globe due to forces such as deregulation, globalization, technology advances and commoditization of bank services, and increasingly demanding customers. Deregulation and globalization, beginning in the U.S. in the early ’90s (e.g., Berger, Kashyap, & Scalise, 1995; European Banker, 2006), have led to in-
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