

Customer Acquisition and Retention Strategies in Financial Services

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Abstract

Acquisition and retention of customers in the new global economy of competition and frequent change requires building relationship with customers more than ever before. Financial service firms too are reengineering their processes using Customer Relationship Management (CRM) tools to develop long lasting relationship with customers. CRM has to be at the core of any business strategy to deliver the triple benefits of increased customer retention, enhanced customer satisfaction and better hand holding for high value customers.

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Acquiring new customers and keeping existing customers are the major issues for any organisation today. Business leaders are racing to develop the analytical and technological tools that will help them identify, attract, and retain by building relationships with precisely those customers they want. They realise that they must evolve their marketing strategies, operating structures, and systems to confront the sophisticated, information driven marketing models wielded by non-traditional competitors and web-enabled financial service firms.

Financial service firms have been facing intense competition, decreasing product differentiation, and comparable prices and are realising the importance of service as a differentiator, and the need to bring changes in processes and ways in which an organisation operates so as to have a customer centric-view. These processes can be reengineered using Customer Relationship Management (CRM) solutions, so as to acquire and retain valuable customers through one-to-one marketing.

Conceptual Background

There has been considerable academic interest in customer relationship management strategies, applications and processes, with some 600 papers published in the last five years (Romano, 2001). CRM means different things to different people (Winer, 2001, Goodhue, 2002).

A CRM system, by its simplest definition, is a process to compile information that increases understanding of how to manage an organisation's relationships with its customers. In this simple view, a CRM system consists of two dimensions, analysis and action (Tony Cram, 2001). More formally, CRM is a business strategy that uses information technology to provide an enterprise with a comprehensive, reliable, and integrated view of its customer base so that all processes and customer interactions help maintain and expand mutually beneficial relationships (William G. etal, 2004).

CRM is a holistic business philosophy that enables people, processes and technologies to focus on building appropriate customer relationship based on value chain propositions that all parties concerned want (Michael, 2003). It is a concept, based on a simple premise: maximise the value of the business to each customer, maximise the value of the customer to the business.

Customer Relationship Management (CRM) is a codependent combination of business strategies, processes, people and supporting technologies to profitably anticipate understand and serve customer's needs. CRM is primarily a business process and strategy rather than a technology and has three components: (Gray & Byun, 2001).

- ❑ Customer: Good customers who provide more profit with fewer resources are limited because customers are knowledgeable and competition is powerful.
- ❑ Relationship: Communication and interaction is required between the customer and the company. CRM involves managing this relationship as to make it mutually beneficial and more profitable.
- ❑ Management: The marketing department is not the only department responsible for CRM. Rather corporate change in culture and process must occur. Corporate knowledge is deduced from the collection of customer data and this leads to activities that take advantage of the information and market opportunities.

In short CRM is:

- 🔊 A Business strategy to select and manage customers to optimise long term value
- 🔊 The implementation of customer-centric business strategies
- 🔊 The art/science of gathering and using information

CRM and its Functions

CRM is an organisational process for managing customers (Meltzer, 2002) and has six basic functions:

- ❑ Cross-sell: selling a customer additional products/services.
- ❑ Up-sell: selling a customer higher-value products/services.

- ❑ Retain: keeping desirable customers (and divesting undesirable ones).
- ❑ Acquire: attracting (only) desirable customers.
- ❑ Re-activate: acquiring lapsed but desirable customers.
- ❑ Experience: managing the customer experience at all contact points.

CRM and Information Technology

CRM is essentially gaining the most information, ultimately knowledge, about a client, and central to these requirements is gathering data. Data can include: shopping preferences and habits, levels of income, education, family status or size, a whole gamut of information about the customer can make up the data. Data is collected on the transaction history with the customer in various forms (Schroeck, 2001). Every time the customer interacts with an organisation there is some data collected.

CRM solutions presented itself in the late 1980's and early 1990s. CRM software packages emphasise automating and standardising the internal processes, which relate to acquiring, servicing and retaining customers. The focal points of implementing these solutions are to make the customer an asset. Customer loyalty is improved by CRM solutions.

Although a large portion of CRM is technology, viewing CRM as a technology-only solution is likely to fail. Managing a successful CRM implementation requires an integrated and balanced approach to technology, process, and people. (Injazz et al, 2003).

CRM as a Marketing Tool

An organization exists to satisfy the customer's needs and this implies a need to acquire information before, during and after the sale. The information collected can be put to use by the organization to identify, attract, differentiate and retain customers.

Today, the focus is on selling more products to existing customers to improve profitability. Customer focused strategies require CRM to help acquire customers through various touch points and translate operational data into actionable insights for proactively serving customers (Express, 2001).

CRM from a marketing perspective identifies and targets best customers based on recency, frequency and monetary scoring (RFM) (Xu et al 2002). RFM enables customers to be arranged in terms of recent purchases, frequent purchases and average purchase amount so that effective marketing strategies aimed at specific groups can be evolved.

An organization to be successful must aim all of its efforts at satisfying its customers, at a profit, that is, managing customer needs profitably. This means that organization must create, deliver, and communicate customer value more effectively than their competitors. Such market driven organizations are marked by 'a superior ability to understand, attract and keep valuable customers,' and has three specific components of market orientation: (1) an externally oriented organizational culture with a focus on added value; (2) distinctive capabilities in market sensing, relationship building, strategic thinking; and (3) a configuration that enables the entire organization to anticipate and respond to changing customer and market conditions (Day, G.S., 1999).

Marketing financial products and services has always been an information and relationship sale. The user of financial services reveals a lot through his or her usage patterns. This helps the service provider to design customer friendly products and packages, as well as offer superior levels of service. Shared relationships with individualised customer care based on specific customer history and preferences are strengthened. Service costs and support is decreased when customer satisfaction is increased.

CRM in Financial Services

Today's financial service customers wield greater power than ever before. Across the industry, customers enjoy unprecedented choice driven by general growth of competing products, channels of delivery and accessibility. Acquisition and retention of these customers is possible by analysing and understanding customer behaviour and applying this knowledge to segmentation and propensity models; adapting the sales force and to be driven by customer preferences and needs research; and using customer knowledge to establish corporate-wide strategies.

Implementing CRM in financial services is challenging as the

industry is in a very data intensive, complex business. Traditionally, financial service business had been product centric and the implementation of CRM which is customer centric data creation will require heavy investments.

Financial service providers have been emphasizing customer service, but excellence in customer service means maximizing the value of each customer interaction, building revenue and loyalty through a superior sustained customer experience. Metrics should be put in place to measure customer satisfaction and loyalty. These metrics should focus on customer needs, expectation, concerns and desires.

CRM with Business Intelligence tools can help financial service firms monitor the ebb and flow of customer behaviour giving them a holistic 360-degree view of their customers. This enables segmenting customers based upon profitability and investing and aligning the organisation to focus on the most profitable; understanding the relationship between customer value, attrition, delinquency, and balance level metrics; and understanding share of wallet for the most valuable segments and developing strategies and tactics to grow that share.

CRM for Customer Acquisition and Retention

Evolution of CRM is a result of corporate concern over customer acquisition and retention. Firms are spending aggressively to acquire new customers and protecting existing customers.

CRM is the process of identifying, attracting, differentiating and retaining customers. CRM allows the firms to focus its efforts disproportionately on its most lucrative clients (Hoffman, 2002). Given the high cost of acquiring new customers, increased efforts are being made to retain existing ones – particularly in areas of depressed demand. Firms have to ensure it satisfies customers and offers variety such that the customer comes back and repeats transaction with the same organization.

Studies in the past few years have quantified the benefits of long-term relationships with satisfied and loyal customers. A shift in retention of as little as five percentage points seems to account for more than 20 per cent improvement in productivity, which in certain industries can increase profit by 50 to 100 percentage (Richard, 1996). One dollar spent on advertising yields less than \$5 in incremental revenues, compared to one dollar

invested in creating a good customer experience, which can yield over \$60 in incremental revenues (Hurst, 1999).

Life time Value (LTV) or customer Life Time Value (CLV) or Future Customer Value or simply customer value may be used to assess the value of relationship the customer has with the organization. It is widely used as the basis for evaluating CRM and Database Marketing Initiatives, and is now identified as a standard by the Database Marketing Institute (Hughes, 2002). The idea is that the worth of the customer relationship to an organization can be evaluated by adding up the revenues and costs associated with servicing that customer over the lifetime of the relationship, taking into account the future behaviour (such as churn) and the time value of money (Berger et al 1998). As such it represents the Net Present Value of the customer relationship.

The aim of CRM is to produce high customer equity. Customer equity is the total of the discounted life time values of all the firm's customers. Clearly the more loyal the customers, the higher the customer equity (Kotler, 2003).

As the financial service market grows increasingly competitive, firms will compete more and more on their ability to serve customer profitably over time. Long-term customer retention in competitive markets require the service provider to go beyond mere basic satisfaction and to look for ways of establishing ties of loyalty that will help ward off competitor attack.

Organizational Commitment

The objective is to focus on customer relevance. There is a critical linkage between customer intelligence and business intelligence that will drive success. Organizations should understand how customer dynamics influences business results and the extent to which organizations can influence customer dynamics. This requires management to understand and get committed to CRM as a strategy to acquire and retain customers so as to optimize profitability. CRM should be seen as a strategic response to a set of customer, staff and business needs. Successful implementation of CRM requires company wide, cross-functional, customer-focused business process re-engineering.

A case study of a CRM implementation at a UK based manufacturing company illustrated that CRM is a complex and holistic concept, organised around business processes and

the integration of information technologies. The study highlighted that implementing CRM requires effective leadership, sourcing, targeting and evaluation strategies (Bull, 2003).

Executive management that understands that building employee loyalty is critical to building long-term success in customer loyalty is ahead of their competitors. Companies that focus on building loyal employees report positive effects on customer profitability and shareholder value (Reichheld, 1996). Every employee can come into contact with customers, making each and everyone of them an advocate or an opponent. Employee retention is not only critical for cost efficiency but an important factor in revenue growth as well, because of its direct link to customer acquisition and retention. (Creating a Proactive Customer – Centric Program, Periscope Consulting, 2003).

Banking, Insurance and financial services are the sectors that shall benefit most from the CRM practices and technology (Sandeep, 2001). Although CRM depends on, and is driven by cutting edge technology, it only works when supported by the corporate culture that embraces customer-focused aims.

Effectively implemented, CRM can help financial service firms leverage profitable customer relationships over time. Successful adoption is grounded in strategy with technological engines.

CRM as a Business Strategy

CRM is a business strategy where an organization takes a comprehensive view of its customers, current and potential new acquisitions. The strategy is implemented through the building and maintenance of long term relationships.

Managing customer relationships, knowing customers and anticipating their evolving service needs are the essential features of a strategy. Such a strategy ensures customer satisfaction, and retention (Chattopadhyay, 2001). There is an urgent need to keep customers satisfied and loyal, more so in a world where the competition is one click away and switching costs are even lower.

Conclusion

CRM is basically the end point of understanding the requirements and interaction with customers to provide the customer with a

high level of service they need, want and demand. The real potential of CRM is the capability to proactively manage customer relationships over time driving profitable transactions by knowing the impact of activities on consumer behaviour before they order.

Effective customer relationships will continue to develop as the most valuable assets of prosperous financial service institutions in acquiring more customers and improving profitability. CRM has to be at the core of business strategy and its success lies in leadership, people, practices and processes. Rigorous approach for customer segmentation, acquisition and retention are perquisites. Value propositions must be clear. The 'how' of executing strategy – its operationalisation – must be mapped into real processes, activities and tasks. These elements, then, can ultimately be empowered by technology to deliver the triple benefits of increased customer retention, enhanced customer satisfaction and better hand holding for high value customers.

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