

The Role of Relationship Marketing in Banking Sector Growth

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ABSTRACT

Relationship marketing plays a crucial role in the banking industry by fostering long-term customer relationships built on trust, loyalty, and personalized engagement. As banks navigate an increasingly competitive landscape shaped by digital banking and fintech disruptions, customer retention and cross-selling opportunities have become strategic imperatives. This study explores the evolution of relationship marketing in banking, focusing on the role of Customer Relationship Management (CRM) systems, data analytics, and personalized marketing strategies in enhancing customer satisfaction and profitability. The paper also examines key challenges such as high implementation costs, data privacy concerns, and technological barriers that banks face when adopting relationship marketing strategies. Findings suggest that a well-integrated approach to CRM and technology can significantly enhance customer loyalty, drive revenue growth, and improve overall business performance.

Keywords : Relationship Marketing, Customer Loyalty, Banking Industry, Customer Relationship Management (CRM), Personalization, Data Analytics, Cross-Selling, Customer Retention, Digital Banking, Trust and Commitment

Introduction

Relationship marketing can be defined as the long term communication process, which aims at creating relationships with the customers where the emphasis is on other factors of relationship like loyalty, trust, benefits besides sale. In the banking industry that deals with customers on issues such as loans, deposits, as well as other sensitive issues, relationship marketing comes in very useful to enhance trust all through the required period of the relationship. It remains clear that practices pursuing customer satisfaction and individual

approaches can become the main weapon of banks in a highly competitive environment. The banking industry has undergone enormous transformation trends over the years due to globalization, technological innovation and customer needs. As the number of digital banking and fintech rivals increases, incumbent banks experience growing pressure to protect customers and add new ones to their portfolio. The focus of this report is to establish and explain the place of relationship marketing in the growth of the banking industry. It analyses how this approach assists

bank entrants as well as established business to gain customer loyalty, customer cross selling, and enhanced business profitability. Also there are outlines of the difficulties which banks encounter when applying the policy of relationship marketing: it could be very expensive, there are problems connected with data protection and there are technological barriers also. This article is broken down into several parts. Then the literature review part is given to review the existing literature if any with regard to the study topic. The third topic is relationship marketing and provides information on it as well as on the main strategies operating among banks.

Literature Review

Definitions and Theoretical Underpinnings

According to Anabila et al., 2012, Relationship marketing has been described as a deliberate management process of acquiring, maintaining and even enhancing the customer relationships to generate value to both the company and the client. Theoretical concepts, for instance the one put forth by Grönroos concerning the relationship marketing concept, puts a lot of weight on the cardinal communicational trio of trust, commitment, and communicativeness (Anabila et al., 2012). In the banking industry that relies so much on customer confidence, these principles help the banks on how they can effectively and efficiently formulate policies that shall enable the creation of value out of the customers while at the same time maintaining the objectives of the business.

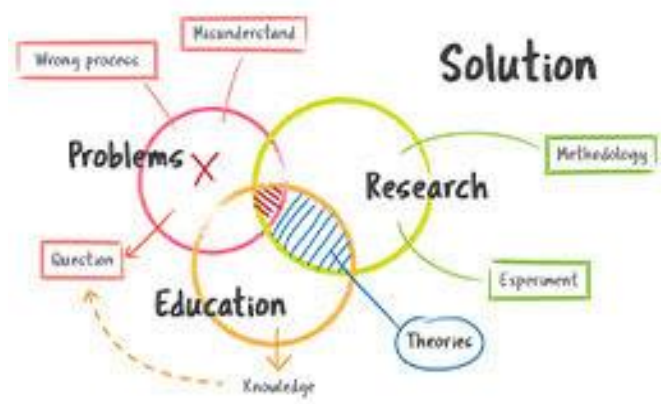


Figure 1 :- Definitions and Theoretical Underpinnings
(Source: Anabila et al., 2012)

Evolution of Customer Relationship Management (CRM) Systems in Banking

According to Alrubaiee and Al-Nazer, 2010, Application of relationship marketing in banking has benefitted from the development of CRM systems. In the first place, the banks used simple instruments for dealing with customers and for storing information. But as time passed, new CRM systems evolved that offered the organizations a 360-degree view of the clients and this integrated multiple channels to provide the view to the banks (Alrubaiee and Al-Nazer, 2010). These systems now enable targeted marketing communications, instant customer care, and data analytics, which give banks a powerful tool set to learn and serve the customer.

| Evolution of CRM | | | |
|------------------|----------------------------------|-------|--|
| | Past | | Future |
| Access | Front Line Employees, Managers | WHO | Plus: Operations, Engineering, Manufacturing, Partners |
| Process | Static, Linear, Inefficient | WHAT | Dynamic, Adaptive, Coordinated |
| Duration | a Sale, an Issue, a Complaint | WHEN | Lifetime Engagement |
| Interaction | Phone, Email, Web; Multi-channel | WHERE | Plus: SMS, Community, Social, Chat; Cross-Channel and Mobile |
| Centricity | Employee, Company, Transaction | WHY | Customer, Ecosystem, Value-in-use |
| Comms | Broadcast, Fractured, Reactive | HOW | Listen, Engage, Converse, Collaborate, be Proactive |

Figure 2 :- Evolution of CRM Systems in Banking
(Source: Alrubaiee and Al-Nazer, 2010)

Role of Personalization and Customer Data Analytics

According to Aminu, 2012, this dream of sending out individually coded and personally addressed letters remains, yet personalization has emerged as the cornerstone of relationship marketing in banking. Applying customer data analytics, banks receive rich insights about their customers, which in turn will allow segmentation of customers as well as product and services development to meet specific customer needs (Aminu, 2012). This approach not only increases the satisfaction of customers, but also thereby increases the customers' loyalty because the bank shows that it takes into consideration its clients. Banks are also able to

predict customer behaviors through tools such as predictive analytics helps the banks to address these needs in advance.

The Importance of Data Analytics in Personalization

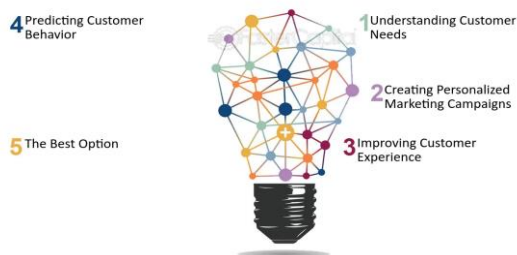


Figure 3 :- Role of Personalization and Customer Data Analytics

(Source: Aminu, 2012)

Key Insights from Academic and Industry Studies

According to Taleghani et al., 2011, several literatures demonstrate the following benefits in relationship marketing in banking. In this case a number of important effects have been noted, one of which is the influence on customer retention. Relationship marketing in the banking sector helps construct the emotional gap between the bank and the customer which results in a higher customer retention ratio and more lifetime value of the customer (Taleghani et al., 2011). In addition, the data generated through the implementation of CRM systems and data analytics also help the banks in understanding and identifying the cross selling opportunities, which leads to enhanced revenues as well as better customer engagement.

Education Industry



Figure 4 :- Key Insights from Academic and Industry Studies

(Source: Taleghani et al., 2011)

Importance of Relationship Marketing in Banking Growth

Enhancing Customer Loyalty

Loyalty is an important factor for growth in banking systems, and thus relationship marketing is essential in maintaining loyalty. Hence, formalizing customers' records and simultaneously cultivating trust-based relationships between the clients and banks can help achieve the main goal of customer loyalty and patronization to bank related products and services. Customer loyalty is a good example of how relationship marketing assists in retention and development of customer relations (Lacey and Morgan, 2008). Such programs give clients some perks like lower fees, money back guarantees or early access to extra facilities. Privacy customization is yet another pivotal strategy of the company in loyalty building activities.

For example, credit card companies create instant cash back and other benefits where a card holder is provided with extra incentives, which are issued based on the amount of money he/she has on his/her account or frequency of interaction with bank services.



Figure 5 :- Enhancing Customer Loyalty

(Source: <https://zorgle.co.uk>)

Increasing Cross-Selling Opportunities

In the case of relationship marketing, one of the areas of marked strength is the cross-selling management efficiencies gained from the process. In the light of these findings, more banks can develop related products and services in order to meet customer needs

and demands during the banking processes (Narteh and Owusu-Frimpong, 2011). For instance, a customer maintaining his or her savings account might be prompted to take a fixed deposit, a personal loan, or invest in mutual funds.

For example, a consumer who frequently makes substantial purchases through a bank's credit card may be presented with a travel insurance credit card or travel credit card with rewards.

Improving Profitability

Relationship marketing is a vital opportunity that helps to increase a bank's profitability mainly due to cost leadership and customer-oriented approach. It costs a lot less to retain customers than it does to gain brand-new ones. Of course, it is much easier and cheaper to retain existing customers than to attract new ones which mean, for instance, that onboarding can become cheaper than attracting new clients (Harker and Egan, 2006). Repeat business is likely to buy other products and services offered by the bank which is likely to lead to constant income earners for the bank.

For example, a bank that offers quality services in the handling of cash through sight deposit, to savings deposit, or as investment or through granting of loan and overdrafts to members is likely to realize an improvement in deposit mobilization, investment or loan uptake among its clientele.

Key Strategies of Relationship Marketing in Banking CRM and Technology Integration

CRM systems are among the important instruments used to employ relationship marketing strategies in banking. Such systems allow banks to process huge amounts of customer information, control and, in some respects, automate the processes of interacting with the client, and create unique client experiences (Rajaobelina et al., 2016). With CRM, the banks can manage the database of customers with the right categorization, with a history of dealings and possible future needs. Mobile banking applications linked to CRM systems create better opportunities for personalization, targeting customers for relevant products, providing value added updates such as

transactional alerts and round the clock customer support on their portable devices.

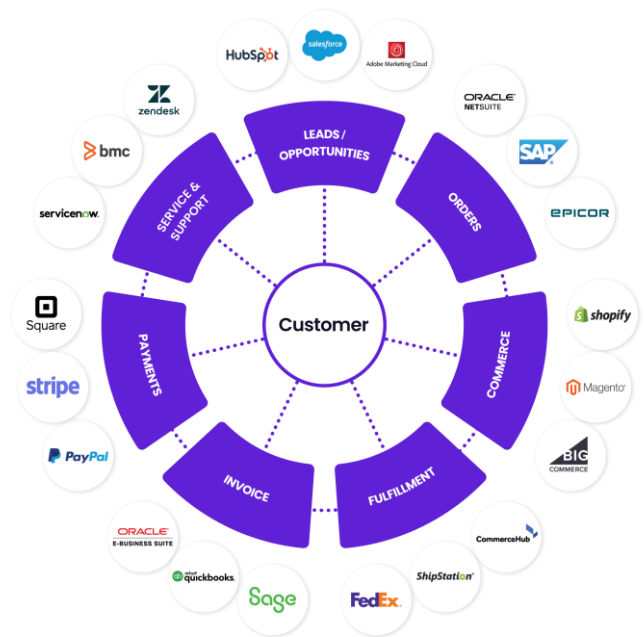


Figure 6 :- CRM and Technology Integration

(Source: <https://www.jitterbit.com/wp-content/uploads/Customer-Integration-Wheel.png>)

Personalized Marketing

Personalized marketing therefore aims at customizing financial products or services to meet certain customer needs. Preferences and spending habits of consumers can be observed and then, banks can present a set of solutions that meet the customer's needs, for example, a set of loans or investment options (Gilaninia et al., 2011). For instance, a customer who depends more on the credit card for shopping may be offered a reward program as regards shopping only, to show that the bank cares to understand how its customers use their credit facilities.

Emotional Engagement

Emotional engagement enhances customer-bank relationships through making customers have faith in the banks (Kheng et al., 2010). Fixing the problems promptly and offering quality customer care, banks guarantee their customers' positive emotional response. For instance, wealthy customers get close attention through relationship managers, who meet individual

needs, to attain a lavish service for a lifetime feeling of banking.

Challenges in Implementation

High Costs of Technology and CRM Implementation

The introduction of effective CRM systems and other relationship marketing applications is bound to require a huge capital investment. Banks can expect to spend a great deal of money to acquire and implement these technologies and also to educate their workers in how to use these technologies. The expenses for such changes include the overall cost of bringing legacy systems into the current generation of CRM platforms that more organizations seek to adopt. Furthermore, for relationship marketing there is required continuous expenditures on system maintenance, upgrading software, statistical and analytical tools (Narteh, 2013). This is even more apparent in the smaller banks because they may have little resource flexibility and thus; the strategies may not be implemented effectively.



Figure 6 :- High Costs of Technology and CRM Implementation

(Source: <https://www.sunzinet.com>)

Data Privacy and Security Concerns

The two major challenges that would probably prove to be hurdles in the successful implementation of relationship marketing for the banking sector are: Customers share personal info with banks and thus become vulnerable to cybercrimes (Morgan and Hunt,

1994). The compromise of the customer data engulfs serious financial loss, legal violation fines along with tarnished reputation. Moreover, there should be compliance with multiple regulatory requirements and regional or global public laws like GDPR are not avoidable for banks. Non-compliance with these policies can cost organizations pecuniary penalties as well as loss of clientele. Such challenges require sound data protection mechanisms which increases cost and difficulty for relationship marketing.

Case Studies and Examples

According to W.A. Aziz, 2015, defined relationship marketing in banking as a cooperative effort of developing and maintaining long-term relationships with customers through the use of trust, communication, satisfaction, commitment and bonding. These key dimensions serve the purpose of raising customer loyalty by recognizing specific customer requirements and providing unique communications. Customer retention strategy is therefore more effective than customer acquisition strategy as a roadmap for gaining better profitability, improved competitiveness and satisfied customers for the banking industry. To sum up, relationship marketing for the banking industry contributes to the long-lasting customer satisfaction which is the base for the unit's continual development and its success.

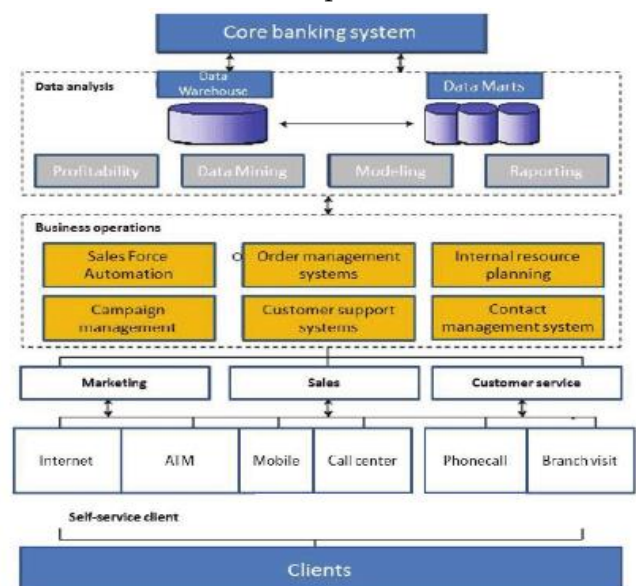


Figure: Operating flow in a CRM in the banking sector
(Source: According to C. Chirica, 2013)

According to C. Chirica, 2013, Relationship marketing helps to a significant extent in the growth of the banking industry as it targets customer retention, satisfaction and loyalty. When services and messages are personalized in relation to specific clients, banks should be able to develop closer associations with their clients and therefore increase the level of trust that customers have on the banking institution. Critical variables like satisfaction, retention, and loyalty influence growth due to high levels of cost efficiency of acquiring customers and high customer lifetime value. Customers are kept with retention strategies such as the support from CRM systems while on the other hand loyalty programs encourage the same customers to continue using the banks' products. Despite cut throat competition, the banks leverage on customer interactions, which go a long way in fostering more sound relationships. Immensely helpful in the current fluid market.

According to Chakiso C.B, 2015, Relationship marketing is used by Zemen Bank as one among the strategic directions targeted at the improvement of the customer retention and long-term profitability increase. This is because realized customer value forms a backbone of the relationship wherein the bank aims at cultivating and maintaining long term relationships with the customers through trust commitment and communication. Zemen Bank's practice of focusing on customer appreciation and satisfaction gives the company more loyal customers in the market. Furthermore, this relationship marketing focuses significantly on top management commitment to ensure that there is one cohesive approach among the businesses. By practicing relationship marketing, Zemen Bank is able to remain highly competitive and profitable thereby forming long-term relationships with customers.

Conclusion

The research shows that relationship marketing is a key factor for the banking industry success as it maintains and strengthens customer loyalty, trust and satisfaction. As more innovative and technological

competition emerges, such as digital banking and fintech companies, relationship marketing becomes problematic especially to retain the existing customers to score more services and improve profitability. As with any strategy the use of the SNS has its strengths as well as its weaknesses; strengths consist of enhanced customer interaction and competitiveness while on the weakness side there are high costs of data protection and technological limitations. Nevertheless, relationship marketing still gives banks the most leverage they need to overcome these trends' challenges and achieve lasting success.

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