Customer Retention Programs of CRM and Customer Retention in E-Banking

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ABSTRACT

This study, considering various viewpoints and concepts about customer relationship management (CRM), aims to propose a comprehensive set of customer retention programs of CRM (including customer service, loyalty programs, customization, and online community) and describe the correlation between each of these programs and customer retention. In doing so, the empirical data collected by the means of the designed questionnaire distributed to the top managers working in e-banking sector of two private and two governmental Iranian bank branches were analyzed. The results of this analysis represent the positive and significant correlation between each of the customer retention programs of CRM and customer retention. Moreover, based on the findings of this research, among these programs, customer service has the most significant and customization has the lowest correlation with customer retention in e-banking of these banks.

Keywords: Customer Relationship Management (CRM), Customer Retention, Customer Retention Programs, Customer Service, Electronic Banking

INTRODUCTION

Increased product availability, mass production techniques, and easy access to variety of products in the market have given this chance to customers to be able to choose and acquire the items they really desire and if they feel that meeting their expectations cannot be attained easily, they can choose other firms providing high quality and suitable products and services (Becker et al., 2009; Dimitriadis & Stevens, 2008; Dominic et al., 2010; Lenka et al., 2009; Winer, 2001).

Traditionally, firms have been focusing on acquiring new and the currently other firm’s customers, but today, they have realized that the cost of acquiring new customers is far greater than the cost of retaining existing profitable ones (Becker et al., 2009; Dominic et al., 2010; Winer, 2001). This is the reason why many business consultants suggest the firms to focus on and dedicate most of their marketing strategies and budgets to improving performance in the rate of customer retention (Ang & Buttle, 2006; Ojanen et al., 2009; Winer, 2001). Vividly, to reach this purpose, the only way is trying to
build better and customized relationships with existing customers in order to increase customer satisfaction and build customer loyalty (Ang & Buttle, 2006; Ghahfarokhi & Zakaria, 2009). In doing so, applying programs of customer relationship management (CRM) which is a business philosophy that provides the firms with shaping to customer service and marketing research and activities is inevitable (Ghahfarokhi & Zakaria, 2009; Kasouf et al., 2008; Kim et al., 2010; Perumal, 2009; Zhang et al., 2008).

Based on Winer (2001) and Newell (2000), a real value to a firm is the value it creates for the customers as well as the value its customers deliver back to that firm. It is necessary to say that this value lies in the customer knowledge and in the way the firms use this knowledge in managing relationships with their customers. By transforming customer data into knowledge intended to build better relationships with profitable customers, CRM creates better performance in customer retention and therefore more profits for companies. Ultimately, CRM is about creating mutual and collaborative satisfying relationships between the company and its customers to increase customer satisfaction and therefore, better rate of customer retention (Foss et al., 2008; Kasouf et al., 2008; Lenka et al., 2009; Ojanen et al., 2009; Requena et al., 2007).

Like any other industry, banking sector faces more aggressive competition than in the past. Bank managers have come to this conclusion that in today’s competitive market, management of marketing relationships with their customers, especially in electronic banking context in which there is no face-to-face interactions, is a necessary factor for success in gaining competitive advantage leading to customer retention (Blery & Michalakopoulos, 2006; Chou et al., 2009; Lenka et al., 2009; Mithas et al., 2007). As the result, due to the significant direct effects CRM has on customer retention in e-banking field, it has especial strategic significance among all the business activities of banks (Alikhanzadeh, 2008; Blery & Michalakopoulos, 2006; Chou et al., 2009; Mithas et al., 2007).

While the banks in Iran have applied CRM technologies and programs more or less and have different rates of performances, there are not available studies that provide a comprehensive set of customer retention programs of CRM and describe how each of these programs are associated with customer retention especially in their e-banking. Therefore, in this study we aim at getting a deeper insight to this issue by suggesting this set of programs and studying the correlation between each of them and customer retention.

Based on the discussions, we are going to test our research hypothesizes which are formulated as:

**H1.** The association between Customer Service and customer retention is positive and significant.

**H2.** The association between Loyalty Programs and customer retention is positive and significant.

**H3.** The association between Customization and customer retention is positive and significant.

**H4.** The association between Online Community of customers and customer retention is positive and significant.

In the rest of the study, we review and discuss the previously published literature about CRM and its scope as well as its relationship with customer retention. Then, the next section presents a comprehensive set of customer retention programs of CRM and a discussion about each of them. After that, the research methodology we used to conduct this study is discussed in which we also examine the validity and reliability of the study. In the next section, we analyze the empirical data collected by the means of questionnaire to test our formulated research hypothesizes. Finally, the research conclusions, and our research limitations and suggestions for future research are presented in the last two sections.