

Customer Relationships and Information Systems as a competitive strategy in Banking sector: A theoretical framework

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Abstract

Each and every interaction with a customer is an opportunity to build a lifelong relationship for a bank. To turn the customer interaction challenge into a competitive advantage, banks need a system that will help them to efficiently manage their interactions with customers. To keep the best customers, the management must concentrate its energies on quickly and effectively creating new delivery channels, capturing massive amounts of data, and tying it together to create a unique experience. For this information systems helps to build a competitive edge for the bank.

Introduction

The continuous advances in the internet technology have brought huge impact on business operations and have in particular brought about a paradigm shift in banking operations. In a bid to catch up with global development, improve the quality of service delivery, and reduce transaction cost, Indian banks have invested greatly in technology, and have widely adopted electronic and telecommunication networks for delivering a wide range of value-added products and services. It is argued, “It costs five times as much to replace a customer as it does to keep one”. In the past decade banking sector has undergone drastic changes, resulting in a market place that is characterized by intense competition, little growth in primary demand and increased deregulation. Moreover the information explosion has also pervaded the banking industry in a big way. It has not only changed the way banking business is being conducted today but also changed the way banking business is perceived today. The changes have squeezed margins and have emphasized the need for Indian banks to develop innovative strategies.

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Banking institutions have realized the importance of Customer relationship management in designing and delivering services. As argued in the literature maintaining good customer relationships will enable banking institutions to achieve a differential advantage over their competitors. Customer relations are increasingly sustained by information systems.

Customer relationship Management

CRM integrates all front-end operations of the firm so that a customer is presented with a single point of contact that remembers all the past customer interactions. CRM is a sound business strategy to identify the bank's most profitable customers and prospects, and devotes time and attention to expanding account relationships with those customers through individualized marketing, re-pricing, discretionary decision making, and customized service-all delivered through the various sales channels that the bank uses.

In marketing literature the terms customer relationship management and relationship management is used interchangeably. Customer relationship is a mixture of physical, tangible items and other intangible items such as friendliness, reputation, flexibility, helpfulness and confidence (Allaire, 1972; Zineldin, 2000; Gronroos,2000). A narrow perspective of customer relationship management is database marketing emphasizing the promotional aspects of marketing linked to database efforts (Bikert 1992). A more popular approach with recent application of information technology is to focus on individual or one-to –one relationship with the customers that integrate database knowledge with a long term customer retention and growth strategy (Peppers and Rogers 1993). Shani and Chalasani (1992) define relationship marketing as “an integrated effort to identify, maintain, and build up a network with individual consumers and to continuously strengthen the network for the mutual benefit of both sides, through interactive, individualized and value added contacts over a long period of time.

Morgan and Hunt (1994) draw upon the distinction made transactional exchanges and relational exchanges by Dwyer, Schurr, and Oh (1987), to suggest that relationship marketing “refers to all marketing activities directed towards establishing, developing, and managing successful relationships”.

The core theme of all CRM and relationship marketing perspectives is its focus on cooperative and collaborative relationship between the firm and its customers , and/or other marketing actors, Dwyer, Schurr, and Oh (1987) have characterized such cooperative relationships as being independent and long term oriented rather than being concerned with short

term discrete transactions. Several research studies have shown that not all customers are equally profitable for an individual company (Storbacka 2000). The company therefore must be selective in tailoring its program and marketing efforts by segmenting and selecting appropriate customers for individual marketing programs.

According to Chaturvedi and Bhatia (2001) “eCRM provides companies with a means to conduct interactive, personalized and relevant communications with customers both across electronic and traditional channels. It synchronizes communications across otherwise disjoint customer-facing systems. It adheres to permission based practices, respecting individuals’ preferences regarding how and whether they wish to communicate with you and it focuses on understanding how the economics of customer relationships affect business”

Customer Information systems and CRM for competitive advantage

“Information technology can be helpful in supporting the search for competitive advantage” Dennis, Nunamaker, Paranka (1999). “The electronic exchange of transaction documents has had a significant impact on business practices. EDI brings in many benefits to the organization such as reduced costs, faster turnaround, better customer service, and in some firms strategic advantage over their competitors” Premkumar, Ramamurthy and Nilakanta (1994). Karimi, Gupta and Somers (1996) suggests “that the new competitive strategies will be increasingly technology-based global initiatives that are affected by the firms' IT maturity”

Each and every interaction with a customer is an opportunity to build a lifelong relationship for a bank. To turn the customer interaction challenge into a competitive advantage, banks need a system that will help them to efficiently manage their interactions with customers. To keep the best customers, the management must concentrate its energies on quickly and effectively creating new delivery channels, capturing massive amounts of data , and tying it together to create a unique experience. Effective management of customer relationships is a source of competitive differentiation. This is a reason that CRM is one of the highest growth software markets. This trend is driven by the banks focus on improving customer satisfaction and loyalty, as well as increasing revenue from existing customers. A comprehensive view of customer enhances profitability for them. It also saves time and eases frustration for customers, as they do not have to repeat information to various departments over and over again.

Information system helps a banking organization gain a competitive advantage through its contribution to the strategic goals of an organization and/or its ability to significantly increase performance and productivity. It companies to gain competitive advantage and to benefit greatly at the expense of those that are subject to competitive disadvantage. “The intensity of competition has increased within the retail banking industries in virtually all developed economies. Creating a sustainable competitive advantage, therefore, has become of paramount importance. One way through which retail banks have sought to create this sustainable competitive advantage has been the utilization of information technology to support the marketing function “Mark Colgate, (1998).

According to Krishnan, Ramaswamy, Meyers, and Damien (1999) more service firms (such as banks and broker- age firms) are providing IT-based service options to their customers. These services are expected to bring benefits such as improved product and service quality, improved customer satisfaction, higher productivity, and improved financial performance. Furey(1991) suggested that IT practices could help enhance customer service by in- creasing convenience, collecting service performance information for management use, and offering extra services. Fitzsimmons and Fitzsimmons (1997) defined several competitive roles of IT in services, including creation of barriers to entry, productivity enhancement, and revenue generation. According to Heskett, Sasser, Schesinger, (1977), service delivery via the advent of new products and options for various channels of delivery through IT applications has emerged as an important attribute in satisfying customers. In addition, it has also been reported that more than 70 percent of the defection of customers in the financial services sector is due to dissatisfaction with the quality of services delivered .“Now, by increasing IT investment in CRM technologies and by embedding IT in marketing and operations functions, firms can reach out to their external entities and provide value-added services” Selland (1999).

There are three main elements of Customer Relationship Management Applications in banking sector are as follows

- i. Customer Service- by providing customers and partners with easy access to accurate in-depth information directly over the Internet or through customer service, call centers, and technical support organizations
- ii. Marketing Automation by using lead generation, lead qualification, data analysis, campaign management

- iii. Online Sales by enabling online business-to-business and business-to-consumer sales using contacts, opportunities, product configuration; empowering existing distribution channels and salespeople

CRM applications automate customer service operations to cut costs of sales, boost revenue, and collect better customer data to improve support and increase selling opportunities. They govern marketing, operations, service, and sales force departments, as well as tracking customer sales histories and call center data. For example, on the customer focus front, these applications enable firms in automating (1) sales force processes to reduce information asymmetry and delays, and to improve efficiency, (2) call centers and integrating customer databases to reduce the total cost of ownership of call centers and by head-count reduction, (3) E-mail interactions with customers to improve customer service and service efficiency and to integrate E-mail, telephone, and Web interfaces, and (4) customer responses and profiles, tracking marketing campaigns through various media across a number of channels, and managing quote and proposal processes from negotiations to closing.

Banking Studies showing the effect of information Systems on CRM

- i. **Sasfin Bank** (www.microsoft.com/casestudies) is a South African bank that provides financial services to entrepreneurs. With a comprehensive view of customer information, underwriters can weigh risk more accurately. E-CRM replaced the manual collation of data to provide risk exposure data to users overnight—versus the three days it took using legacy solutions. Additionally, the data collation error rate fell by 80 percent. It helped to collate customer data for export to the bank's data warehouse. Together, the cost to produce regulatory compliance reports was cut by 20 percent.
- ii. **MidAtlantic Farm Credit** (www.microsoft.com/casestudies) is one of the largest agricultural lenders on the east coast of the United States. Their Customer service experience has been enhanced after the introduction of CRM software in their bank. This has led them to retain good customers and expand relationships with them to increase revenues.

When east-coast farmers need to finance large livestock purchases, buy a new farm machine or agricultural real estate, many turn to MidAtlantic Farm credit. The bank used

low-tech tools and systems to track leads, marketing campaigns, and customers. This led to silos of “tribal knowledge” in which valuable customer histories resided with individual employees. Although account representatives provided stellar customer service, other employees lacked the visibility into customer data that would allow them to match that service. Customer data is now a corporate asset and resides in a centralized location for current and future employees to use. As a result, bank deposits grew by 100 percent over eight years while employee headcounts remained constant.

By reusing marketing campaigns that included contacts, activity lists, and notes, MidAtlantic Farm Credit cut wasteful labor hours that were devoted to recreating campaigns.

- iii. Romania’s **Banca Transilvania** (www.microsoft.com/casestudies) launched an initiative to improve the retention rate among 1.25 million customers. It converted a call center into a multi-channel contact center to handle the 360,000 customer inquiries received annually. Managers then replaced the existing telephone-based customer information system with Microsoft Dynamics CRM. A 20 percent increase in the resolution rate at branch locations (1,500 contacts per month) has been reported. A comprehensive customer view allows branch employees to improve their first-call resolution rates while reducing their per-instance time-to-resolution. This has improved customer experience and strengthened customer relationships with branch staffers.

Contact center productivity increased by 30 percent. The use of automated workflows and tasks, along with built-in forms and reports, dramatically improved service representative output. As a result, customers were answered sooner and the time to resolve issues was reduced.

- iv. **ICICI Bank**, India: Mukerjee Kaushik (2006) in his paper “CRM in Banking-Focus on ICICI Bank’s initiatives” had focused on CRM in Banking and its applications in ICICI Bank. The CRM in ICICI is being used for targeting customers, sales, consistent interface with customers, etc. ICICI Bank has managed to focus better on customers by undertaking a serious approach that has enabled it to manage its operations effectively. It included better targeting of customers; higher share of wallet; more effective channel strategies; database marketing, etc. The bank is able to evaluate customer usage pattern through CRM data warehouse. New products are developed through extensive customer profiling. Through CRM, ICICI is able to manage its data centrally.

- v. **HDFC Bank** India, for the first time in India made the e-shopping experience secure online and real time with the launch of its payment gateway. This allowed any Visa/Master credit card holder anywhere in the world to make payments for global services over the Internet. The bank tied up with 15 portals and is in talk with several others to offer secure business to customer e-com transactions. The first secure, on-line and real-time e-com. credit card transaction in the country was done on the Easy.2 shoppe.com shopping mall, enabled by HDFC bank on a Visa card, heralding the launch of the payment gateway. According to the Seventeenth Annual Report on the business and operations of HDFC Bank “Customer Relationship Management (CRM) and analytics solutions have helped it target existing and potential customers in a cost effective manner and offer them products appropriate to their profile and needs. Apart from reducing costs of acquisition, this has also led to deepening of customer relationships and greater efficiency in fraud control and collections resulting in lower credit losses. The Bank is committed to investing in advanced technology in this area which will provide cutting edge in the Bank’s product and service offerings.”

Conclusion

From the above discussion it is clear that Customer relationship Management (CRM) is a technology initiative that aims to strengthen the front-end operations and build a mutually valuable long-term relationship with the customers. A bank can enjoy competitive advantage of its customers for a long time by building mutually beneficial relationships that increase switching costs and thus cannot be easily replicated. For this they use Internet banking ,Data Warehousing and Data Mining, ATMs ,Mobile banking ,Telebanking and E-mail.CRM integrates all front-end operations of the firm so that a customer is presented with a single point of contact that remembers all the past customer interactions. CRM is a sound business strategy to identify the bank’s most profitable customers and prospects, and devotes time and attention to expanding account relationships with those customers through individualized marketing, re-pricing, discretionary decision making, and customized service-all delivered through the various sales channels that the bank uses.

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