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INFLUENCE OF CUSTOMER RELATIONSHIP MANAGEMENT ON CUSTOMER RETENTION IN COMMERCIAL BANKS IN KENYA

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ABSTRACT

The purpose of the study was to establish the effect of Customer relationship management on customer retention in commercial banks. Specific objectives were to establish the effect of promotion on customer retention in commercial banks, and to establish the effect of branding on customer retention in commercial banks. The study adopted a descriptive research design. The study targeted all the commercial banks in Kenya. The study was a census survey and thus collected data from all the 43 commercial banks. Purposive sampling was used to select the 43 managers of the marketing departments in each bank. The study used both primary data and secondary data. Primary was collected using questionnaires. To test the validity and reliability of the instrument that was used, pilot study was conducted. The researcher used descriptive statistics where frequencies and Percentage of responses were obtained through the use of SPSS. The measures of dispersion such as the mean and standard deviations were used. Tables and other graphical presentations such as bar charts, histogram, grouped frequency distributions and pie charts as appropriate were used to present the data collected for ease of understanding and analysis. The study found that promotion affect customer retention in commercial banks to a great extent. The banks' promotion strategies recognize the diversity of customers. The study also concludes that branding affect customer retention in commercial banks to a great extent. Brand visibility lead to recognition by customers who if attracted to the brand then lead to brand loyalty. The study thus recommends that commercial banks should continue with the promotion strategies and also continue to brand their products and services to attract more customers.

Key Words; *Promotion, Branding, Customer Retention*

INTRODUCTION

Focusing on the organizations marketing strategy on the profitable segments of their customer base an organization will normally produce most of the required revenue and increase their market share without investing in acquiring new customers which is much more expensive than retaining old ones. Loyal customers not only repurchase, but also advocate products and services to their friends pay less attention to competitive brands and often buy product and service line extensions (Baumeister, 2002).

According to Lahtinen and Isoviita, (2014) the concept of Customer Relationship Management entails all aspects of interaction that a company has with its customer, whether it is sales or service-related. Therefore, it is often thought of as a business strategy that enables businesses to: understand the customer, retain customers through better customer experience, attract new customer, and Increase profitably. While the phrase customer relationship management is most commonly used to describe a business customer relationship, the systems are used in the same way to manage business contacts, clients, contract wins and sales leads.

A Customer Relationship Management is a tool for effectiveness measurement mechanism that can increase the probability of projects success by recognizing advantages of implementing such as cost decrease, customer satisfaction, retention and loyalty. Customer Relationship Management technology is offered on-premise, ondemand or through Software as a Service. The basic stages of Customer Relationship Management namely; establishing, enhancing and ending. To understand more in customer relationship management, we need to consider three components; customer, relationship and management (Peppers and Rogers, 2004). Park and Kim (2003) defined customers as one whose identification and contact exists within the firm.

To develop effective retention strategies an organization has to have an in depth knowledge of customers behavior and needs. Loyalty is a physical and emotional commitment given by customers in exchange for their needs being met (Stone, et al 2002). Customer loyalty that leads to retention will develop over time if the parameters for the relationship are planned and implemented correctly. In a democratized market it is the quality and depth of the customers' relationships-physically and psychologically that ultimately differentiates between brands (Burnett, 2004).

Customer retention refers to keeping a client’s business rather than have the client use competitors' services or products. Repeat customers are people who buy from you again and again. Customer retention embodies repeated behavior and reflects relationship continuation. Customer retention is an essential part of customer relationship management and organizations must take this into account (Watkins, 1999) .The longer a customer stays with an organization the more utility the customer generates to the organization. Maintaining high levels of satisfaction will not, by itself, ensure customer loyalty. Organizations lose satisfied customers who have relocated, retired, or no longer need certain services. As a consequence, retaining customers becomes a priority.

Companies that have a monopoly or exclusive product of some sort easily retain customers. A customer may not be thrilled by an organization but the rational experience (convenience) outweighs the emotional experience (the fact that you dislike them). In this case, customer retention numbers may appear high, but it's built on a false premise. As soon as an alternative is available, many customers will disappear. The emotions evoked by a customer experience act as a chief mediator for customer retention (Chen & Popovich, 2003). When combined with an organization's strong reputation and recognized expertise, customer emotions are the chief determinant of customer retention. Without the emotional bond necessary to retain customers, customer loyalty is impossible. Interactions that evoke negative feelings, stress or manipulative tactics negate trust. And while there are a few notable exceptions, most companies do not intend to negate trust. Failure to craft a deliberate customer experience puts organizations at risk for doing just that.

The advantage of customer retention to the organization is that it provides for cost savings, risk taking -comfort with a company and trust in their expertise leads people to try new things, preferential shopping- most people tend to go to one or two organizations over and over again for a reason: They know what is going to be there, where to find it, etc. Evangelism-customers who like your products and feel like you have treated them well will sell your product for you. They may not sell it hard, but they will recommend it to friends, tailoring Your Wares -when you know a customer, you can make informed recommendations or ensure that you carry a certain item that you know they are going to want.

Customer relationship management solutions provide you with the customer business data to help you provide services or products that your customers want, to provide better customer service, cross-sell and up sell more effectively, close deals, retain current customers and understand who the customer is. Technology and the Web has changed the way companies approach Customer Relationship Management strategies because advances in technology have also changed consumer buying behaviour and offers new ways for companies to communicate with customers and collect data about them.

Many aspects of Customer Relationship Management rely heavily on technology; however the strategies and processes of a good Customer Relationship Management system will collect, manage and link information about the customer with the goal of letting you market and sell services effectively (Lahtinen & Isoviita, 2014). Therefore, customer relationship management is a comprehensive strategy and process which focus to establish, maintain and enhance relationship with customers and to create value for the organization (Jham & Kalem, 2008).

Today, many businesses realize the importance of customer relationship management and its potential to help them acquire new customers retain existing ones and maximize their lifetime value. Customer relationship management is a business strategy to identify the most profitable customer and prospects and devotes time and attention to expanding account relationships with those customers. In this regard, Customer Relationship Management has become one of the tools used to create a competitive advantage in our businesses especially the banking industry in Kenya (Jham & Kalem, 2008).

The most lasting way of retaining customers, however, is through conscientious service that includes following up on any issues or complaints. If a consumer has a negative shopping experience with a company, he or she may deal with that business less often or not at all. If the firm sincerely apologizes and takes the time to have a polite representative telephone the customer occasionally to see how they can meet his or her needs, the consumer may reconsider and keep dealing with that company despite any past unpleasantness. In this light, this proposal uses a case study to examine how CRM has influenced its processes and outcomes, especially in regard to customer retention, in KCB bank. Customers have always been the main concern for businesses all over the world.

According to the Central Bank of Kenya (CBK) website (*www.centralbank.go.ke - 2016)* there are 43 licensed commercial banks and 1 Mortgage Finance Company. Of these 44 institutions, 24 are locally owned, 14 have foreign interests either by incorporation or ownership and the remaining 6 have government participation in their activities. Commercial banks in Kenya are licensed and guided by prudential guidelines formulated by the CBK. Kenyan commercial banks display cartel like characteristics with 10 banks owing 75% of the total assets in the industry (Market Intelligence, 2000). As profit driven institutions commercial banks are predisposed to adapt various strategies to improve service delivery in order to attract and retain more clients.

The importance of customers has been highlighted by lots of researchers and academicians all around the world. Top performing financial institutions believe that customers are the purpose of what they do and they very much depend on them; customers are not the source of a problem and they should never make a wish that customers „should go away" because their future and security will put in jeopardy. That is the main reason why financial institutions of today are focusing much attention on customer satisfaction, loyalty and retention (Zairi, 2014). Satisfaction is an overall customer attitude or behavior towards a service provider, or an emotional reaction towards the difference between what customers expect and what they receive, regarding the fulfillment of some desire, need or goal (Hansemark, & Albinsson, 2014; Kotler, 2014).

Customer loyalty, on the other hand, is the result of an organization's creating a benefit for customers so that they will maintain and increasingly repeat business with the organization (Anderson, & Jacobsen, 2014). Equally well, dissatisfied customers are more likely to tell another ten people about their unfortunate experiences with a particular organization. In order to achieve customer satisfaction, organizations must be able to build and maintain long lasting relationships with customers through satisfying various customer needs and demands which resultantly motivates them to continue to do business with the organization on on-going basis (La Barbera & Mazursky, 2013). Although, previous research has attempted to examine the link between (a) customer satisfaction and customer loyalty and (b) customer satisfaction and customer retentions to switch in various industries but there are still lack of research in banking sector to investigate whether customer relationship management influences customer retention in commercial banks. It is evident that there is need to carry out further studies to establish whether customer relationship management influences customer retention in commercial banks. This study therefore sought to establish the effects of customer relationship management on customer retention in commercial banks using the case of Kenya Commercial bank Limited.

Objectives of the Study

The specific objectives;

i. To establish the effect of Promotion on customer retention in commercial banks
ii. To establish the effect of branding on customer retention in commercial banks

LITERATURE REVIEW

Customer Relationship Management Theory

Customer relationship theory was developed by Westch, (2005). According to the theory, customer relationship management is a combination of relationship marketing and customer centric where justice theory had applied in customer relationship theory. Justice theory involves the elements of trust, satisfaction and loyalty where these elements should have in the relationship between customers and organizations. There are three types of justice theories namely distributive, interactional and procedural. Distributive justice means the perception an individual holds the fairness of outcome. Interactional justice is perceived fairness of the interpersonal interaction in decision process. Finally, procedural justice is a fairness of the process.

Customer relationship marketing is a limited part of the marketing relationship structure, which is the creation and development of long-term, profitable and interactive relationships with both existing and potential customer. In all marketing activities a customer oriented approach is strategic to companies nowadays than before. Therefore, relationships with customers have to be maintained effectively (Lahtinen & Isovita 1994).

Empirical review

Hammand and Ehrenberg (2000) state that price promotions are mostly used for past customers of the brand who have bought the same brand's product over many years. Price cuts implemented for these branded packaged goods then created a rapid raise in sales during that time. Furthermore, when a company ends price promotions, the effect quickly ends and sales rates regress back to original/regular levels. Their research also found that price promotions seldom affect new customers. They do not improve subsequent sales and do not influence customer loyalty. Customers who made purchases during price promotions will not show up and spend money when products are being sold for the regular price. In general, promotions reach very few people and do not create significant change for a brand. Their key finding is that price promotions are purposed for existing customers who made purchases before the price promotion began (Hammand & Ehrenberg, 2010).

Neslin and Shoemaker (2009) emphasize that if price promotion encourages buyers who normally have a low propensity to buy that brand, they will return to the brand they are loyal to until the company re-promotes and makes pre-deals with customers. As a result, sales rates drop and the mobility of sales regresses back to regular levels. Consumers who are nonpurchasers are an important resource for business. Marketers must find ways to involve them in purchasing and lessen their uncertainty thereof in order to motivate them. Therefore, marketers should build strong relationships based on mutual trust, which companies can then build by using price-related deals (Beckett et al., 2000)

Ngugi (2013) conducted a study on the effect of rebranding on Customer base of Consolidated Bank Kenya. The objectives of the study were to determine extent to which rebranding through the change in the company colours affects the customer base of the Consolidated Bank, to identify the effect of change in the Logo on the customer base of consolidated Bank and to determine whether brand positioning affects the customer base of Consolidated Bank. The research adopted a descriptive research design. The population of the study was 200 composed of customers of the Consolidated Bank and selected respondents from competitor Banks .A sample of 50% was drawn from the population using stratified random sampling. Data was collected by use of questionnaire. The study found that the elements of rebranding of: brand colours change, logo change and brand repositioning were found to affect the customer base of Consolidated Bank.

METHODOLOGY

The study adopted a descriptive research design. The study targeted all the commercial banks in Kenya. The study was a census survey and thus collected data from all the 43 commercial banks. Purposive sampling was used to select the managers of the marketing departments in each bank. The sample size was thus 43 respondents. The study used both primary data and secondary data. Primary was collected using questionnaires. To test the validity and reliability of the instrument that was used, pilot study was conducted. The researcher used descriptive statistics where frequencies and Percentage of responses were obtained through the use of SPSS. The measures of dispersion such as the mean and standard deviations were used. Tables and other graphical presentations such as bar charts, histogram, grouped frequency distributions and pie charts as appropriate were used to present the data collected for ease of understanding and analysis.

RESULTS

Effect of Promotion on Customer Retention

The study sought to find out the extent to which promotion affect customer retention in commercial banks.

Table 1: Extent to which Promotion affects customer retention

	Frequency	Percentage
Very great extent	6	17.1
Great extent	19	54.3
Moderate extent	7	20.0
Little extent	3	8.6
Total	**35**	**100**

From the findings, majority of the respondents (54.2%) indicted to a great extent, 20% indicted to a moderate extent, 17.1% indicated to a very great extent, while 8.6% indicated to a little extent. This implies that promotion affect customer retention in commercial banks to a great extent.

The study requested the respondents to indicate their level of agreement on statement relating to the effects of Promotion on customer retention in commercial banks.

Table 2: Statement relating to the effects of Promotion on customer retention

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Standard dev
Banks perform promotions in order to spread the message and increase attention pertaining to the interests of consumers	1	1	3	17	13	4.14	0.214
Promotions in the organization attract customers attention which strengths their loyalty	0	2	2	17	14	4.23	0.225
Promotion strategies in the organization identify the organizations products and services	0	2	2	16	15	4.26	0.223
Promotions in the organization is effective in retaining customers	1	3	4	14	13	4.00	0.173
The organizations promotion strategies recognize the diversity of customers	0	1	2	18	14	4.29	0.239

From the study findings, majority of the respondents agreed that; the organizations promotion strategies recognize the diversity of customers as shown by a mean of 4.29, promotion strategies in the organization identify the organizations products and services as shown by a mean of 4.26, promotions in the organization attract customers attention which strengths their loyalty as shown by a mean of 4.23, Banks perform promotions in order to spread the message and increase attention pertaining to the interests of consumers as shown by a mean of 4.14 and that promotions in the organization is effective in retaining customers as shown by a mean of 4.00. The study found that the banks perform promotions, which involve advertising, sales promotions, sales people and public relations, in order to spread the message and increase attention pertaining to the interest consumers' display.

Effect of branding on Customer Retention

Table 3: Extent to which branding affect customer retention

	Frequency	Percentage
very great extent	6	17.1
great extent	20	57.1
moderate extent	5	14.3

little extent	3	8.6
No extent	1	2.9
Total	**35**	**100**

The study sought to find out the extent to which branding affect customer retention in commercial bank. From the study findings, majority of the respondents 57.1%) indicated to great extent, 17.1% indicated to a very great extent, 14.3% indicated to a moderate extent, 8.6% indicated to a little extent while 2.9% indicated to no extent. This implies that branding affect customer retention in commercial banks to a great extent.

The study sought the respondents' level of agreement on the following statement relating to the effects of branding on customer retention.

Table 4: Statement relating to the effects of branding on customer retention

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Standard dev
Branding ensures that customers know which of their needs are satisfied by the brand through its products or services	1	2	3	17	12	4.06	0.203
Brand visibility lead to recognition by customers who if attracted to the brand then lead to brand loyalty	0	2	2	17	14	4.23	0.225
Brand loyal customers remain committed to the brand of the Bank	0	1	4	15	15	4.26	0.213
Development of Brand visibility through corporate practice, sponsorships, corporate social responsibility retains our customers	1	2	2	18	12	4.09	0.218
Customers tend to identify themselves with certain brands and thus remain loyal to the organization	1	1	3	17	13	4.14	0.214

From the study findings, respondents agreed that; brand loyal customers remain committed to the brand of the Bank as shown by a mean of 4.26, brand visibility lead to recognition by customers who if attracted to the brand then lead to brand loyalty as shown by a mean of 4.23, customers tend to identify themselves with certain brands and thus remain loyal to the organization as shown by a mean of 4.14, development of brand visibility through corporate practice, sponsorships, corporate social responsibility retains our customers as shown by a mean of 4.09 and that branding ensures that customers know which of their needs are satisfied by the brand through its products or services as shown by a mean of 4.06. The study respondents indicated that branding helps the customers to understand which product or service category the particular brand belongs and what products and services are offered under the brand name. It also ensures that customers know which of their needs are satisfied by the brand through its products.

Conclusion

The study concludes that promotion affect customer retention in commercial banks to a great extent. The banks' promotion strategies recognize the diversity of customers. Promotion strategies in the banks identify the organizations products and services. Promotions in the banks attract customers attention which strengths their loyalty.

The study also concludes that branding affect customer retention in commercial banks to a great extent. Brand loyal customers remain committed to the brands of the Banks. Brand visibility lead to recognition by customers who if attracted to the brand then lead to brand loyalty. Customers tend to identify themselves with certain brands and thus remain loyal to the organization.

Recommendations

Promotion strategies in the banks identify the organizations products and services. Promotions in the banks attract customers attention which strengths their loyalty. The study thus recommends that commercial banks should continue with the promotion strategies.

The study showed that branding lead to recognition by customers who if attracted to the brand then lead to brand loyalty. Customers tend to identify themselves with certain brands and thus remain loyal to the organization. Thus the banking industry should continue to brand their products and services to attract more customers.

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