

CRM in Banking: Trends & Dynamics

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Abstract

The market dynamics facing financial services companies have never been more fluid and complex. In the midst of these trends is your customer. Any CRM solution invested in must be implemented with the clear goals of improving the Customer satisfaction and loyalty; Customer insight; Speed-to-market for products and service; and Customer security. All this must be done in a manner that generates measurable increases in revenue and reduces overall costs of service. This may seem daunting, but one has to keep on looking for appropriate CRM solutions to have long-lasting and profitable relationships with customers.

Key Words: Customer Relationship Management (CRM), Information Technology (IT), Banking,

Customer Relationship Management

The concept of customer relationship management (CRM) was derived from the term 'contact management in the 1980s and it essentially relates to collecting all the information when customers come in contact with companies (Knox et al., 2003). It may be described as a process companies utilize to understand and react to customers' evolving desires, utilizing detailed customer behaviour and transaction information, to drive customer acquisition, loyalty, satisfaction and profitability. It has been defined as an enterprise approach to developing full knowledge about customer behavior and preferences and to developing programs and strategies that encourage customers to continually enhance their business relationship with the company (Parvatiyar and Sheth, 2002).

In literature, many definitions were given to describe CRM. The main difference among these definitions is technological and relationship aspects of CRM. Some authors from marketing background emphasize technological side of CRM while the others consider IT perspective of

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CRM. From marketing aspect, CRM is defined by Couldwell (1998) as “a combination of business process and technology that seeks to understand a company’s customers from the perspective of who they are, what they do, and what they are like”.

The origins of CRM are found in relationship marketing theory which is aimed at improving long term profitability by shifting from transaction based marketing, with its emphasis on winning new customers, to customer retention through effective management of customer relationships (Christopher et al., 1991). Reichheld and Teal (1996) found out those customers who have been around long enough to get familiar with the company’s procedures, will create more valuable business relationships, will acquire more products and will be less price sensitive on individual offers.

Technological definition of CRM was given as “the market place of the future is undergoing a technology-driven metamorphosis” (Peppers and Rogers 1995). Consequently, IT and marketing departments must work closely to implement CRM efficiently. Meanwhile, implementation of CRM in banking sector was considered by Mihelis et al. (2001). They focused on the evaluation of the critical satisfaction dimensions and the determination of customer groups with distinctive preferences and expectations in the private bank sector. The methodological approach is based on the principles of multi-criteria modeling and preference disaggregation modeling used for data analysis and interpretation.

Yli- Renko et al. (2001) have focused on the management of the exchange relationships and the implications of such management for the performance and development of technology-based firms and their customers. Specifically the customer relationships of new technology-based firms have been studied. Cook and Hababou (2001) were interested in total sales activities, both volume-related and non-volume related. They also developed a modification of the standard data envelope analysis (DEA) structure using goal programming concepts that yields both a sales and service measures. Beckett-Camarata et al. (1998) have noted that managing relationships with their customers (especially with employees, channel partners and strategic alliance partners) was critical to the firm’s long-term success. It was also emphasized that customer relationship management based on social exchange and equity significantly assists the firm in developing collaborative, cooperative and profitable long-term relationships. Yuan and Chang (2001) have presented a mixed-initiative synthesized learning approach for better understanding of customers

and the provision of clues for improving customer relationships based on different sources of web customer data. They have also hierarchically segmented data sources into clusters, automatically labeled the features of the clusters, discovered the characteristics of normal, defected and possibly defected clusters of customers, and provided clues for gaining customer retention. Peppers (2000) has also presented a framework, which is based on incorporating e-business activities, channel management, relationship management and back-office/front-office integration within a customer centric strategy. He has developed four concepts, namely Enterprise, Channel management, Relationships and Management of the total enterprise, in the context of a CRM initiative. Ryals and Knox (2001) have identified the three main issues that can enable the development of Customer Relationship Management in the service sector; the organizational issues of culture and communication, management metrics and cross-functional integration especially between marketing and information technology.

Jeffers (2003) discovers that a potential contribution of IT to firm performance is its complementarities with other resources in leveraging customer service performance which can be a major factor in determining the viability and competitive edge of the firm. There are 3 types of CRM technologies which includes operational, analytical and collaborative (Miriam et al., 2003). Operational CRM is the customer facing applications of CRM such as SFA (sales force automation), EMA (enterprise marketing automation) and front office suites. The analytical segment includes data marts or data warehouses that are used by applications that apply algorithms to dissect the data and present it in a form that is useful to the user. The collaborative CRM reaches across customer touch points, all the different communication means that a customer might interact with, such as e-mail, phone call, fax, website pages etc.

When technology is embedded in CRM, it may play a supporting role, a direct role, a coordination role and a role in restoring customer confidence especially when it is combined with training and other organizational changes (Evangelia, 2006; Sweat and Hibbard, 1999).

CRM in Banking: Trends and Dynamics

Today, more than ever before, the ability to maximize customer loyalty through close and durable relationships is critical to retail banks' ability to grow their businesses. As banks strive to

create and manage customer relationships, several emerging trends affect the approach and tools banks employ to achieve sustainable growth. These trends reflect a fundamental change in the way banks interact with the customers they have – and those they want to acquire.

Focusing on whole growth:

How can a retail bank drive growth? Traditionally, banks have grown through an aggressive strategy of acquiring direct competitors and taking over their branch networks. Today, that strategy is no longer sufficient, since it doesn't create organic growth for the financial institution. To build stronger customer loyalty, banks need improved customer knowledge to develop products and deliver services targeted at specific market segments; resulting in more directed marketing, sales and service tactics.

This is not to say M&As will not continue to be an effective way to expand product offerings and service capabilities. However, banks will focus on acquiring businesses that have essential products or capabilities to complete the bank's portfolio of offerings.

Seeking out and better serving emerging customer segments:

One of the ways banks can achieve improved overall growth is by focusing on new markets. Emerging demographic segments represent untapped revenue streams that can fuel a bank's growth. The need every bank has is; how to respond quickly and at low cost. And this need is increasing all the time.

Creating deep business insight into customer preferences:

Customer loyalty that drives overall growth can only be built through a consistent customer experience. This means understanding each individual customer's needs and preferences. One of the largest challenges banks face is how to better understand their customers and provide personalized customer service.

It is clear that financial service providers can no longer sustain growth and profitability targets through mass direct mail campaigns that deliver less than 1 percent response rates. Those that do will lose out to competitors implementing personalized communications that target the right customer, at the right time, with the right product or service. To optimize customer

relationships and loyalty, banks need to integrate processes and technologies that enable them to build – and then act upon – a detailed view of what each customer wants. This will require highly skilled customer service professionals, with the right combination of linguistic, culturally aligned and financial services skills, as well as the ability to deploy customer service strategies quickly, efficiently and cost-effectively.

Responding to intensifying competition through revitalized offerings:

The need to revitalize a company's portfolio of offerings happens in every industry. Today's banks face a relentless stream of new competitors, eager to take a share of the market's revenues. Renewing and reinvigorating product offerings and customer service strategies are essential ways to stay competitive in a changing marketplace. Proactive banks will respond to market opportunities and competitive threats by launching new products, entering new markets and acquiring new customer segments. A proactive CRM solution is the foundation that can help support this without disrupting current services that would put existing clients at risk.

Improving distribution and channel management:

How are retail banks responding to intensified market competition? To take themselves to the next level of improved sales and service, banks are focusing on developing, implementing and integrating their channels more rapidly and efficiently. Their goal is to meet three objectives:

- Improved and more consistent service based on a full customer view
- Increased revenue through adoption of new products
- Improved profitability through lower product development and service costs

Forward-looking banks will simultaneously improve customer service quality and profitability by deploying an integrated CRM strategy. Deepening relationships with their customers means that banks must offer their products and services through appropriate delivery channels that appeal to their customers.

Deploying multiple channels and integrating them at the enterprise level give banks a consistent and full view of the customer. To be successful, this must include all service channels – both physical and virtual – including, call center, Web, branch, kiosk, ATM, phone and mobile devices.

To achieve this, banks need to develop technology, operational processes and customer strategies to make their channels more effective in reaching and serving their customers. By tailoring products or services to specific customers or market segments, banks will be able to increase their product adoption rate, revenues and return on investment (ROI) for new product development.

Safeguarding customer information:

Adding to this complexity, customer privacy and information security are under attack as never before. The threats come from many quarters – including increasingly sophisticated identity thieves, constant phishing expeditions by criminals seeking to trap unwary customers, and even “inside jobs” where staff sell customer data to criminals.

Expanding legislative and industry requirements for customer security are also increasing costs for financial services companies. Compliance with customer information regulations is becoming increasingly complex as regulations are growing at all operating levels. In this context it is vital that banks ensure their customer data is secure from both internal and external threats. By preventing security breaches and avoiding losses, banks can actually realize a ROI from investing in security. This makes protecting customer data a prerequisite for competing effectively in the retail financial services market.

Banks must balance the cost of security against the need to share information and service the customer, while at the same time finding ways to secure vital customer and financial data for the purposes of risk management planning.

Reaping the benefits of a CRM solution

Faced with these numerous and varied trends, retail banks are reshaping the way they must interact with their customers. A fully integrated, enterprise wide CRM platform ensures banks have the core capabilities to take full advantage of their customer relationships and capitalize on these market dynamics, rather than losing out because of them.

A financial services company must obtain the following business results with the help of CRM solutions:

Gaining sales momentum

In today's increasingly competitive environment, where maximizing real growth is a bank's priority, sales momentum is essential. To build this momentum, banks need to focus simultaneously on:

Increasing acquisition rates of new and emerging customer segments

Improving retention of existing customers and saving "at risk" customers

Increasing profitability of customer relationships, either at the top-line through increased sales, or at the bottom-line through more cost-effective service

Improving integrated channel distribution strategies to get the right product, to the right client, at the moment the customer has the need

Maximizing the value and return from CRM investments that have already been made

Increasing acquisition of new customers

A CRM solution should help a bank target customers based on the "value" they bring to the bank, now and throughout the life of the customer (and beyond through "next generation" marketing). Clearly, customer insight and strategy are the core differentiators for the bank. CRM solutions (people, applications, systems and processes) must support these strategies to get the right products and services to the right customers.

Improving retention of existing customers

Customer retention can be achieved by enhancing customer satisfaction and loyalty, improving problem resolution, and creating the ability to identify and save vulnerable customers. In fact, an vulnerable customer actually represents a major opportunity for additional revenue – if handled correctly. However, the greatest danger for banks is either not identifying vulnerable customers or not having the capabilities to do anything to recover them.

For example, a customer makes a large withdrawal from his or her account. This may signal that the customer is switching funds to another bank. Or the customer may be buying a house, a boat, or paying college tuition, in which case there are clear opportunities to sell additional products or investments. The identification and treatment of this customer should reflect his or her lifetime value. CRM-driven techniques will help retain customers and can transform mere "account holders" into loyal, long-term, profitable customers.

Increasing the profitability of customer relationships

Boosting revenues requires improving the product pipeline and close rates, while reducing sales and service costs. On the revenue side, the bank's CRM solution should use customer intelligence to target specific offers and manage marketing campaigns for a high likelihood of acceptance. Customer treatment strategies should be fully integrated with a CRM platform and the processes to support them. On the cost side, better channel management, CRM automation and integration will help increase the efficiency and effectiveness of sales and service.

Improving distribution and channel management

To win profitable customers and build long-term relationships with them, banks need to have the right insight, products and services for the right customer at the lowest possible cost. From call centers to Web sites, every one of a bank's multiple channels must be scalable, flexible, low-cost and fully integrated with all the other channels. This is the only way to consolidate customer information and provide consistent treatment across the enterprise.

Maximizing the value of past CRM investments

As new technologies and channels emerge, the need to control costs and maximize the ROI from existing CRM investments raises many questions:

How can a bank lower its operational cost structure while leveraging the newest technologies?

How can it manage its customer service/call center workforce more efficiently and effectively?

How can the bank's investment in customer care be refocused to create a permanently lower and more flexible cost base?

With intensifying competition putting pressure on increasing required customer service levels and improving top-line revenues, investment in new capabilities to make the customer relationship stronger and more profitable is critical for future growth. However, it is important for banks to maintain a tight rein on their costs while deploying these solutions.

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