CUSTOMER RETENTION IN RETAIL FINANCIAL SERVICES: AN EXPLORATORY STUDY

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ABSTRACT

This investigation is concerned with how financial services retailers approach the retention of customers. Markets for financial services have become saturated, competition has become fiercer and consumers have gained greater confidence in the consumption of financial services. Traditional retailers of financial services have begun to look to their existing customers to maintain and improve their profitability in these turbulent times. They hope that by retaining selected customers, they will be able to lower their costs by cross-selling financial products. In spite of considerable practitioner interest in customer retention, to date there is limited empirical study, in particular, into how retaining customers might actually be achieved. This study adopts a pluralistic methodology and uses the perceptions of staff working for financial services retailers to build a picture of how retention is organised. Interviews with managers and two surveys are conducted to gather the data, which are then evaluated within a framework of contemporary marketing. The study finds that there are a number of aspects involved in retaining customers that include information systems and strategy. The results of the investigation also suggest that these retailers are organised around the acquisition of customers and that balancing retention with acquisition may prove challenging.

CONTENTS

List of tables iv
List of figures v
List of appendices v

Chapter 1 Background 1
1.1 The spur 1
1.2 Financial services retailing 3
1.3 Customer retention 4
1.4 Marketing management 6
1.5 Nature and structure of investigation 7
1.6 Conclusion 9

Chapter 2 Methodology 11
2.1 Introduction 11
2.2 Research traditions 11
2.2.1 Scientific paradigm 13
2.2.2 Interpretivist paradigm 15
2.2.3 Pluralism 17
2.3 Theoretical background 18
2.3.1 A new paradigm? 22
2.3.2 Critical theory, postmodernism and marketing 24
2.3.3 Impact on research 27
2.3.4 Methodologies for research in marketing 28
2.4 Researching customer retention 30
2.5 Sensitive and ethical research 33
2.6 Conclusion 34

Chapter 3 Retailing financial services 35
3.1 Introduction 35
3.2 Restructuring 36
3.3 Competitive forces 39
3.4 Technology 41
3.5 Consumption of financial services 43
3.6 Marketing strategies 44
3.6.1 Value 46
3.6.2 Segmentation 48
3.6.3 IT and delivery 50
3.6.4 Relational exchange 51
3.7 Strategy considerations 53
3.8 Discussion and conclusion 55

Chapter 4 Retaining customers 58
4.1 Introduction 58
4.2 Customer loyalty 59
4.2.1 Conceptualising loyalty 60
4.2.2 Brands and schemes 62
4.2.3 Loyalty and financial services 63
4.3 Customer satisfaction and service quality 66
4.4 Relationship marketing 68
4.4.1 Trust and commitment 70
4.4.2 Micro-marketing 71
4.4.3 Structure 72
4.4.4 Management issues 72
4.5 Retaining customers 73
4.5.1 Customers as assets 74
4.5.2 Customer-centricity 75
4.5.3 Client and customer retention 76
4.5.4 Customer information systems 76
4.6 Relationship banking 77
4.6.1 Customer interface 79
4.6.2 To relate of not to relate? 80
4.6.3 Branding 81
4.7 Retaining customers in retail financial services 82
4.8 Conclusion 84

Chapter 5 Research design 87
5.1 Introduction 87
5.2 Sampling 88
5.3 Interviews 92
5.4 Surveys 94
5.4.1 Developing the questions 95
5.4.2 Measurement detail 97
5.4.3 Surveying the experts 98
5.4.4 Preparing the employee survey 99
5.4.5 Surveying the employees 102
5.5 Analysing the surveys 103
5.5.1 Data preparation 103
5.5.2 Analysis techniques 104
5.6 Reviewing the research design 105
5.6.1 Sampling 105
5.6.2 Interviews 106
5.6.3 Surveys 106
5.7 Conclusion 107

Chapter 6 Interviews 108
6.1 Overview 108
6.2 Interview strategy 108
6.2.1 Interview design 109
6.2.2 Informants 110
6.3 The interviews 111
6.4 Interpreting the interviews 112
6.4.1 Processes in interpretation 112
6.4.2 Veracity and rigour 114
6.5 Outcomes 116
6.5.1 Change and evolution 117
6.5.2 Sales and products 120
6.5.3 Relationships 123
6.5.4 Staff 125
6.5.5 Delivery 127
6.5.6 Customer information 127
6.6 Discussion and conclusion 130

Chapter 7 Asking the experts 134
7.1 Introduction 134
7.2 Survey method 137
7.3 Analysis 137
7.3.1 Corporate 137
7.3.2 Culture/structure 146
7.3.3 Strategy 153
7.3.4 Systems 161
7.3.5 Staff 167
7.4 Item refinement 174
7.4.1 Corporate 173
7.4.2 Culture/structure 176
7.4.3 Strategy 177
7.4.4 Systems 179
7.4.5 Staff 182
7.5 Conclusion 184

Chapter 8 Surveying the employees 203
8.1 Introduction 203
8.2 Preparation 204
8.3 Distribution details and sample screening 204
8.4 Survey findings 209
8.4.1 Corporate 210
8.4.2 Culture/structure 219
8.4.3 Strategy 226
8.4.4 Systems 241
8.4.5 Staff 253
8.5 Discussion and conclusion 265
8.5.1 Samples 266
8.5.2 Instrument and analyses 269

Chapter 9 Discussion 273
9.1 Introduction 273
9.2 Financial services retailing and retaining customers 274
9.3 Successful aspects of retaining customers 279
9.4 Areas for concern 283
9.5 Some guidelines 286
9.6 Limitations and further research 290
9.7 Conclusion 293

LIST OF TABLES

3.1 Aspects of postmodernity and their significance to FSRs 54
6.1 Examples of coding of interview data 113
6.2 Respondent and FSR details 117
7.1 Details of respondent FSRs 136
7.2 Results of corporate strand 138
7.3 Results of culture/structure 146
7.4 Results of strategy strand 154
7.5 Results of systems strand 161
7.6 Results of staff strand 168
7.7 Analysing corporate 175
7.8 Analysing culture/structure 177
7.9 Analysing strategy 179
7.10 Analysing systems 182
7.11 Analysing staff 183
8.1 Overview of FSRs participating in employee survey 205
8.2 Distribution and response details of returned questionnaires 206
8.3 Comparing the demographic characteristics of sample with Allegiant population 207
8.4 Comparing the demographic characteristics of sample with Consolidated population Corporate strand 208
8.6a Comparing Allegiant and Consolidated (Corporate) 215
8.6b Comparing Allegiant and Consolidated contact and non-contact Culture/structure strand 218
8.8a Comparing Allegiant and Consolidated (Culture/structure) 225
8.8b Comparing Allegiant and Consolidated contact and non-contact Strategy strand 226
8.10a Comparing Allegiant and Consolidated (Strategy) 238
8.10b Comparing Allegiant and Consolidated contact and non-contact Systems strand 238
8.12a Comparing Allegiant and Consolidated-Systems 251
8.12b Comparing Allegiant and Consolidated contact and non-contact Staff strand 251
8.14a Comparing Allegiant and Consolidated-Staff 262
8.14b Comparing Allegiant and Consolidated contact and non-contact 262

LIST OF FIGURES

2.1 Relationship marketing.......22
3.1 Retail banking structure.......40
3.2 Strategy selection for traditional providers of financial services.......45
4.1 Loyalty construct.......60
4.2 Loyalty states and financial services customers.......65
7.1 Growth.......140
7.2 Bulk of activities.......141
7.3 Resourcing service quality.......143
7.4 Dependable service.......144
7.5 IT at the interface.......148
7.6 Inspiring trust.......149
7.7 Service quality and customers.......151
7.8 Customers' view.......152
7.9 Lasting relationships.......156
7.10 Attracting new customers.......159
7.11 Individual requirements.......160
7.12 Profit potential.......164
7.13 Defection identification.......165
7.14 Lifetime value.......166
7.15 Customer needs.......170
7.16 Skills for building relationships.......170
7.17 Trust and commitment.......172
7.18 Status of information systems.......181
8.1 Long-term profitability.......197
8.2 Co-operation.......201
8.3 Customer groupings.......206
8.4 New products.......210
8.5 Point of leaving.......215
8.6 Service quality.......222
8.7 Trust and commitment.......224
9.1 Expert responses on service quality.......239
9.2 Experts' responses to segments.......281
9.3 Allegiant employees' response to identifying profitability.......283
9.4 Strategy selection for traditional providers of financial services.......285

List of Appendices

Appendix A Financial services retailers.......297
Appendix B Interview plan, notes,.......300
Appendix C Experts' survey.......316
Appendix D Employee survey, letter and prize draw form.......322
References.......328
Bibliography.......343

CHAPTER 1

BACKGROUND

1.1 The spur

When considering the assets of an organisation, such traditional measures as cash, property and shares are usually thought of. It has become acceptable to think of employees as assets and, increasingly, customers are viewed in a similar light. In the past, company efforts were often directed towards the acquisition of new customers, often ignoring or overlooking their existing customers. Severe competition and a desire to lower costs has encouraged companies to think more carefully about retaining customers and how this might be achieved. This change in emphasis has resulted in an increasing interest in building relationships with selected customers, usually defined in terms of their present or potential profitability. This enthusiasm for relationship-building and retention is particularly prevalent in retail financial services as banks and building societies face severe competition. In addition to fierce competition from other retailers offering banking services, the advent of on-line banks further jeopardises profitability and growth in the traditional banking sector. Consumers have also changed their perceptions about banks and financial products and show a willingness to shop around for the most competitive offering.

Inspiration and motivation for the study was derived from reading the marketing literature and working in the industry. Two literary sources, in particular, prompted the start of the investigation, although their relevance is not immediate to the completed investigation. The first source was Mueller-Heumann's (1992) investigation into market fragmentation, which sparked an interest in shifting marketplaces. Mueller-Heumann (1992 p311) predicted that

> The expected fragmentation of the market place will require consideration of new forms of organization, more able than our present organization systems to deliver customer satisfaction.

The second source was Gabriel and Lang's (1995) book *The Unmanageable Consumer*, in which the authors talk about the consumer being centre-stage. These authors say (p189) that, in a global context

> ..it is difficult to talk about all consumption and all consumers as coming under the same ethos or constraints, that is, by being uniform entities or acting as a unified force.

Reading these publications led the researcher into thinking about the way that the marketplace was perceived by organisations, particularly financial service providers. It seemed, on the basis of these readings that such organisations would find it challenging to serve, not only heterogeneous groups of consumers but, also consumers, who are far from passive in their consumption of goods and services. Quite simply, there seemed to be a significant gap between contemporary interpretations of consumer behaviour and the traditional outlook of banks and building societies.

1.2 Financial services retailing

The provision of investments, mortgages and other financial services has undergone significant change over the last two decades. A combination of legislation, global economic pressures and increasing consumer astuteness has created upheaval in the supply and demand for personal financial services. The traditional providers of consumer financial services in the UK, such as high street banks and building societies, are facing competition from non-bank retailers, such as Marks & Spencers, US providers, for example Citibank, and entrepreneurs. MBNA, for example, has rapidly penetrated the credit card market and Virgin Direct has secured a foothold in pensions and investment products. The internet has created a number of interesting dimensions in the retailing of financial services, placing further competitive pressures on established institutions in the sector.

Faced with such challenges, banks and other institutions in the retail financial services sector, such as building societies, have sought ways of responding to these harsh trading conditions. They have invested considerable resources in trying to create customer loyalty. One of the ways in which they have tried to achieve loyalty has been through relationship marketing, which is seen as a process where customer desire for a holistic offering is met through an ongoing relationship with the supplier (Gronroos 1999). Financial service retailers (FSRs), in most cases high street banks and building societies, offer their existing customers a variety of financial products with information and advice, which are deemed probable to meet customer needs at key times. By building relationships with customers over a period of time, providers are aiming to minimise customer defections (Reichheld 1996) and lower costs. The benefits accruing to customers from staying with their usual provider, are less well-defined and, in a recent *Which?* report (1999), UK customers are advised to shop around for financial products rather than depending on a single financial services provider. Customer retention, therefore, in a highly competitive and dynamic environment would appear to offer significant benefits to existing banks and building societies, by allowing them to respond to competitor activities with the valuable asset of loyal customers, and the opportunity to reduce the number of products held by competitors. At the same time, consumers are encouraged by the financial press and consumer organisations to be multi-banked, i.e. have a number of financial products with a range of financial providers. The retention of customers is, therefore, likely to be particularly challenging to banks and building societies.

1.3. Customer retention

The ability of an organisation to retain customers is an important component in future profitability and market share (Petrison et al. 1993, Rust and Zahorick 1993) and by arresting customer defections, considerable benefits will ensue for both parties in the exchange (Zeithaml and Bitner 1996). The aim of customer retention, at its most basic level, can be seen as "zero defections" of profitable customers (Reichheld 1996) and its objective is to reduce customer 'churn', which refers to the number of customers that an organisation acquires and subsequently loses. There are also references to retaining customers with a view to cross-selling a range of goods or services (e.g. Reichheld and Kenny 1990). Customer retention has also been interpreted as locking in customers and is, therefore, counterproductive to relationship-building (Rowe and Barnes

1998), but this interpretation is generally out of step with the marketing literature.

In spite of the apparent importance of customer retention, there are few studies that document customer retention and what it involves from an organisational aspect, although some recent studies have begun to explore this area (Ahmad and Buttle 2002, Clarke 2002). The research generally cites the importance of determining and influencing customer need, accurate segmentation and good utilisation of knowledge on customer behaviour (Reichheld and Kenny 1990; Hamilton and Howcroft 1995; Thwaites and Lee 1994). An early contribution to customer retention in retail banking is Reichheld and Kenny's (1990) paper in which they cited the organisational advantages of customer retention as well as isolating six organisational 'imperatives' for its successful practice. A major study, which includes empirical investigation, was conducted by Hamilton and Howcroft (1995) into customer retention in the credit card sector, where variables were proposed for predicting customer defection on analysis of customer behaviour based on Reichheld and Kenny's (1990) theoretical work on customer retention. The identification of three variables that influence customer decisions on continuing with or closing an account lead on to how an organisation can actually address these determinants.

This study is concerned with describing the organisational activities which enable financial services providers to retain customers, by analysing the perceptions of those actively involved in retaining customers within the sector. The picture generated by these perceptions is then evaluated against the theoretical models developed in the literature. In spite of the importance of customer retention stated within the literature (e.g. Schmittlein 1995), there has been no empirical investigation to support Reichheld and Kenny's imperatives, or, indeed, to reject them. The aim of this study is to explore and document customer retention, by seeking the views of staff involved in retaining customers. The study is entitled:

Customer Retention in Retail Financial Services: an Exploratory Study

The question to be addressed is how financial services retailers organise retaining customers.

The following research objectives have been identified:

- To discover the context of customer retention within contemporary marketing literature
- To generate a description of how financial services retailers retain customers by obtaining staff perceptions
- To evaluate the description using the theoretical contributions to CR and contemporary marketing.

This investigation aims to contribute both to academic and practitioner knowledge by building on existing theoretical work on retention, relationship marketing and financial services retailing. By providing a picture of how customers are currently being retained by these organisations, the theory of customer retention has been advanced, specifically by identifying key organisational activities that support and detract from retention.

1.4 Marketing management

Central to customer retention are questions about the nature of marketing management and marketing theory. The marketing arena is currently the scene of an intense debate in which the very definition of marketing is being debated (AMA 2000). Academics and practitioners, alike, are critical of existing marketing practices and they are questioning perspectives of marketing which focus on transactions and customer acquisition. A "newer" interpretation of marketing addresses the changes in global economics (Giddens 1999) and consumer behaviour and which reflects a relational and long-term view of marketing. The debate can be summarised as follows. From concentrating on a single customer/provider exchange or transaction, the weight of academic literature and practitioner activity is now directed at a series of exchanges often involving a number of players (e.g. Mattsson 1997). This shift in emphasis is likely to have a profound impact on the way in which marketing is understood and executed in organisations and it is this re-appraisal of marketing management that forms the starting place for this study.

The importance of this change in perspective has also raised questions about accepted marketing methodologies and research issues where interpretivist approaches are gaining acceptance (Dawes and Brown 2000). The debate also addresses the question of when relational or transactional exchanges may be best adopted. It is against this backdrop of major challenges to accepted notions of marketing theory and practice that this study takes place.

1.5 Nature and structure of the investigation

The study is cross-sectional and provides a description of customer retention in the retailing of financial services using staff perceptions as the source of the data. An accurate description forms a solid foundation for further research (de Vaus 2001) and allows organisations within the sector to develop appropriate measures to retain customers more effectively. This approach follows Bazerman's (2001) suggestion of conducting descriptive research against a prescriptive model, which is developed from the literature. Much of the rather limited empirical work into customer retention is based on the views of customers (e.g. Rust and Zahorick 1993, Hamilton and Howcroft 1995) and these are valuable contributions to the understanding of what customers seek from an organisation if they are likely to stay. However, this study takes a different perspective and examines, by means of a pluralistic research design, how financial services retailers are currently retaining customers by seeking the perspectives of staff. Employees play a major role within an organisation in delivering the service, whether directly or indirectly, and as Schneider (1993 p67) states provide "a strategic diagnostic resource for service organizations".

Consistent with the methodology of theory-building and empirical investigation, and which is expanded in the following chapter, and the objectives of the investigation, the study falls into two parts. The first half of the study defines the parameters of the investigation and explores the theoretical background to customer retention. In order to do this, an argument for pursuing a pluralistic approach to the study is set out in Chapter 2, which is embedded within the ongoing debate in marketing management. Having developed the direction of the study, the turbulence in the retail financial services sector and the changes in consumer behaviour which, together, form the backdrop to the growth in relationship banking and customer retention, are charted in Chapter 3. In Chapter 4, the extensive literature on customer satisfaction, loyalty and relationship marketing is appraised to provide an understanding of the bases on which customer retention rests. A number of key themes of customer retention in the retailing of financial services are also identified.

Chapter 5 forms the pivot of the thesis by detailing the steps taken to execute the research, based on the methodological approach proposed in Chapter 2. Chapter 6 reports the in-depth interviews conducted with senior marketing managers with special responsibility for retaining customers in their respective organisations. The findings of a survey of experts are reported in Chapter 7, using statistical procedures, which are consistent with descriptive research. The findings of surveying two samples of financial services staff are presented in Chapter 8, using similar analyses. In Chapter 9, the findings from the three sources are reviewed so that commonalities and departures can be identified and discussed. The relevance of these findings is related back to marketing theory and financial services literature. This final chapter of the thesis proposes further areas of study, reviews the limitations of the research and sets out guidelines for practitioners that have arisen from the investigation.

1.6 Conclusions

The study of customer retention is timely, not only because it can be viewed as a representation of the new marketing, but also because it is a business objective that 'fits' saturated markets. It is also appears to comprise a set of activities which many organisations are either contemplating or already pursuing. Within the context of a fragmenting marketplace, consisting of consumers who are increasingly aware of their power, the objective of retaining customers is particularly daunting. Nonetheless, customer retention ostensibly presents such benefits, that companies must explore the its possibilities. This study can, therefore, make a contribution at both academic and practitioner level by exploring the theoretical aspects of customer retention and by examining how it is being understood and organised by companies. The context selected for the study is financial services retailing, which has provided an interesting and stimulating research area for this researcher for some time.

CHAPTER 2

METHODOLOGY

2.1 Introduction

The previous chapter described the inspiration for investigating customer retention and explained why the financial services sector was such an attractive industry for exploring this theme. Although the idea of retaining customers has attracted great interest from practitioners, it has yet to trigger equal enthusiasm amongst academics. This may be partly attributable to its resemblance to and possible confusion with relationship marketing, which this research necessarily explores. During the course of this chapter, the dominant research paradigms for research in business are briefly reviewed, the ongoing debate in marketing that underpins customer retention is discussed and the consequences of this debate on research methodologies explored. The chapter concludes with an overview of the methodology chosen for this investigation into customer retention in the retailing of financial services.

2.2 Research traditions

The use of the word 'methodology', in this research, is used to mean the procedural framework within which the research is conducted and is derived from the researcher's view of the nature and relations of being. The starting place for thinking about the research and the direction of the thesis was how the researcher viewed the world and the view she had of reality. There are two contrasting views on research methodology, and the philosophies in which they are embedded, which are usually referred to as paradigms (Kuhn 1970). Paradigms offer a framework comprising an accepted set of theories and methods. If it is assumed that reality exists independently or objectively as a structure, distinct from individuals' perceptions (Hudson and Ozanne 1988) then a researcher's ontology is considered nomothetic. Conversely, if it is believed that the world is socially constructed and understood only by examining the perceptions of participants or actors, then the ontology is ideographic. Ontological considerations then lead to ideas on how knowledge is derived and what is valid. For thinkers whose ontology is nomothetic, their epistemology is usually positivist whereas for those who favour a closer involvement with the research, then their epistemology is interpretivist or, perhaps, phenomenological (Hussey and Hussey 1997). Further matters that researchers need to contemplate are concerned with values and research, or axiology. The objectivists subscribe generally to the view that science and the process of research is value-free and that they are detached from what they are observing. Researchers, who adhere to an interpretivist epistemology, believe that values help determine what are considered to be facts and the interpretations that are drawn from them.

In more practical terms, research is frequently referred to as quantitative or qualitative. Originally these terms referred to the nature of the data in research, for example quantitative data are generally data that can be counted, but they have come to mean more than just ways of collecting data (Bryman 1988). Quantitative research, as opposed to quantitative data is a consequence of following the positivist orthodoxy. Qualitative research is, on the other hand, consistent with the interpretivist paradigm. Although research is not confined to these two research paradigms, positivist and interpretivist epistomologies, or paradigms, dominate research and business research, in particular. There are, at least, two further inquiry paradigms according to Guba and Lincoln (1998) and they are post-positivism and constructivism. The former is rooted in the positivist tradition but acknowledges the role of values. Constructivism is subjective and relativist research in which the knower and the known are inseparable (Tashakkori and Teddlie 1998). There is has been growing interest in marketing as well in a number of alternative methodologies such as those derived from postmodernism, and these will be briefly discussed during the chapter. The two dominant traditions are now explored in greater depth so that the nature of this investigation's methodological roots is made explicit.

2.2.1 Scientific paradigm

The dominant philosophical approach in marketing has been positivist/empiricist tradition for some time (Peter and Olson 1983) and this has been justified on the basis that marketing is science. Although positivism is not the only scientific approach, for example, realism and empiricism are also concerned with explanation (May 1993, Hunt 1994), positivism recognises the centrality of theory. It revolves around discovering patterns in observable events and describing them in the form of laws with an emphasis on identifying causal relationships and providing explanations. A further characteristic of positivist research is the development and testing of hypotheses, commonly referred to as the hypothetic-deductive method (Halfpenny 1984). A statement that has been formulated by the research is then tested often involving measurement of variables and looks for evidence to refute the hypothesis.

The positivist researcher recognises only two legitimate forms of knowledge, the empirical, represented by the natural sciences, and the logical, derived from mathematics (Hughes 1980). Positivism traditionally relies heavily on formal symbolic logic and its supporters maintain that only by analysing theories by means of unbiased observations, can truth be determined absolutely. If a researcher adopts a positivist epistemology, she is concerned with knowing about phenomena on the basis of measuring and observing (Hussey and Hussey 1997). She will use quantitative methods, sustained by a nomothetic methodology, to infer from the findings of a sample that the outcomes can be extended to a larger population (Bryman 1988). Positivism is, hence, a normative attitude regulating the use of such terms as 'knowledge', 'science' and 'information' (Kolakowski 1993).

It is problematic to portray a coherent picture of positivism owing to its numerous interpretations and a lack of discrimination in its use. In particular, it is often assumed that quantitative research conforms to the tenets of positivism. Quantitative research does not always test hypotheses, its goal is often descriptive (Brannen 1992), so it is over-simplistic to categorise quantitative research as being deductive (Hammersley 1992). Although quantitative research may ape the characteristics of positivism in following rational and linear processes, a rigorous theoretical approach may be absent (Bryman 1988) and there is a danger that quantitative studies may "degrade information to numbers" - or to what can be counted (Sapsford and Jupp 1996 p10). The prime objection to positivism is that it fails to take account of the fact that the social world is constructed through meanings and "the practices predicated on them" (Hughes 1980 p123). Positivism ignores dynamism (Buttle

1998), and is unable to predict the more complex outcomes of networks and relationships (Easton 1995), such as those that exist in business and marketing.

2.2.2 Interpretivist paradigm

The opposing traditions to positivism are grouped under the heading of interpretivism and include such methodologies as phenomenology and hermeneutics (Goulding 1998). These perspectives are concerned with grasping individual and unique truths emphasising understanding or *Verstehen* rather than explaining phenomena (Von Wright 1978). They are based on the belief that humans interpret the world that they inhabit (Halfpenny 1984) and that any separation between nature and culture is ill advised, as it is important to make connections between theoretical and everyday language (May 1993). Interpretivism acknowledges the subjective meanings, which are used in social interaction and which cannot be ignored especially during the earlier stages of data generation. It is doubtful if any research is conducted without referring to shared meanings (Hudson and Ozanne 1988).

Interpretivism recognises that enquiry often includes a subjective component and that a frame of reference may exist prior to the study. The researcher is not a passive reporter as suggested by positivism, but an active agent in the construction of the world through the specific ideas and themes incorporated in the relevant form of knowledge. Complete objectivity is unlikely in interpretivist research and, in fact, it is valuable to be able to gain an understanding of cultural realities. The axiology of interpretivism then is value-laden rather than value free, but where the values are seen enrich to the research, rather than obscure 'the truth'. One of the principal challenges that a researcher faces, who is inclined towards the interpretative paradigm, is the lack of clear cut definition between the different methodologies (Goulding 1998). Nonetheless, there are common characteristics of this approach. Samples tend to be small, and they are non-probabilistic. Interviewing is not directive and is often described as 'in-depth'. The role of the researcher can be that of participant and bias is openly recognised and understood (Goodyear 1998) and since words rather than numbers are used, the findings are often more accessible to non-experts. Qualitative methods are characteristic of the interpretivist paradigm (Bryman 1988), which frequently consist of unstructured interviews and focus groups. This approach allows for a greater tolerance of methodological pluralism, which has been posited by contributors to the discipline of marketing (e.g. Brownlie 1997), and reflects the inclination to reflect on social interaction, again which marketing seeks to understand (Brownlie et al. 1994).

It can be seen from the overview of the dominant paradigms that each one has its limitations. Furthermore, confusion has arisen from misuse of the term 'paradigm', as researchers have been shifting between the epistemological application of the term as used, here, and its technical applications that refer to methods and techniques adopted for research (Bryman 1988). Positivist research can claim to be scientific and researchers of this orthodoxy can present their findings quantitatively. In many fields, numbers and statistics have an authority that carries, at times, unwarranted weight. Objectivity and detachment also imply rigour and methodological soundness. If, the researcher is left unimpressed by the scientific detachment of positivism, then there are considerable attractions to be found in the interpretivist camp, where subjectivity, involvement and closeness are not only acceptable, but encouraged. The question should be resolved by reconsidering one's ontology, but there are few individuals who can view the world clearly from a single standpoint. Instead this researcher was left to weigh up the advantages, enticements and difficulties with each of the paradigms. Surely there must be a third way?

2.2.3. Pluralism

There is an increasing acceptance that a combination of approaches yields considerable advantages (e.g. Bryman 2001), so that a more rounded and richer picture of social phenomena is generated. This is not a view acceptable to everybody and there are those who view the two dominant research traditions as fundamentally irreconcilable. It is argued that the two paradigms represent opposing ontological assumptions, so any attempt to incorporate both approaches will fail. Nonetheless, it is increasingly being recognised that a pluralistic approach offers significant benefits to a pragmatic researcher (Hunt 1994). A pluralistic approach can be envisioned as continuum that links the two traditions. This continuum has points on which an investigation can be embedded so that the researcher blends the two main research approaches and, therefore, may feel greater confidence in the results of the study. It is worth noting that pluralism poses serious challenges for researchers, as training in both research traditions is required (Wallendorf and Brooks 1993). The challenges of pluralism are offset by an approach that responds to the strengths and weaknesses of each research paradigm (Deshpande 1983).

Pluralism is not merely concerned with the combination or even synthesis of approaches but also with linking and integrating methods and/or data and on what basis (Punch 1998). Bryman (1988), for example, refers to the way in which qualitative research facilitates quantitative investigations by acting as the source of hunches. There is a choice of types of pluralism, including multiple investigators, data sets and methods (Brannen 1992); this study consists of multiple methods, or between-methods, to study the same phenomenon. Advantages were gained by adopting a pluralist approach. Firstly, the combination of styles provides a general picture of customer retention, by linking a number of stages in the investigative process. Secondly, the quantitative element provided a structural definition and the qualitative aspect generated a picture of the processes.

Further controversy exists as to how the data may be combined either to provide a single unitary picture or differing aspects of the research problem (Brannen 1992). Does the research adopt a complementary or an integrated approach? It would certainly be naive to combine different sorts of data and then claim that they are valid and, hence, truthful. To address the inherent pitfalls adopting a pluralistic methodology for this study, the particular aim of each method, the nature of the data and how the data relate to theory (Brannen 1992) is made explicit at each stage.

2.3 Theoretical background

There is an ongoing debate within marketing academe about the nature of the exchange on which marketing theory rests and reappears in the literature at regular intervals (see O'Malley and Tynan 1999, AMA 2000). Customer retention (CR) involves a long-term attitude to exchange on the part of the organisation and, as a consequence, is firmly embroiled in this debate. Classical conceptualisations of marketing emphasise product planning, development, promotion and distribution with marketing research that align the capabilities of the company with the needs of the marketplace. Recently, the American Marketing Association (2000) defined it as follows:

> Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals.

The central notion of marketing rests on exchange theory which postulates that two parties agree to exchange something of value and that satisfaction is mutual (Kotler 1991). This exchange between the supplier and the buyer is usually perceived to occur at a single transaction or during a specific time period. This traditional view of exchange in marketing has been described as "arm's length, discrete transactions between unconstrained actors" (Shemwell et al. 1994 p57). The exchange often includes a short-term element (Buttle 1996), where the focus is on acquiring new customers rather than concentrating on the needs of the existing customer base. Easton and Araujo (1994) have described traditional marketing managerialism as impoverished and derivative. They suggest that the foundations underpinning the newer conceptualisations of marketing, with its emphasis on networks and relationships, are derived from sociology as well as economics. This suggestion then weakens the legitimacy of micro-economics as the core ontology of marketing. These views of marketing are based on the assumption that consumer markets consist of multiple and independent actors who, primarily passive, respond to marketing mix signals from companies

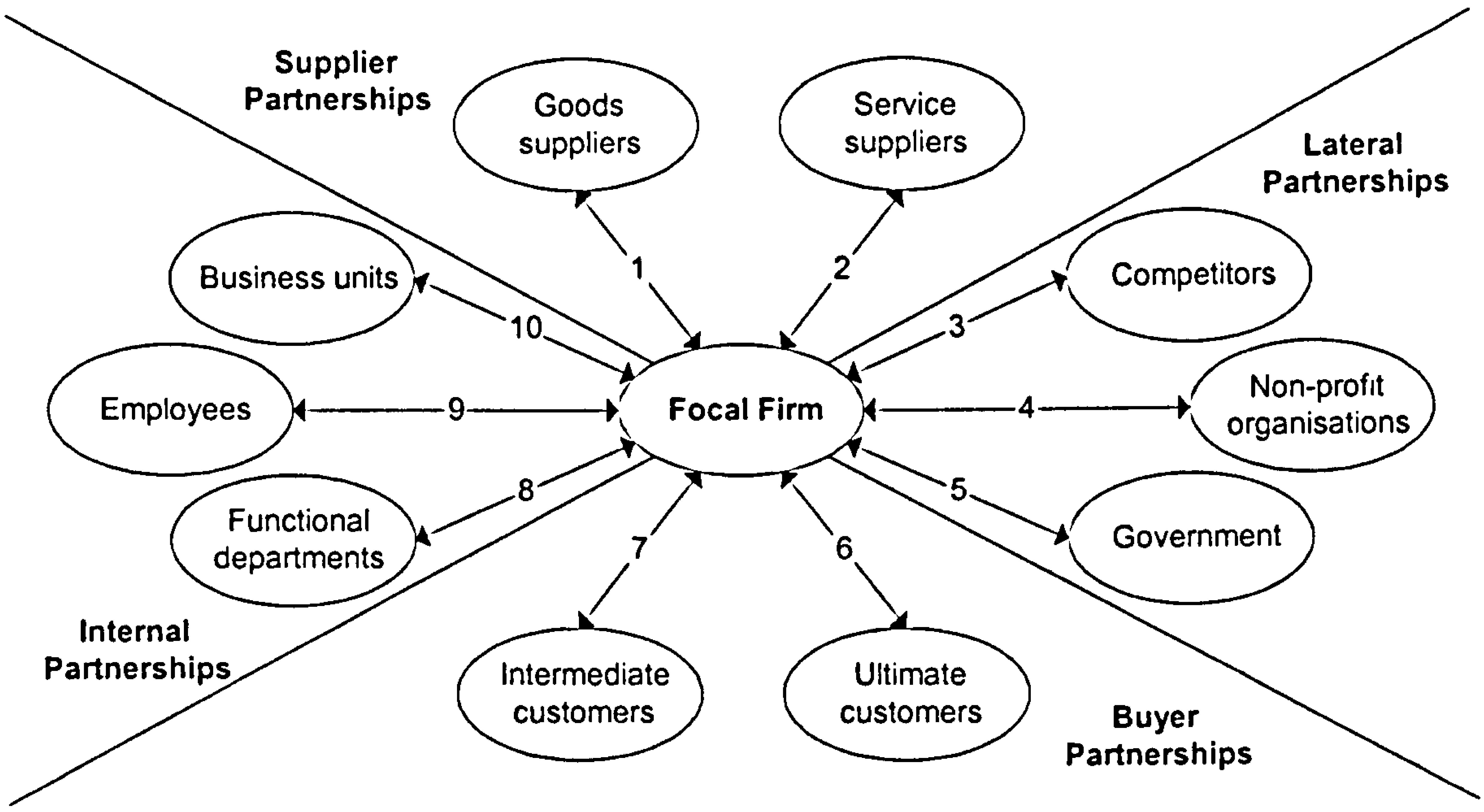
(Storbacka 1997 p67)

In short, current market conditions of slow growth, global competition, market fragmentation and rising marketing costs present significant challenges to companies (Thomas 1994). Environmental changes in the economy, in consumer behaviour and society have prompted a reconsideration of many existing marketing practices to enable companies to keep pace and prosper.

Firstly, the role of exchange has, as a result of these discussions, been re-evaluated and is now seen as creating valuable relationships but over a period of time, rather than as a single transaction. This long-term view, now, underlines the characteristic of mutual dependency between partners (Mattsson 1997) and fundamentally alters the view that the consumer is passive. Consumers, as well as other players in the relationship network, play an active role, particularly in the production and consumption of services. Secondly, this concept of interaction and interlinking is fundamental to customer retention, as it implies that defection or dissolution of the relationship is harmful to all the partners. The role of exchange needs to be seen as being of benefit to all the players in the relationship, where value is added by the partners who choose to remain in the relationship. As a result of this change in thinking, many organisations are currently seeking to reconfigure the pattern of exchange from being predominantly transaction-based to relational (Gronroos 1991).

In addition to reconsidering the duration and pattern of exchange, the scope of marketing is extending from the long-accepted dyad of customer and supplier to include a number of additional players, for example suppliers and employees (Christopher et al. 1991). A major directional change in marketing theory and practice is taking place where competition between companies is replaced by networks and collaborators (Morgan and Hunt 1994). As the literature of RM has developed, the nature of the relation has shifted from the original dyadic view to embrace a number of participants from suppliers, competitors, employees and buyers (Morgan and Hunt 1994), and has lead to an analogy with networks. Marketing is now, according to Thomas (1994), based on relationships that incorporate interaction where the customer is involved with the company in a variety of activities. Companies are, hence, engaged in the construction of a learning relationship (Pine et al. 1995). The relationship is also likely to include suppliers, competitors and customer connections (see Figure 2.1). The following figure is an illustration of this thinking and clearly shows the interlinking and interaction between a number of partners in servicing a focal company.

Figure 2.1 Relationship marketing



(Morgan and Hunt 1994)

In spite of these fundamental reappraisals of marketing thought and practice, exchange theory remains central to marketing, but it is now embedded in a network of partners with a different temporal perspective. Hirschman's (1986 p238) description of marketing as a "socially constructed enterprise" captures much of the spirit of 'new' marketing. Critical departures of the 'new' marketing from the classical views are considered in the following sections.

2.3.1 A new paradigm?

As a possible example of the new thinking in marketing, relationship marketing (RM) has attracted a great deal of research and comment. Gronroos (e.g. 1994) has promoted extensively an interaction/network view of marketing and he argues that all exchanges are relational. Hunt (1994 p13) has noted that

> Marketing practice has increasingly turned towards alliances,
> partnerships and other forms of relationship marketing,
> whose success requires effective co-operation.

Not surprisingly, RM has spawned a considerable number of definitions and conceptualisations. Nonetheless, some consensus has been achieved on its holistic nature, and its concentration on mutual, ongoing exchange, personal interaction and fulfilment of promises (e.g. Gronroos 1990). Lengthy debate has ensued on whether the concentration on relationship marketing constitutes a completely new paradigm (e.g. Kotler 1991), signalling the demise of transactional marketing. A contrary view has been put forward by Palmer (1996), who argues that RM has not yet been established as a new paradigm, as it is indistinguishable from contemporary definitions of marketing based on individual customer-focused interaction.

The growth of services in the global economy has also prompted revisions to traditional perspectives on marketing. During an exchange where a service is being consumed, the process is heterogeneous and abstract in comparison to goods, requiring a more fluid, people-driven approach. It has been argued that because of this heterogeneity, that marketing needs to be extended to other disciplines. For example, Brownlie (1997 p747) suggests that:

> marketing management is [now] about framing an
> interpretation of the organisation itself, actively engaging in the
> construction of the conditions within which a creative and
> dynamic organisation can be realised.

Not only does the nature of the exchange shift under these conditions, but the impact of this revision begin to require changes in organisational structure and culture.

To summarise this debate on marketing, it emerges that there is a school of thought which believes marketing can really only be understood by starting with interactive relationships, where the focus is on serving the customer (Day and Montgomery 1999, Thomas 1994). Whether transactional or relational, market exchanges remain central to the marketing concept (Easton and Araujo 1994) but they now generally extend beyond the original dyad of supplier/customer to a network where all parties are equally important and, probably, equally powerful. In spite of the enthusiasm for RM, it is recognised that transactional marketing is not moribund and is still appropriate depending upon the dimensions of the exchange (Li and Nicholls 2000, Zineldin 2000). On balance, the new marketing would seem not to be a new paradigm, since exchange still forms the fulcrum. However, the move towards a long-term view incorporating retention as well as acquisition or transaction to relation involves a significant re-appraisal of both marketing thinking and organisational practices.

2.3.2 Critical theory, postmodernism and marketing

The reconsideration of existing marketing approaches has been further supported by a realisation that marketing may have lacked an important dimension. Although the importance of theoretical development has been acknowledged (e.g. Day and Montgomery 1999), critical theory has only recently begun to attract the attention of marketing academics. Critical theory simultaneously critiques contemporary society and tries to envision new possibilities and, in the process, established methodologies for example positivism, are superseded by interpretative perspectives (Burton 2001). Critical theory views society as 'conflictual' and oppressive so that enquiry can lead to radical change and emancipation from tyrannical social structures (Rossman and Rallis 1998). A fundamental aspect of critical theory is that it is a "constant point of reflection based on asking questions that focus on the influence of the ubiquitous capitalist discourse" (Grice and Humphries 1997 p416). An amplification of critical theory is an approach that draws inspiration from existing and substantial traditions, for example ethnography and postmodernism (Burton 2001). The relevance of critical theory to this enquiry is in the establishment of theory development and the exploration of contemporary marketing thinking within the context of the consumption of financial services.

The role of critical theory in marketing is relatively undeveloped, whereas postmodernist theories on consumption abound. There are a number of references to the relationship between critical theory and postmodernism, ranging from a view that the two are incompatible to noted points of convergence (see Brownlie et al. 1999). However, postmodernism has influenced a number of writers in marketing and given some insight into contemporary consumption. Postmodernism promotes the primacy of the individual accompanied by ephemerality and plurality in society, in particular, growing multi-culturalism and multi-ethnicity (Maruyama 1994). It suggests that the influence of form and style in determining social meaning, coupled with the growing unwillingness to commit to any single idea, has resulted in the increasing attention given to consumption (Chumer 1996). The dynamism inherent in postmodern thought has lead to fragmentation of markets, which have broken down into volatile tribes (Aubert-Gamet and Cova 1999).

In postmodern thinking, the traditional models of economic and social institutions are perceived to be disintegrating (Chumer 1996). Marketers have sought inspiration from the postmodern movement in understanding the shifts in their environment. For example, there is liberation from conformity, a new tolerance and recognition of differences (Firat and Venkatash 1993). The world is witnessing a new form of human being called "the global consumer" (Venkatesh 1992), whose unpredictability (Firat et al. 1995) coupled with the highly competitive environment undermine the stability of current business practices (Stevenson and Moldoveanu 1995). The heterogeneity of the marketplace has brought about a proliferation of products (Brown 1993, 1994) and heightened the power of the consumer in the exchange process. A significant characteristic of the postmodern individual is that he or she avoids commitment. In commercial terms, for example, where the modernist customer may have been assumed to be loyal to a firm or a product, the postmodernist consumer exercises freedom to move where choice or whim indicate (Gitlin 1989). The implications of the behaviour of the postmodern consumer are significant for businesses, which have often relied on stability and inertia, and nowhere, is this more true, than the retailing of financial services.

The value of postmodernism to marketing and this study in particular, is that it has presented a comprehensive but timely attack on major axioms, for example behavioural consistency and large homogenous groups (Thomas 1997). Not only do consumers possess multiple lifestyles and, often highly incompatible value systems, these lifestyles are often at odds with existing business and marketing strategies, founded on the modernist values of orderliness and consistency (Brown 1995). Postmodernism places the consumer at the heart of the production process, and points to the 'mercurial' consumer (Firat and Venkatesh 1993). Underlying these arguments is the message that predictability and explanation are waning in the marketplace and the themes of fragmentation and ambiguity in society have prompted marketers to question assumptions and to deconstruct cherished theories and added fuel to the debate about the direction of marketing.

2.3.3 Impact on research

To respond to the challenges of critical theory and postmodernism, as well the more fundamental criticisms of classical marketing, there has been a demand for the inclusion of a wider range of disciplines into marketing theory. The questioning of the core ontology of marketing as micro-economic marked a significant shift in thinking, as much of traditional marketing theory is based on a supply/demand view, which takes scant account of consumer behaviour. Grundlach et al. (1995), in noting the shift away from a transactional view of exchange to one based on committed relationships, cite the importance of social norms and warn that the existence of socio-economic phenomena poses problems for accepted research methodologies in marketing. Empirical research is needed to broaden understanding of the forces that lead to long-term customer relationships, and should incorporate a wider range of disciplines, for example psychology and anthropology (Webster 1992).

The discipline of marketing, hence, finds itself at a critical stage with ongoing debates about its interpretation, its emphasis and its direction. The undoubted shift away from earlier mechanistic interpretations of marketing prompts enquiry into other assumptions about the way that marketing is investigated (e.g. O'Malley and Patterson 1998). The dominant research paradigm in marketing has been scientific, hence incorporating rules about observation and measurement, but many voices have questioned this dominant view (e.g. Hirschmann 1986) and postmodern contributions to the marketing debate have further supported these criticisms (Brown 1995). The postmodernist view is that the world is socially constructed and subjective, the implications, therefore, for traditional marketing and its practitioners are profound.

2.3.4 Methodologies for research in marketing

Many questions remain to be addressed in the light of new marketing perspectives that have been outlined in this chapter. There is an increasing number of contributions to the marketing research literature that support a non-scientific approach to the investigation of phenomena, but there are, equally, academics adamant that the rigour of science, as found in positivism for example, is indispensable. Hunt (1994), for example, argues that qualitative methods should form part of a pluralistic or realist methodology if they are to gain acceptance in mainstream marketing thought. Although considerable progress has been made by the interpretivist camp in marketing scholarship, the vast majority of marketing academics have continued to work within the positivist tradition (Brown 1996). The nature of quantitative data, because of its close association with science, is often perceived as being singularly powerful. Against this view, it is argued that the use of scientific measurement, particularly parametric measurement, may not be entirely legitimate in areas other than the natural sciences. Sayer (1992), rather tellingly, refers to the stability of objects and processes in the natural sciences and comments that this stability does not occur elsewhere. Scientific methods are characterised, for example, by the search for laws, replicable events and attempts to find causal explanations, but social sciences, and business research often falls under this heading, are not natural sciences. Social science data lack the precision of natural science data, and scientific analysis requires simplification and idealisation (Bradley and Schaefer 1998).

Interpretative research is of particular benefit in business and marketing research because it acknowledges the social complex and sometimes unpredictable nature of consumer behaviour (Venkatesh 1992). Gummesson (1997), a fierce opponent of the dominant positivist research paradigm in marketing, states that successful marketing is the outcome of qualitative studies. He believes that quantitative research often represents a fundamentalist, narrow view of science and the search for reality. The marked leaning towards quantitative research in marketing is likely to preclude the openness, tolerance and critique which facilitate and encourage innovative thinking (Brownlie et al. 1994). These writers suggest that more ethnographic studies, which focus on relationships and culture, should be undertaken which relate the understandings of these studies to the actions of marketing managers. Since marketing may no longer be perceived as being within the paradigm of micro-economic theory, former units of analysis such as prices, products and transactions may be replaced by people, processes and organisations (Webster 1992). Marketing studies should be accompanied by interdisciplinary and pluralistic work incorporating greater reflection in which holistic results can be obtained by combining multiple methods (Carson and Coviello 1997).

The debate on the philosophy of research in marketing has been conducted with ferocity for some years subsiding, and probably only for the time being, with some acknowledgement that non-scientific stance has gained a degree of acceptability (see Brown 1996). The 'new' marketing, based on the notion of relational exchange and networks, may be better explored by interpretivist methodologies, or, at the very least, a pluralistic approach seeking to understand the phenomenon rather than explain it. Bryman (1988, p173) criticises the "doctrinaire posturing" extant in much of the research literature and reminds researchers that qualitative research can incorporate an empiricist streak and, with particular interest to this research, quantitative research can be concerned with subjects' interpretations. Postmodern perspectives in marketing further weaken accepted epistemological assumptions and methodological conventions of the marketing discipline (Cova 1996), leaving the way open for a more flexible research approach.

2.4 Researching customer retention

Exchange theory remains the fulcrum of marketing theory, but this exchange is now often viewed from a relational rather than transactional perspective. Much of marketing is, as a consequence, pre-occupied with creating enduring relationships with selected customers rather than managing a formula derived from the marketing mix. From the theoretical background of new marketing perspectives, the concept of customer retention has emerged. Customer retention is concerned with the selection of customers who conform to certain criteria, notably potential profitability, and the formulation of strategies designed to prevent these customers from defecting. The principle of customer retention has attracted both academic and practitioner interest, as have related areas such as relationship marketing and customer loyalty. Customer retention has the exchange process as its core, but instead of the exchange being viewed as a single event, it is a repeated occurrence, possibly throughout the customer's lifetime with the emphasis on a long-term view of profitability. Financial service retailers are particularly interested in customer retention as they operate in a highly competitive environment with growing customer sophistication (Devlin et al. 1995). The ability to retain customers has the potential of offering them significant benefits in maximising profits.

The detail of the research approach had still to be resolved. As discussed in section 2.2, the dominant paradigm of positivism in research has ceded ground to the interpretivist approach and, certainly, there are many important aspects presented by this stance. A study based on an interpretivist methodology would provide understanding and insight into shared meanings, understanding and subjective experiences. Qualitative research is generally most suitable for generating or discovering new perspectives (Deshpande 1983). A positivist/quantitative approach, however, is best suited for confirming or verifying theories (Reichardt and Cook 1979). The dynamism of retail financial services is discussed in the following chapter, but in contemplating the research and its design, it was important to remember the active nature of social sciences and that customer retention will have already been endowed with meaning. Consequently, the researcher was faced with issues relating to its interpretation and that participants in the research could be affected merely by being involved in the study.

Acknowledging these arguments, this investigation embraces aspects of both approaches. As a consequence, this study into retaining customers has combined approaches through pluralism, recognising the challenges of a mixed method design. Pluralism entails the adoption of more than one method of investigation and, hence, more than one type of data and so addresses the deficiencies of a single-method approach (Hussey and Hussey 1997) for investigating this single phenomenon. The justification for this approach is based on Punch's (1998) considerations:

- A prime consideration is, of course, what exactly is the researcher trying to find out? Quite simply, the thesis explores how financial services retailers retain their customers, within the theoretical framework of 'new' marketing.
- Secondly, does the research seek to draw contours or find out about people's interpretations? The response to this question is important because, it actually sought to do a bit of both, namely contours were drawn, but were based on people's interpretations.
- Thirdly, does the nature of relational exchanges constitutes a new paradigm?
- Of significant importance in doctoral studies, is the knowledge payoff. This study is an empirical investigation into customer retention from an organisational perspective, identifying key activities that support and contribute to the retention of customers. A further benefit of the study in terms of contribution to knowledge is a clearer explication of the linkages

between customer retention, satisfaction and relationship marketing through the development of the theoretical framework.

- The final consideration is the preferred methodological style of the researcher. A pluralistic research methodology addressed both the ontological preferences of the researcher and the exploratory/descriptive research objectives.

2.5 Sensitive and ethical research

The nature of the chosen industry was an important but subordinate factor in deciding the research approach. Indications from potential participants, during preliminary contacts, confirmed that information on customer retention was considered sensitive. Awareness of the sensitivity of participants to the research meant that data generation techniques had to be designed with this in mind, in particular, asking questions about confidential matters (Renzetti and Lee 1993). The researcher was faced with the problem of gaining access to FSRs to ask questions about matters that had been identified as confidential during preliminary discussions about the research. The researcher has been working with FSRs for some time as well as publishing in the practitioner press, so was known to the industry. Trust had been built over time and access to individual marketing managers was gained this way.

It was anticipated that data generation would have to be approached with caution during the survey of employees (Renzetti and Lee 1993), as financial services retailing staff face a difficult time as banks and building societies restructure. Staff, as a result of insecurity, may have been unwilling to respond or felt threatened by revealing their views on customer retention. The selection of an appropriate instrument for data generation was critical. The use of self-administered questionnaires assists in conveying confidentiality and tends to minimise reduced response effects in threatening questions (Sudman 1988). Care was taken to convey, both verbally and behaviourally, that the researcher and management were entirely separate and that there would be no collusion. These points are dealt with more fully in Chapter 5.

2.6 Conclusion

During the course of this chapter, the bases of research methodology have been set out within the context of the current debate in marketing. This discussion has laid the foundations of the theoretical background to the investigation. The identification and justification of a research methodology is fundamental to successful investigations and researchers in business are fortunate in that there is a choice of methodologies and traditions. The study had a clear direction on the basis of the researcher's own world-view and the objectives of the study. Newer interpretations of marketing support interpretative/qualitative approaches to research, but arguments have also been reviewed for the more traditional stance of a positivist/quantitative style of enquiry. Combining approaches, however, provides the best opportunity for gaining insight and developing theories about customer retention, so that pluralism forms the methodology for this enquiry. To draw an end to this chapter, an observation made by a significant contributor to qualitative research, summarises the dangers of taking a simplistic view of the paradigms in research:

> All inquiry reflects the standpoint of the inquirer. All observation is theory-laden.
>
> (Denzin 2001 p325)

CHAPTER 3

RETAILING FINANCIAL SERVICES

3.1 Introduction

The retailing of financial services has undergone profound changes in recent years. Major alterations in the structure of the industry have been accompanied by disruption of previous patterns of consumer behaviour. Deregulation in the sector, increasing consumer sophistication (OECD 1992) and the emergence of technology (Gardener et al. 1999) have all had a significant impact on the provision of financial services to the consumer. Although it has been observed that the 1980s were 'years of plenty' for the banks, the 1990s were more difficult (Sweeney 1999) as an increase in competition has put pressure on profit margins (Gardener et al. 1999). It is likely that the launch of the *euro* at the beginning of 1999 had a major effect on these financial institutions (Walter 1999) in terms of additional costs.

This chapter charts the transformations that have impact on traditional providers of financial services and their interaction with their customers. The literature usually refers to retail banks, but, as building societies are competing in the same marketplace for similar customers, much of what is said can be equally applied to them. For this research, these established, traditional providers of personal financial services will be referred to *financial services retailers* (FSRs) and this term will be used throughout the dissertation.

3.2 Re-structuring

Consumers have access to financial offerings from a wide range of providers. These providers include clearing banks, building societies, insurance companies, retailers that include financial services amongst their offerings and companies specialising in very limited product ranges. Clearing or retail banks, such as NatWest, have traditionally taken deposits, lent money and raised additional income through the provision of allied services, and their prime characteristic has been the branch network (Winstone 1991). Building societies conducted, until relatively recently, only two main activities. Since their inception in the eighteenth century, they have provided funds for house purchase, these funds in turn being raised through offering investment opportunities (Ashworth 1980). Banks, in the past, derived much of their profitability from corporate business and, it is only within the last twenty-five years or so that they have considered personal banking as a source of profitability. Banks began to offer mortgages and savings to personal customers and it is this change in policy, which has brought them into direct competition with building societies.

In 1986, legislation (The Financial Services Act and The Building Society Act) augmented the level of competition between banks and building societies. Building societies, for the first time, were able to offer a broader range of products, such as personal loans, and, as such, they began to encroach into the territory of traditional banks. In spite of the deregulation and liberalisation, building societies continue to provide the majority of home loans and banks still hold most of the cheque accounts, which may be an indication of the conservative nature of the financial services marketplace.

Since deregulation, banks and building societies offer largely similar products to the personal consumer. However, their backgrounds and their cultures are quite distinct. Building societies are 'owned' by their investors and borrowers and have a long history of mutuality, which still forms a keystone in their corporate strategy and culture. Banks are, largely, publicly quoted companies, which owe a primary duty to their shareholders and, consequently, they concentrate on shareholder value. Nonetheless, both banks and building societies are concerned with improving profitability and are pursuing a number of activities, which have resulted in profound change within the sector.

A combination of industry convergence, globalisation, deregulation and technological discontinuity has lead to consolidation (Day and Montgomery 1999), and these factors clearly apply to retail financial services. A number of institutions have merged so that they can achieve economies of scale, for example, Lloyds and TSB, Royal Bank of Scotland and Natwest, Band of Scotland and Halifax. The rationale for these mergers was that if these providers gained 'critical mass', it was thought that they would be in a stronger competitive position (Pawley 1991). It is reckoned that concentration in the industry will continue for the foreseeable future (Howcroft and Hamilton 1999), and will involve crossing national boundaries (Sweeney 1999). As well as merging, there have been changes in corporate status, as building societies convert to banks in order to benefit from what have been perceived as different trading conditions (e.g. Halifax, Abbey National, Bradford & Bingley). The reasons given for conversion and merger are improved customer service, lower costs through economies of scale, increased productivity and rationalisation (Heffernan 1995), although these benefits may be offset by over-centralisation (Leemputte et al. 1993). Other transformations in the sector include the acquisition of building societies by banks for example Halifax Bank has acquired Birmingham Midshires Building Society. The aim of these acquisitions is to gain the value of mortgage customers so that economies of scope and scale are achieved (Walter 1999).

Some building societies have chosen to retain their mutual status, sometimes against the wishes of a number of members, who wanted to convert their 'ownership' into shares. These societies have argued that they gain competitive advantage because they are owned by their members/customers and are run purely for their benefit. Accordingly, they are able to focus entirely on their members/customers, offer competitive pricing and adopt a longer-term perspective than banks that have shareholders as well as customers to satisfy (Clark 1996). It can be argued that building societies have not been successful in demonstrating their commitment to their members either through lower pricing or by offering better service quality (Clark 1996). Building societies have been far too ready to ape the strategies of banks and have, in doing so lost sight of their ethos (Clark 1996), and hence a possible basis for differentiation. Consumers do not perceive these institutions as being significantly different from banks, principally, because they have failed to offer the benefits of mutuality to consumers. They could also have addressed the notion of trust (see Chapter 4), which owing to their historical background, could be embedded in their very thinking.

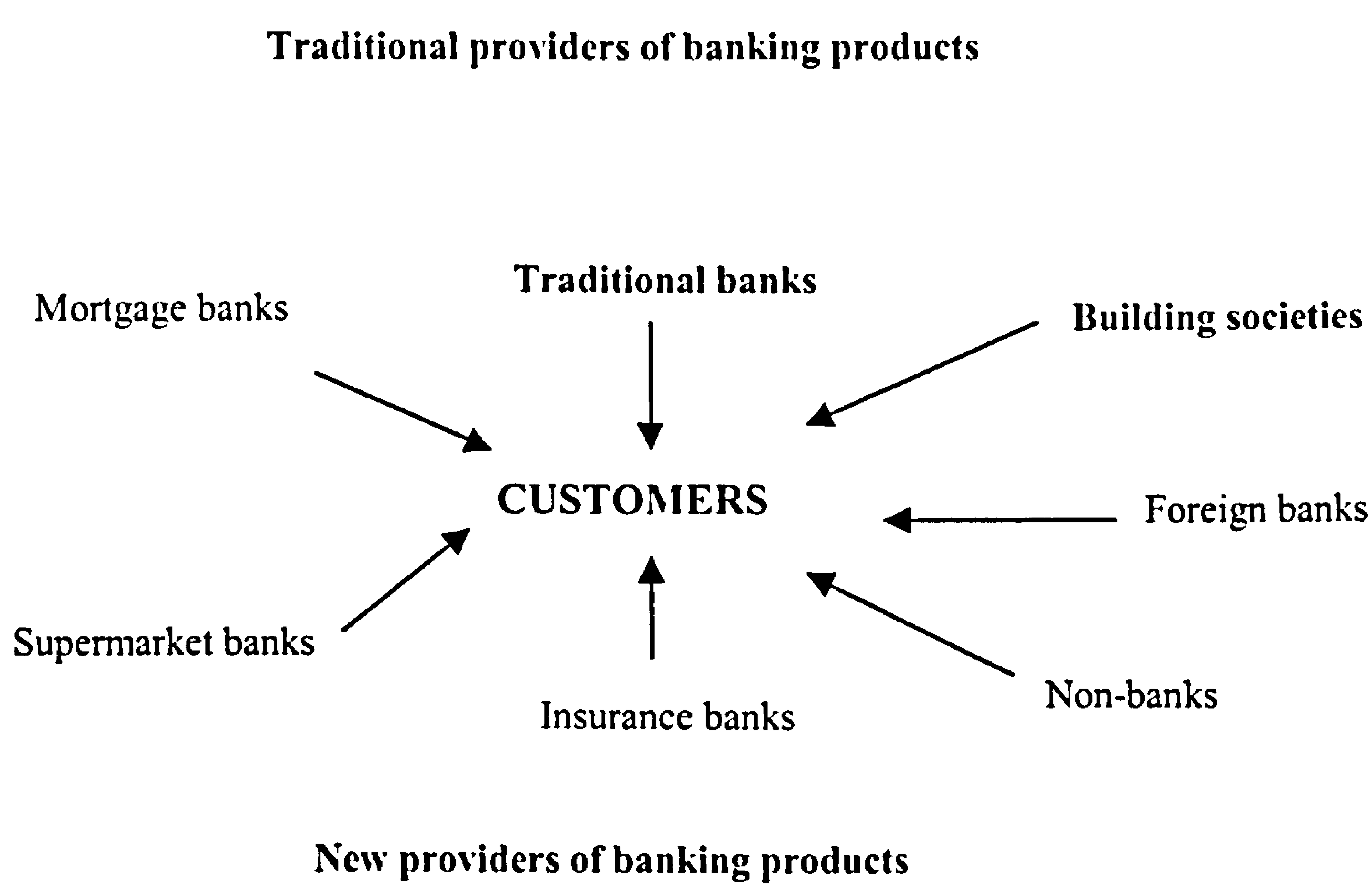
Although banks and building societies have distinctive backgrounds and corporate objectives, they both have vertically integrated structures that reflect the nature of the tasks they have traditionally performed. They possess a geographically dispersed branch network where each branch operates as a separate entity within the institution (Beckett 2000). Each branch is linked to the corporate body through a network of computer-based operating systems, which is managed by a strong control culture that insists on an adherence to rules and procedures. Staff are generally rewarded according to how much their behaviour conforms to these procedures.

3.3. Competitive Forces

The oligopolistic nature of financial services industry has often deterred competition, which has meant that the traditional suppliers still dominate the personal financial services market. However, over the last few years, foreign competitors have entered the UK market, for example Beneficial Bank from the US. Non-bank companies, such as Tesco plc, began to offer their customers a range of financial services during the 1990s. The rationale for the entry of the superstores into financial services is based on an overall strategy of building relationships with their existing customers through their enormous databases of purchasing information. Using these data, they can then target their customers with precision. Evidence from the US suggests that they may be able to make an impact on established behaviour (Crane and Bodie 1996). Advances in technology and delivery systems have greatly reduced the costs of providing financial services, so that these new entrants can offer a limited range of personal financial services without investing in expensive retail outlets. The superstores are able to adopt a highly customer-focused approach to marketing financial services, owing to their extensive experience of operating in highly competitive marketplaces.

There has, therefore, been a major change in the way that financial services are offered to personal customers and the number and variety of providers has increased significantly. Figure 3.1 depicts the retail banking structure by dividing providers into two categories of traditional and new, that demonstrates the extensive choice of provider available to the consumer and the intensive competition in the sector. This study concentrates on traditional banks and building societies.

Figure 3.1 Retail banking structure



(adapted from Mintel 1999)

One of the ways in which financial service providers have responded to competition has been through the adoption of technology in the delivery of the service.

3.4 Technology

As banks and building societies face increasing competition, as well as the need to improve profitability from personal consumers, the role of information technology (IT) has become a significant factor. One of the ways in which FSRs have sought to reduce costs has been by re-assessing the role of their branch network which is expensive to maintain. Virtual banking removes the constraints of time, place and form from conventional banking by offering banking services through a multiplicity of delivery systems such as the telephone or the internet. A further advantage is that virtual banking also matches changes in consumer lifestyles, so that customers can access financial services, in many instances 24 hours a day, seven days a week (Daniel 2000). The convergence of computing, telecommunications and visual media (Baldock 1997) significantly reduces transaction costs (Peppard 2000) and permits the centralising of functions, for example call centres.

Staff reduction, particularly in branches, is a seductive proposition to employers when seeking to improve profit margins (Walter 1999). In spite of the success of First Direct, for example, there are customers, who prefer to conduct their financial affairs at the branch and who have, in some instances, been inconvenienced because of local branch closures. One of the challenges faced by institutions in developing strategies for virtual banking is the overlap of channels competing for the same customer. The future of the bank branch is uncertain, in spite of the major efforts to transform branches into retail outlets.

Retailers also need to understand precisely in what circumstances customers require face-to-face interaction which places further constraints on a shift to virtualisation (Daniel and Storey 1997). The critical issue of virtual banking and the deployment of IT in strategic bank marketing is considered more fully in section 3.6.3.

These considerations leave banks unable to predict the degree of consumer acceptance for on-line banking. Must the big providers ensure that they have a significant share of the online market? Can they adopt a defensive strategy of retaining those customers who may prefer not to go online? Sustainable competitive advantage may not necessarily be derived from online banking (Harris 2000) and it has been argued that Egg's strategy of offering attractive rates exclusively to online customers is likely to result in significant losses (Nisse 2000). Virtualisation, of course, is not restricted to banking services and many retailers are offering their products, which, of course, include financial services, via the internet e.g. Sainsburys. The expertise of many food retailers in understanding the customer's perspective may allow them to manage virtual retailing more effectively. Virtual retailing is experiencing a fairly troubled inception as a number of e-retailers have gone out of business or have been acquired by traditional retailers, for example John Lewis' purchase of Buy.com. This trend has meant that FSRs have been obliged to develop an on-line service as well as maintain a branch network. An example of this dual approach is Abbey National, which has developed the on-line provider under a separate brand – Cahoot.

3.5 Consumption of financial services

The market conditions of severe competition and volatile consumers that exist within the sector of retail financial services appear to be manifestations of postmodern society (see 2.3.2). The growing unpredictability of consumer behaviour (Firat et al. 1995) and the highly competitive environment have both contributed to undermining business stability (Stevenson and Moldoveanu 1995). The primacy of the individual is supreme in postmodern thinking and, in marketing terms, this has resulted in a proliferation of products and providers which has sprung up to serve this heterogeneous marketplace (Brown 1993, 1994). Consumer power and confidence has grown so that the high levels of perceived risk, formerly associated with the purchase of financial services (Foht 1995) have diminished. These new characteristics in the consumption of financial services have resulted in consumers often being multi-banked. Consumers have, on average, three providers that serve their financial needs (Mintel 1999).

The particular difficulty faced by providers of financial services is the nature of financial offerings themselves, and it is this distinction that sets them apart from many other retailers. Financial services are generally consumed either to achieve an end, or to avoid an undesirable event, so that they are neither ends in themselves nor do they offer any particular pleasure. They generally fall into the category of functional rather than hedonic products (Solomon 1999) and are purchased to avoid rather than achieve a particular outcome; car insurance and pensions are examples. Because of this characteristic of many financial services offerings, a stronger selling element may be required as part of the marketing strategy.

3.6 Marketing strategies

The volatile market conditions pose significant challenges for FSRs as their preference is for orderliness and stability, which is reflected in their traditional and modernist strategies (Eriksson and Mattsson 1996). In spite of the competition, many banks and building societies still have not succeeded entirely in becoming customer-focused (Meadows and Dibb 1997). Banks, in particular, have not developed clearly defined positions based on attributes of service quality or service provision (Devlin et al. 1995), and they have often been product rather than customer-led (Meadows and Dibb 1997). This section presents an overview of strategy development for the retailing of financial services and extracts from the literature four key areas that could lead to greater levels of customer satisfaction.

Many providers have adopted the strategy of *bancassurance*, which involves the horizontal diversification of existing financial instrument portfolios to embrace long term saving offerings such as pensions, insurance and investment trusts (Beckett 2000). The rationale for this approach is that economies of scope can be achieved by selling financial products in the branch networks and, increasingly, through virtual banking. It also begins to address the problem with the nature of many financial products, discussed above in that they are purchased to achieve or, indeed, avoid an outcome or event. The success of *bancassurance* has not yet been vindicated for a number of reasons. Firstly, selling of such products has not always sat easily within the existing culture of FSRs, and secondly, it pre-supposes a passive consumer when there are multiple indications that this is no longer the case (see section 3.5). Nonetheless, the aim of banks and building societies is that of converting customers from being single-product to multi-product holders.

Trading in a saturated marketplace means that banks have little scope for growing through finding new customers, and are reliant on selling more to existing customers or acquiring customers through competitive actions such as offering discounted borrowing rates. Their difficulties are represented in Figure 3.2

Figure 3.2 Strategy selection for traditional providers of financial services

customers	products: existing	products: new
existing	arrest customer defections, cross-sell selected products	cross-sell stakeholder pensions, investment opportunities
new	offer discounted rates to attract new customers	offer value-added packages to high net worth customers

(adapted from Ansoff 1957)

Although this matrix is an example of a classical marketing strategy, it succeeds in illustrating some of the difficulties that FSRs face. For example, the bottom left hand quadrant, concerned with new customers and existing products, tends to suggest that, in an undifferentiated market, there are few alternatives in attracting new customers other than offering discounted rates. Discounted mortgage or enhanced savings rates are offered for a fixed period after which they revert to less attractive terms. This practice has possibly contributed to customer switching (Dawes 1999) or customer dissatisfaction at the end of the favourable period. The top right hand quadrant shows how existing customers will be offered new products, based on details in a customer file. The bottom right hand quadrant indicates the challenges posed by saturated markets and undifferentiated products. At present, there is very little scope for finding new customers other than offering customers inducements to switch or offering packages of premium banking services such as Barclays 'Additions'.

In the light of the failure of FSRs to respond effectively to changes in the marketplace, it is scarcely surprising that consumers now tend to view financial services as commodities and to shop around in order to get the best value. They are aided in their search by advice columns, search engines and TV programmes, which probably further contribute to customer mobility. FSRs have to reconcile themselves to new conditions of consumer behaviour and they must ensure that they are equipped to deal with them. Furthermore, to succeed in the highly competitive and saturated marketplace, FSRs should emphasise aspects of service which customers value, such as assurance and credibility (Blanchard and Galloway 1994). Developing appropriate strategies would go some way to address the difficulties posed by fierce competition, particularly from the superstores, and even in these straitened circumstances, there are a number of strategic options.

3.6.1 Value

Customers are increasingly pre-occupied with obtaining value (Woodruff 1997), which suggests that FSRs can respond to severe competition by creating new or superior value. Traditional value-creation strategies in the sector, such as new product development, have not provided competitive advantage owing to the ease of replication therefore FSRs need to understand exactly how consumers perceive value. Customers would appear to place value on the process elements of the service, such as responsiveness and assurance, as well as competence and they need to feel that FSRs are trustworthy (Blanchard and Galloway 1994). Customers make an intuitive assessment about offerings based on benefits and sacrifices (Zeithaml 1988) and, if they consider that they have received value, then an emotional bond may be established between the customer and the provider (Butz and Goodstein 1996). Hence, any organisation wishing to retain customers needs to consider carefully the distinctive advantages that they can offer to their customers (Holmlund and Kock 1996) and how value may be discerned by sophisticated and knowledgeable customers. It is worth noting when considering how value may be perceived, that customers may make judgements about FSRs about whether they contribute to society (Davies 1996), which offers scope for innovative product development and segmentation.

The emergence of new segments, however small, can provide new opportunities for FSRs, specifically a shift away from low-cost mass production to adding value for clearly defined segments. As yet, there appear to be few instances of this kind of value. FSRs need to be aware that growing levels of consumer sophistication mean that customers are more inclined to rely on their own ability to seek value and which must be clearly conveyed (George et al. 1994) by the providers. A unique and powerful brand is a particularly important aspect of successful retailing (Kumar 1997) and strong branding would address some of the problems that FSRs have experienced in differentiation, which, as yet, they have not fully understood (Debling 1998). FSRs face significant challenges if the predictions about postmodern consumption prove accurate and Table 3.1 gives an indication of some of the issues raised by this discussion.

3.6.2 Segmentation

Earlier marketing strategies within the sector consisted of mass marketing financial products (Shurman 1991) and it retains some of these elements (Howcroft and Hamilton 1999). In highly competitive markets, focusing solely on price and transaction volume is not the best way to remain competitive (Keltner and Finegold 1996). A greater understanding of the consumer is needed to respond to the changes in the financial services environment and, accordingly, banks [and building societies] are trying to identify and target customers who are likely to be profitable (Smullen 1995). They may strive to achieve economies of scope by vigorous cross-selling as well as restructuring, although it has been hard to discern success through these activities (Walter 1999). If FSRs can establish an individual customer's profit potential, they can then offer this customer a range of carefully targeted products as well as superior levels of service quality.

New market segments, however volatile, provides new opportunities for FSRs, specifically enabling them to shift away from low-cost production (Gronroos 1997). There is some suggestion that FSRs are segmenting their customer base according to the customer's preferred means of accessing the services (Devlin 1995). They should endeavour only to satisfy those customers whose needs they can meet better than their competitors (Hallowell 1996), a fundamental precept of competitive marketing (Hooley et al. 1998). Clearing banks, which have, in some instances, very large numbers of customers on their databases may find it particularly challenging to reduce the actual number of customers and concentrate on improving individual customer profitability. At present, these banks deal with financially less sophisticated consumers, who place the convenience of the high street above value and who also tend to be risk-averse (Mintel 1999).

The role of the cheque account is pivotal in retail financial services and 79% of adults have one, most probably with a bank (Mintel 1999). The value of the cheque account is that it almost guarantees interactions with the provider, which engender cross-selling opportunities (Mintel 1999). Recent figures show that 2.75 million customers have moved their current account within the past 12 months (Bien 2002), suggesting that inertia, on the part of customers in moving their accounts (Knights et al. 1994), is diminishing. FSRs could gain some advantage through customising products, so that the needs of consumers could be met precisely. It is believed that they already have the required expertise and technology (Crane and Bodie 1996) so there should be little impediment to developing individually designed offerings.

FSRs need to develop segmentation and positioning measures that respond to changes in the sector and the marketplace. Segmenting customers according to service requirements, as recently suggested by Payne and Frow (1999), is an option for FSRs to consider.

3.6.3 IT and delivery

The development of IT is seen as pivotal by banks in achieving efficient service delivery and accurate segmentation (Speed and Smith 1995), it also begins to redefine relationships in financial services. It would appear that customers are willing to trade-off earlier levels of personalisation for convenience, but care is needed that in reducing labour costs and pursuing price competition, relationships with customers are not weakened (Keltner and Finegold 1996). Consumers' needs should be paramount when designing automated delivery channels and these channels, at the very least, need to be consistent with corporate and marketing strategies, in spite of temptations to reduce costs. FSRs should take into account how the customer contacts the bank as a variable in calculating individual customer profitability, and some virtual banks have indicated pre-conditions to prospective customers, such as on-line access only e.g. Cahoot and Egg.

The innovation required for success in the new environment, whether in delivery systems or not, is less dependent upon technology than flexible management and organisational readiness (Devlin 1998). Indeed, a creative approach to blending marketing and technology may allow FSRs to offer both relational and transactional exchanges (Zineldin 2000). Banks and other retailers of financial services should aim for a dynamic interaction between markets, processes and the organisation itself to ensure long-term profitability (Eriksson and Mattsson 1996).

3.6.4 Relational exchanges

Many bank customers have in the past been disinclined to change their providers even if they receive unsatisfactory service. This behaviour has been labelled 'customer inertia' (Knights et al. 1994) and may have, in the past, bred a degree of complacency in FSRs in terms of creating customer satisfaction. FSRs are now aware that customer inertia is less certain and that they need to make efforts to retain profitable customer (Harris 2000). Although FSRs are increasingly aware of the need to deliver customer value (Sweeney 1999), other corporate objectives such as mergers and short-term profitability may conflict with the requirements creating satisfaction, building relationships and achieving retention. There are a number of areas, which are likely to impede retention of desired customers. Continuous investment in customer-tracking systems is needed, although FSRs have experienced problems with installing and integrating information systems (Dawes and Worthington 1996). The traditional culture of FSRs may hesitate at empowering staff, which means that the real benefits of customer retention (Ennew and Binks 1996) may take some time to be realised. The drive to contain costs has resulted in downsizing, with subsequent staff losses and low levels of organisational commitment, which influence the behaviours of bank staff (Durkin and Bennett 1999) in building successful relationships.

Cross-selling in order to improve customer profitability is a core activity in the retailing of financial services, but it remains a contentious one. Looking at cross-selling from a consumer behaviour angle, the very act of cross-selling, runs counter to notions of the choice-laden postmodern consumer (e.g. Elliott

1993), who has almost infinite choice. Functional products (Solomon 1999), such as house insurance, are purchased frequently on price and, increasingly, thróugh virtual channels from non-traditional providers. Interestingly though, it may well be that this almost overwhelming choice which could drive the consumer back into the arms of the traditional provider. Consumers usually have in their mind a number of possible products, referred to as the evoked set. If this evoked set becomes unmanageable through a profusion of offerings, then they may rely on their existing provider to make the selection easier.

The arrival of virtual banking changes the nature of many banking jobs from the branches to the call centre. The growth of internet banking further shifts the emphasis away from staff actions to procedures and systems supporting the technical interface. Reducing costs has also reduced the impact of quality initiatives (McCabe et al. 1997), which then contributes to lower levels of customer satisfaction. It is clear that there are a number of factors, that conflict with relationship building and, possibly, the retention of customers.

3.7 Strategy considerations

From a wider perspective, two further issues arise from the discussion so far. Firstly, is the concept of building relationships viable in an industry such as retail financial services where financial products may resemble commodities? Certainly, in areas of contract retention where the customer holds just one product, it may not be worthwhile for the organisation to devote substantial effort in an enduring relationship. There is little support for strategies based on a customer holding several products with one provider, as customers prefer to shop around (Mintel 1999). The type of product may be important here, and a study of what types of product lead from contract retention to client retention could be valuable hence the efforts by FSRs to encourage customers to open current accounts.

Secondly, is the enthusiasm displayed by banks and building societies for developing IT at the customer interface consistent with the pursuit of building relationships? IT can either threaten relationships by homogenising the service offering, which, in turn, undermines the notion of building customer-specific relations. Conversely, it can enhance retention as it provides FSRs with the means of tailoring offerings to precise individual needs through customisation. Although FSRs have actively pursued relationship marketing (Murphy 1996), the IT-driven style they have adopted may differ from those discussed in the following chapter. Realistically, it is not a question of whether to enlarge the IT component of the exchange, but, a matter of designing the most appropriate interface and support.

To summarise the challenges that FSRs face, Table 3.1 uses a postmodern scenario to summarise the challenges facing them.

Table 3.1 Aspects of postmodernity and their relevance to FSRs

Postmodern aspects	Relevance
Openness/ tolerance	Acceptance of individuality. Breaking free from traditional customer assumptions. Acceptance of the view that the customer is king
Hyper-reality	Constitution of social reality through hype or simulation that is powerfully represented. Improved segmentation and communication. Innovate close to the customer.
Paradoxical juxtapositions	Cultural propensity to experience everything (including the past and future) in the present "here and now". Responding to consumer needs instantly through a range of channels suited to individual needs.
Fragmentation	Omnipresence of disjointed moments and experiences in life and sense of self - and the growing acceptance of the dynamism which leads to fragmentation in markets. Micro-marketing and learning relationships. Awareness of shifting needs and wants.
Loss of commitment	Growing cultural unwillingness to commit to any single idea, project or grand design. Recognition that customers need a reason to be loyal. Creation of customer value.
Decentring of the subject	Removal of the human being from the central importance she or he held in modern culture - and the increasing acceptance of the potentials of his/her objectification. Decentralised structures and decision-making. Empowering staff. Range of distribution channels.
Reversal of consumption and production	Cultural acknowledgement that value is created not in production (as posited by modernist though) but in consumption - and the subsequent growth of attention and importance given to consumption. Cultures which are consumer driven rather than product driven.
Emphasis on form/style	Growing influence of form and style (as opposed to content) in determining meaning and life. Improved service quality and corporate image. Revised organisational structure.
Acceptance of disorder/chaos	Cultural acknowledgement that rather than order, crises and disequilibria are the common states of existence - and the subsequent acceptance and appreciation of the condition. Flexibility, adaptation and continuous learning.

adapted from Firat and Shultz (1996 p186)

3.8 Discussion and conclusion

This final section summarises the themes developed during the course of the chapter and argues that the current state of flux in the retail financial services sector would appear to support yet, simultaneously, undermine efforts to retain customers. Supposing a postmodern scenario, customers, as they gain confidence, may venture away from an inert state to seek better value from competing providers, or, overwhelmed by proliferating products, may cling to their existing provider. The pursuit of lowered costs through economies of scale and merger by FSRs may prove harmful to strategies at a micro-level aimed at relationship-building with individuals or at a macro-level fail to respond adequately to a consumer-driven, dynamic environment. FSRs may weaken their long-standing identity, built up through family connections and social networks as they merge with each other and contract their branch network. These environmental responses are likely to threaten the traditional strategies of mass production and economies of scale, cited by FSRs, as reasons for merging. Similarly, the pursuit of market share may impair efforts at building enduring relationships with profitable customers, as attempts to acquire customers take priority over retention. By optimising processes and re-appraising the role of the consumer in consumption (see section 3.6), FSRs could respond more effectively to the threats posed by changes in the competitive environment.

There are indications that marketing as practised by FSRs is modelled on more traditional interpretations of marketing management, as discussed in Chapter 2, specifically, a focus on transactional exchange. Their lack of success in differentiation may be an indication of an inappropriate strategy for postmodern markets. Successful relationship marketing rests on a sound understanding of consumer behaviour, perhaps undeveloped in this sector, as strategies were developed with the acquisition of customers in mind. Furthermore, consolidation and changes in corporate status may mean that FSRs have a different set of priorities to address, such as integrating functions and strategy as well as an emphasis, by some retailers, on shareholder value. The banking sector, as a whole, suffers from organisational inertia moulded through decades of rules and regulations, which makes it difficult to change practices (Eriksson and Mattson 1996).

Although there have been numerous mergers, acquisitions and conversions within the sector, essentially, providers of retail financial services offer similar products to the same groups of customers, usually through similar channels, pursuing strategies that appear to share similar characteristics e.g. relationship building. By adopting cross-selling to their existing customers, they are aiming to offer a range of financial products, some of which are complex with considerable long-term implications for their consumers, for example stakeholder pensions. This theme of cross-selling runs through this entire investigation and forms one of the most important reasons why FSRs seek to retain customers (see Figure 3.2). The challenge that FSRs face is that previous inertia on the part of consumers of financial services is giving way to mobility, fragmentation and unpredictability so that retention is becoming an elusive goal. Such is the difficulty of choice and the similarity of providers allied with the complexity of products that existing providers could well be in a strong position to hold on to their customers as evaluation of alternatives becomes excessively onerous.

If these traditional providers are to respond effectively to the changes in their environment, they also need to re-appraise their structures and their cultures. Although there are some indications that FSRs have responded to some marketing prescriptions, neither their existing practices nor their culture seem to be consistent with their hopes to retain desired customers. Harrison (2000) points out that marketing is not an activity that the larger banks have valued highly, for example no marketing director has ever sat on one of the main boards of the 'big four' banks and the marketing function has had a limited impact on corporate strategy. The adoption of relationship banking has not been found to offer consumers value (Which? 1999) nor has it resulted in the multi-product holdings to the extent hoped for by FSRs. The providers face a unique set of challenges that rely extensively on organisational responses. By seeking the perceptions of staff working within these organisations, knowledge will be generated on the capabilities of FSRs to retain customers.

CHAPTER 4

RETAINING CUSTOMERS

4.1 Introduction

The previous chapter illustrated the pressures on retail financial services brought about by legislative changes, severe competition and developments in technology. These pressures are intensified by growing sophistication amongst consumers, who make careful judgements about financial offerings and, increasingly, demonstrate a willingness to switch providers, if dissatisfied. As companies increasingly contemplate strategies for retaining rather than just acquiring customers, a greater understanding of what encourages customers to stay with a company or discourages them from switching is valuable. This chapter reviews the literature on customer satisfaction, loyalty, trust and relationship marketing to gain insight into the dynamics of retaining customers. It then explores customer retention, the particular considerations of retaining customers in the retailing of financial services and concludes by identifying key organisational aspects of retaining customers for FSRs.

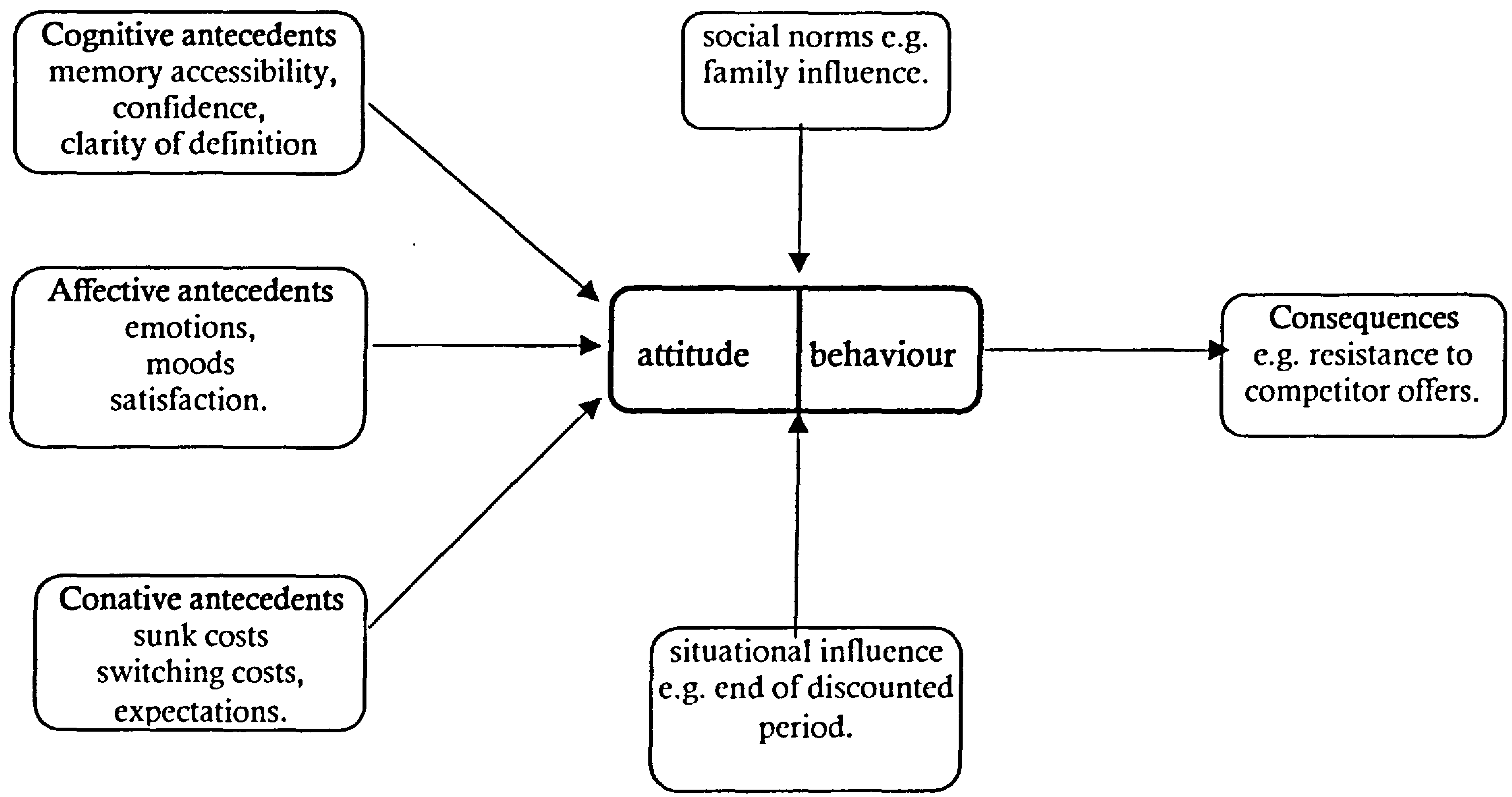
4.2. Customer loyalty

The advantages of a body of loyal customers are thought to be significant. Having loyal customers can lower costs (Birgelen et al. 1997) by providing stability. Loyal customers are less price-sensitive, they may increase the number of their purchases, the frequency of their purchases or even do both. They may become advocates of the organisation concerned and play a role in the decision-making of their peers or family. A company with loyal customers has a considerable competitive advantage, as firm linkages between customer loyalty and organisational profitability have been demonstrated (Hallowell 1996). Organisations have made significant effort to try to gain customer loyalty, for example through loyalty cards, but many of these initiatives have been unsuccessful or short-lived owing to the complexities of customer loyalty which are set out in the following sections.

4.2.1 Conceptualising loyalty

Loyalty has been interpreted in a number of ways from repeat purchases to a lifetime relationship (Ennew and McKechnie 1998), and a useful preliminary is that loyalty is a deliberate prior tendency to purchase a product or brand (Bhattacharya 1997). Consumers of services are thought to exhibit greater loyalty than consumers of goods, because the decisions involved in consuming a service are generally more complex than those for a good (Zeithaml and Bitner 1996). This view is unsatisfactory because it implies inertia on the part of the consumer of services and may encourage service companies to underestimate the mobility of contemporary consumers. A view of loyalty that depicts an interaction between attitude and behaviour provides richer insight into the dynamics of loyalty. The loyalty of a consumer, from this standpoint, is then determined by the strength of the relationship between attitude and behaviour as illustrated in Figure 4.1.

Figure 4.1 Loyalty construct



adapted from Dick and Basu (1994)

Three antecedents contribute to attitude in this model – cognitive, affective and conative. Cognitive antecedents are concerned with information, affective with feelings and conative antecedents reflect a behavioural disposition. Generally, the stronger the attitude that a consumer has towards a brand or a product in relation to similar brands or products, the greater the likelihood that he/she will choose that one in preference to competing offers. There are a number of difficulties with this model, including an obvious lack of distinction between brand and product, it is also unrealistic to attempt to establish causal primacy between attitude and behaviour (East 1997). A consumer's thoughts and feelings are interwoven and changes in one component may affect others in the system. In certain circumstances, attitude may even be a consequence of behaviour (Uncles and Laurent 1997), for example when a customer experiences dissonance. In addition, loyalty based on attitude may not be any more stable than behavioural loyalty, as both attitudes and behaviour may change over time. There is a danger in assuming that loyalty is a consequence of a decided choice process, which takes little account of unique consumer situations (Fournier and Yao 1997). These researchers found that an individual's social and physical environment as well as personal abilities pre-empted action. An incompatibility between a customer's attitude and his/her behaviour may arise because attitudes may stem from a range of factors, and make it difficult to predict a single behaviour.

To address some of these criticisms, the attitude/behaviour construct has been augmented by a fourth dimension of action loyalty (Oliver 1999), in which motivated intention on the part of the consumer is transformed into action, i.e. a desire to repurchase. The value of Oliver's (1999) contribution to the loyalty literature is that by postulating a fourth attitudinal component, he addresses the lack of fit between attitude and behaviour as discussed above. The action stage of loyalty is a commitment to the action of rebuying (p36), although the writer acknowledges the lack of empirical support for his proposition.

4.2.2 Brands and schemes

Extensive research has been conducted into loyalty specifically towards brands (e.g. Dowling and Uncles 1997) and it goes some way to address the lack of clarity in some of the earlier models. There is certainly evidence that FSRs have invested considerable resources into branding activities, mainly through extensive advertising. However, as discussed in the previous chapter, there has been little real progress in the building of powerful brands in this sector (see section 3.6.1). Customers typically have loyalty relationships with a range of brands and exhibit polygamous loyalty (Uncles et al. 1995). In retail financial services, customers are described as being 'multi-banked', which usually means that customers have a number of products with a number of providers. For example, a customer may have a cheque account with a high street bank, a credit card (or two) with a specialist provider, a mortgage with a building society and an on-line savings account.

As well as research into brand loyalty, there have been studies into loyalty programmes (e.g. Sharp and Sharp 1997). Companies have developed schemes, which try to encourage customers to stay with the company, or to use the company more frequently, for example, airlines. Britannia Building Society, for example, has a loyalty scheme that rewards customers who stay with the society for a period of time. These methods of creating loyal customers have been oversimplified by failing to address the attitude component of loyalty. They have not fundamentally altered the market structure (Dowling and Uncles 1997) and have proved costly, particularly to companies that operate in competitive markets with low differentiation. The failure of these schemes to modify consumer behaviour can be attributed to an imperfect understanding of loyalty, in particular, the complex interplay between attitude and behaviour.

4.2.3 Loyalty and financial services

The insight into loyalty provided by these studies is particularly valuable in the retailing of financial services. Firstly, FSRs may not have been able to distinguish between genuinely loyal customers and those who are *just* not switching to a competitor. This type of customer may conform to the category of spurious loyalty, which consists of customers who have a low relative attitude but high repeat patronage (Dick and Basu 1994). These customers behave outwardly as if they are loyal but are, in fact, susceptible to other offers and may switch if they discern superior value elsewhere. Although customers in this category lack strong attitudes towards a company or brand, it may be possible to convert them through appropriate actions into being genuinely loyal (Ennew and Binks 1996). The identification of the action loyalty phase (see 4.2.1), which could include actions such as complaint or query, allows the provider to recover the situation. If action loyalty is repeated several times it can lead to a stage of action inertia that encourages continued patronage. FSRs should not confuse this action inertia state with customer inertia, a characteristic of financial services (Knights et al. 1994). The previous stages of loyalty cited in Oliver's (1999) construct are unlikely to have been experienced by FSR customers. Although FSRs have considered their customer loyal on the basis that they have not shifted their accounts, it is more likely that they fall into the category of spurious loyalty at best (see Figure 4.2).

A consumer incurs both emotional and financial costs by switching providers, and these costs are generally perceived to be higher if the product concerned is a service as opposed to a good (Zeithaml and Bitner 1996). In the retailing of financial services, switching costs include the perceptions of risk, because financial services are not only intangible, as with most services, but they are also frequently complicated. Financial products are generally high in credence qualities (Gabbott and Hogg 1998); those qualities in an offering which consumer find difficult to evaluate at any stage in consumption. The consumer has to place trust in the integrity or professionalism of the provider. Empathetic staff can provide information and reassurance to overcome perceptions of risk or uncertainty on the part of the customer. Figure 4.2 illustrates how different loyalty states can be operationalised in the financial marketplace.

Figure 4.2 Loyalty states and financial services customers

ATTITUDE	BEHAVIOUR: High	BEHAVIOUR: Low
High	loyalty – long term relationship with multiple products	latent loyalty – occasional contact with existing provider to enquire about needed product
Low	spurious loyalty - inertia and/or propensity to switch. Susceptible to price changes and competitor offerings	no loyalty – very likely to switch, may only be restricted through penalties and lock-ins

(Dawes 1999)

This model has significant implications for retailers of financial services as it depicts different loyalty states in their customers. It forms a basis for developing strategies for retention and which customers may be most effectively targeted. For example, it needs to be understood why there are customers with little or no loyalty and whether they are worth effort and expenditure to bring about a change in their attitude towards the provider.

Mackintosh and Lockshin (1997) have described the important role played by sales staff in creating customer loyalty in retailing. They found that commitment to the salesperson was directly associated with attitude to the store and repurchase intention. Commitment to the retail store was not diminished in any way by commitment to the salesperson, but, in fact supplied an extra bond. Several levels of loyalty can interact, for example loyalty to a store and loyalty to a salesperson. Customers, who fall into either the spurious or latent loyalty categories, could benefit from appropriate staff actions. If customer loyalty can be enhanced through personal interaction, and here it implies a known and repeated interaction, then FSRs face a challenge of, firstly, providing complex products and, secondly, maintaining or creating loyalty in a virtual environment.

4.3 Customer satisfaction and service quality

Customer satisfaction is often cited as a pre-requisite to customer loyalty (e.g. Hallowell 1996), but its role in creating loyalty is unclear, as customers who express satisfaction with a service or product still switch, and conversely, dissatisfied customers remain. When customers are *completely* satisfied, it seems that they are less likely to defect or switch, leading to the proposition that the intensity of satisfaction is an element in customer loyalty (Strauss and Neuhaus 1997). So although, a positive association between customer satisfaction and customer loyalty may exist, increasing satisfaction does not necessarily produce an equal increase in loyalty for all customers (Soderlund 1998). Distinguishing between latent and manifest satisfaction is an attempt to gain insight into this complex issue of loyalty and satisfaction (Bloemer and Kasper 1995). Customers who experience latent satisfaction still remain open to offers from other sources, whereas customers who have experienced manifest satisfaction are likely to become loyal. The relationship between satisfaction and loyalty is neither simple nor linear, which leaves companies with the disagreeable proposition that, in spite of all their efforts, satisfied customers may well defect.

Even though this inequitable situation exists, the provision of service quality that consists of fair play, reliability and the capacity for building relationships (Parasuraman et al. 1991) is indisputable in satisfactory exchanges. Customers may be satisfied with a relationship but dissatisfied with a service episode (Storbacka et al. 1994), as each episode is judged on whether it meets adequate or desired levels of service. If staff are empowered they can recover service failures (Farquhar et al. 2002). Staff can also identify and address customer sacrifice gaps, the difference between what the company offers and what an individual customer desires (Gilmore and Pine 1997). There is a consensus in the literature that all staff need to be involved in delivering customer satisfaction (e.g. Lewis 1993, Peppard 2000). Customers should be real to all staff and forms of contact should be revised so that staff, including those behind the scenes, are aware of customers (Kanter 1991). All employees are service providers either directly to customers or to customer-serving colleagues (Varey 1995b). FSRs have emphasised reliability, performance, convenience, responsiveness and adaptability as key parameters in quality improvement (Murphy 1996), but such initiatives may be undermined by cost-cutting and increased staff workloads (McCabe et al. 1997). Pressure on branch staff to increase sales (Chaston 1993) may also impact adversely on perceived levels of service quality.

Dissatisfaction, as a distinct construct from satisfaction, has received scant attention. It is useful to regard satisfaction and dissatisfaction as two orthogonal axes rather than a bipolar measurement (Soderlund 1998). This observation is similar to Johnston's (1995) identification of 'satisfiers', which enhance customer satisfaction, and 'dissatisfiers', which, if managed more effectively, can lead to a reduction in dissatisfaction, but do not contribute to satisfaction. Just as satisfied customers are not necessarily loyal, dissatisfied customers do not always defect. Although some defections are caused by dissatisfaction, consumers may take no action at all when dissatisfied (Gronhaug and Gilly 1991). Customer switching is often the result of the action of more than one stimulus (Keaveney 1995), for example, dormant dissatisfaction may be activated by an opportunistic mailing from a competitor. Although customer satisfaction does not necessarily lead to the retention of customers, assessing customer satisfaction is a vital element in building relationships (Gronroos 1991); the key is to engender a climate so that staff see, as their major priority, the satisfaction and retention of customers (Clark 1997).

4.4 Relationship marketing

When consumers purchase a service, as opposed to a good, they undergo an experience that centres on the simultaneous delivery and consumption of the service. It is at this point that customer perceptions are formed and judgements made on the nature of the experience and the opportunity for relationships to be initiated or enhanced. Relationship marketing (RM) is a process (Gronroos 2000) that consists of having long-term relationships with customers, usually on a one-to-one basis and forms the strategy that underpins relational exchanges. These relationships are stabilising elements, which can address the challenges of market fragmentation and lack of differentiation of service offerings (O'Malley et al. 1997). RM forms the bridge between the organisation and the customer, by means of reinforcing linkages, responding to customer needs and serving micro-segments (Berry 2002, Hennig-Thurau 2000). There is, however, considerable disagreement over the interpretation of RM and Brodie et al. (1997) have identified the following versions:

- an elaborate form of database marketing
- organisations relating to customers in order to retain them
- customer partnership where customers are involved in the design and development of products
- a "catch-all" phrase which incorporates everything from database marketing to personalised service

Barnes (e.g. 1994) has long argued that RM can be interpreted in many ways but he rejects styles based on 'locking in' customers and database marketing, as sources of long-term competitive advantage. There is consensus in the literature that relationships should be based on power being distributed equally between the partners (Hogg et al. 1993, Rowe and Barnes 1998). The provider should manage equity within the relationship (Szmigin and Bourne 1998); this point has considerable ramifications for FSRs, who may not have always fully appreciated their role. The buyer and the seller are equally important in the relationship, as they are both active parties in a rich and multi-dimensional exchange process (Easton and Araujo 1994). There should be a genuine interaction between the parties over time, with a relatively high mutual dependency and a concern for how relationships are interconnected (Mattsson 1997). The most significant benefit that customers gain from a relationship may be confidence (Gwinner et al. 1998), and it is worth noting here that confidence is also one of the antecedents of relative attitude in the loyalty construct (see Figure 4.1), linking loyalty and RM.

Some writers (e.g. O'Malley and Tynan 1999, Tynan 1997, Smith and Higgins 2000) have questioned the relevance of RM in mass consumer markets. They argue that RM is of particular value in organisational and services marketing contexts, but that it is situationally contingent, which means that there may be occasions and business sectors when RM is inappropriate. For example, suppliers of generic products find relationship building difficult to achieve (Palmer and Bejou 1994), as there is little reason for customers to repurchase those products from the same provider time after time. These comments have resonance for FSRs as their products and brands may not have achieved sufficient differentiation for customers to remain loyal. There has been a considerable degree of interest in relationship marketing because it seems to offer companies a means of arresting customer defections and increasing sales, both of which contribute to improved profitability. However, for successful relationships to occur and continue, there are a number of elements which companies need to address.

4.4.1 Trust and commitment

If partners in the relationship or network are committed then, clearly, they are less likely to abandon it (Morgan and Hunt 1994), so commitment may be more important in establishing a relationship than either quality or value (Beaton and Beaton 1995). Garbarino and Johnson (1999) propose both trust and commitment as intermediate constructs in customer relationships. Trust could be a precondition of increased commitment (Hocutt 1998) and is conceptualised as a belief that an exchange partner will fulfil the perceived obligations of a relationship (Michell et al. 1998). Long-term committed relationships may even include a willingness to make short-term sacrifices in order to realise long-term benefits. A partner will make a commitment based on his perception of the other party's commitment, on pledges made by the other partner and such factors as communication, reputation and relationship history (Fletcher and Peters 1997). Trust, in short, consists of two essential elements - trust in the partner's honesty and in the partner's benevolence (Birgelen et al. 1997).

4.4.2 Micro-marketing

Since RM is based on dialogues with individual customers, large segments should be subdivided into very small or micro-segments. Customer segments are already decreasing in size, so that economies of scale will be increasingly hard to achieve (McKenna 1988). One of the bases for these smaller segments should be existing and potential customer value (Moutinho et al. 1995, Payne and Frow 1999). Conventional approaches to segmentation are further weakened by a view that customers will enter and leave segments so segments will fluctuate in size and evolve over a period of time (Wright 1996). Existing segments may be lost through companies being unable to secure customer loyalty, or they may be disenfranchised (Firat and Venkatesh 1993), for example through the closure of bank branches.

There are two predominant methodologies for segmenting. The size of a segment can be determined either by its size or character on an *a priori* basis. Classical examples of *a priori* segmentation include socio-demographic or geodemographic data. An alternative approach is to divide up a heterogeneous market into segments based on homogeneous data and identifying segments *post hoc* (Harrison 1994). Frequently used bases for this type of segmentation include customer behaviour, the data for which can be supplied by loyalty cards. Segments can consist of customers who are, or could be, profitable and loyal (Reichheld 1996) but identifying these segments has proved particularly demanding for organisations such as banks (Peppard 2000).

4.4.3 Structure

Research, for some time, has underlined the need for organisations to adopt a more holistic approach to marketing and to break down functional barriers and hierarchies (George et al. 1994, Webster 1992); consistent with the 'new' marketing outlined in Chapter 2. Organisational structures could still be based on a transactional rather than a relational perspective (Cravens et al. 1996), and adjustments may be required so that marketing operations, human resource management needs are interdependent (Gronroos 1995) for RM. For example, the collection and dissemination of data necessary for RM has to cross organisational boundaries, so systems, processes and structure have to be reconfigured accordingly (Child et al. 1995, Lewington et al. 1996). A structure, which sustains a holistic approach, co-ordinates and integrates functions (Schmittlein 1995), is as important as a customer-centred culture in successful customer retention.

4.4.4 Management issues

Leadership is one of the key concepts needed to create valuable customer relationships (Bourke 1992) so that resources can be concentrated through personnel, technologies, knowledge and information, customer's time and the customer (Gronroos 1997). In a wider context, managers are responsible for establishing priorities and making strategic choices (Cravens et al. 1996) to uncover and address the causes of customer defections (Reichheld and Kenny 1990, Reichheld 1996). The concept of internal marketing is based on the idea that managing internal relationships, i.e. those with staff, contributes to the management of relationships with customers (Reynoso and Moores 1996). If staff are given more power, greater access to information and adequate knowledge (Bowen and Lawler 1995), they are in a better position to recover situations or delight customers. Internal marketing encourages the view that marketing is a process that involves the whole firm matching its offerings to its targeted customers and it provides the mechanism for a major re-orientation (Varey 1995a, Tsokas and Saren 1999), for example, a move from transactional to relational marketing. It is, furthermore, valuable in motivating and integrating employees towards effective implementation of corporate and functional strategies (Rafiq and Ahmed 1993). Internal marketing supports the creation of a positive climate where everyone in the organisation working towards keeping customers (Reichheld and Sasser 1990).

4.5 Retaining customers

Relationship marketing, it is believed, has acted as a catalyst in understanding retention (Payne and Frow 1997) and to retain customers, relationships should be developed which, are not defined merely in terms of ensuring regular contact, but in recognising the components of trust and reciprocity (Barnes 1994). With specific reference to retain financial services, Harrison (2000 p252) believes that

> in order to be able to build long-term relationships with customers, financial institutions must first be able to retain existing customers.

Although her statement underlines the link between RM and retention, her interpretation runs counter to those cited previously (see section 4.4). The second version of Brodie et al.'s (1997) categories of RM is the most appropriate here, and which is, that organisations relate to customers in order to retain them.

Research conducted into customer retention (CR) is somewhat sparse, in spite of its relevance in contemporary market conditions of saturation (see Chapter 2). The aim of customer retention, at its most basic level, is 'zero defections' of profitable customers (Reichheld 1996), or from a more proactive perspective, persuading customers to stay with the company. It is further acknowledged that in order to encourage customers to stay, there needs to be in place a number of activities performed by the organisation and, it is the identification of these efforts required to discourage defection that form the focus of this investigation. An early study of CR, based on the retail deposit business identified six imperatives of customer retention (Reichheld and Kenny 1990) and which are: senior management commitment, customer-focused culture, retention information systems, front-line actions, continuous training and practice and incentive systems, but there is no empirical support for these imperatives. An empirical investigation into the behaviour of credit card customers (Hamilton and Howcroft 1995) modelled a database able to predict those customers most likely to close their accounts and, consequently, covers a quite distinct area from this investigation. Nonetheless, the following areas have emerged from the literature.

4.5.1 Customers as assets

Viewing the organisation's customer base as a key strategic asset (Schmittlein 1995) forms the starting place for retaining customers. The cost of gaining new customers is generally calculated as being, at least, five times the cost of keeping existing customers and so businesses could be defined more by their customers than their products (Webster 1992). The ability of an organisation to retain its customers could be the single biggest predictor of future profitability and market share (Petrison et al. 1993, Rust and Zahorick 1993). To retain customers effectively, companies project the value of an individual customer instead of focusing on the number of customers, or market share. Decisions may then have to be made on which customers are worth retaining or, in other words, calculating which customers are generating profit or likely to do so. The fairly limited literature on retention usually includes references to retaining customers with a view to cross-selling a range of goods or services (e.g. Reichheld and Kenny 1990). In the relationship banking literature, there is a great deal of evidence to suggest that FSRs are looking for selling opportunities within their customer base (e.g. Peppard 2000), so that they can maximise customer value. As interpretations of CR that view it as a mechanism for locking in customers have been rejected (see section 4.4), it needs to be determined what customers seek from the organisation concerned. Customers are likely to remain with a company *if* they feel that they are receiving greater value than they would from the competition and customer perceptions of value are linked to satisfaction and service quality (Zeithaml and Bitner 1996).

4.5.2 Customer-centricity

The establishment of a customer-oriented climate enables contact staff to deliver service quality efficiently and effectively, thus contributing to customer retention (Clark 1997). Culture is a major factor in shaping the direction of business (Smircich 1983), and strong relationships have been found between the marketing culture of a company and its performance (Appiah-Adu and Singh

1999). Shaping a shared vision of the future is a significant step in influencing the resultant culture (Brooks and Dawes 1999), which, in this case, is supportive of customer retention. Corporate cultures, however, tend to change slowly over time and traditional financial services retailers may find that their cultures cannot change fast enough (Wilson 1996) to cope with changes in the marketplace.

4.5.3 Client and customer retention

The retail financial services sector is, not only characterised by a diversity of providers, but also by the product range; to address this variety of products, as well as the nature of the exchange that a customer might desire, two types of retention have been distinguished (Ennew and Hartley 1996). Contract retention refers to the continuance of a particular contract, such as a mortgage, so the customer is retained on the basis of a single product. The provider of the product tries to prevent the customer switching to a competitor, identifying key moments during the course of the contract, for example, at the end of a discounted mortgage period and may offer the customer incentives to stay. The objective of client retention is to sell an individual customer related products, thereby, increasing the number of products held (see Figure 3.2). Client retention is more likely to involve customer satisfaction than contract retention (Ennew and Hartley 1996).

4.5.4 Customer information systems

Information systems provide essential support for customer retention (Lewington et al. 1996), by keeping accurate details on purchase records, for assessing the value of customers to the organisation and in picking up likely defectors (Schmittlein 1995). A system should contain details on the value of the customer, or more precisely how much the customer costs with the potential for developing individual pricing strategies (Clemons and Weber 1994) as well as monitoring the intrinsic 'retainability' of customers (Blatterg and Deighton 1996). This notion of 'retainability' parallels to some extent the categories of customer loyalty (see section 4.2). Because of the key role of systems in retention, FSRs have made significant investment in information technology but it has not proved as productive as initially hoped (Murphy 1996). Institutions have encountered problems in integrating information from different databases either within the organisation or when merging (Dawes and Worthington 1996). The ability to fine-tune segmentation is seen as being vital in customer retention (Kara and Kaynack 1997). The database and its capabilities can only contribute if it is configured to the overall organisation's business activities (Lewington et al. 1996), therefore, FSRs need to ensure that retention is viewed as an organisational goal, and not a lower order objective which can be overriden by potentially conflicting aims, for example customer acquisition.

4.6 Relationship banking

Relationship banking is concerned with retaining carefully selected customers and increasing their account usage; they are viewed as streams of potential income over time (Murphy 1996). Relationship banking differs from relationship marketing because it comprises a strong selling element and this has come about because of the peculiar circumstances of FSRs. If an FSR holds the cheque account of a customer, they may not necessarily make a profit from providing that particular product to that particular customer, so profitability will have to be obtained by other means. The cheque account, accordingly, becomes the platform for selling other services that are more likely to generate a profit. In addition, the functional nature of financial services may require that the products are actively sold (see section 3.6.4). RM is concerned with sustaining an interactive dialogue, which then results in increased sales, and this emphasis is important. FSRs, furthermore, differ from many other retailers in that they have considerable power in any relationship based on asymmetry in information (Berg and Kim 1998), which means that customers may not always be equipped with the right information to search for the best offers and, hence, be less mobile. If consumers perceive that retailers are abusing their power in a relationship, which according to RM theory should be equally distributed, they may ultimately defect, reduce the number of products held or seek alternative providers for further purchases. FSRs would be in a poor position to build a base of loyal customers if their behaviour was seen as being overtly self-interested. The inertia of customers in financial services (Knights et al 1994) tends to suggest that consumers display less mobility, at least in some product areas, than other sectors.

The key objectives of building a relationship in financial services are not only to reduce the costs incurred by customer defection, but also to increase customer expenditure, both of which are entirely consistent with RM. However, key characteristics that differentiate relationship banking from RM, are the need to cross-sell, the imbalance of power between provider and consumer and the complexity of products. In selling related products to individual customers (Betts 1994, Harrison 2000), the number of products held by individual customers is increased so that they become multi-product holders. The view of consumer behaviour that underpins the notion of cross-selling is that the customer is passive and willing to accept the suggestions of the financial provider, which may be viewed more as positive recommendations rather than suggestions, owing to the source of the information. There is little support for the view of passive consumers in postmodern conditions where they are increasingly prepared to make their own decisions or to act unpredictably. Equally, the functional and avoidance nature of many financial products (e.g. insurance) may necessitate a 'prompting' on behalf of the provider in order to effect a sale. The drive to improve efficiency and, in the banks' case, shareholder value (Gardener et al. 1999), has led to an increased emphasis on selling. Staff in branches have been put under pressure to sell products, as well as performing the more traditional tasks of transactions, which now executed by ATMs (automated telling machines).

4.6.1 Customer interface

Face-to-face encounters have been, in many cases, the primary mechanism for service delivery and the customer's relationship with staff could well be stronger than with the organisation itself (see section 4.2.3). The socialising component of personal banking both for consumers and employees may have been insufficiently considered in the move away from the high street branch. The deployment of IT is less likely to be supportive of conventional ideas of enduring relationships and customers may need to have a human focus (Mills and Geraghty 1997), at least, for some of the more complex services. With the diminishing presence of staff during financial service exchanges, ways of replicating personal interaction or finding a suitable substitute using IT, should be a major pre-occupation for FSRs.

A major advantage of IT, however, enables companies to offer affordable, individualised versions of products (Kara and Kaynack 1997), which make it possible for customers to be active in all parts of the production process. In these circumstances, customers become active co-producers rather than passive recipients during the service consumption (Storbacka 1997). Several financial products lend themselves to this type of interaction, for example, customising mortgages, though generally FSRs have been slow to adopt individualised offerings (Dawes and Cuthbert 1996). Some customers seem prepared to trade off the human interface for the convenience of efficient service and superior value gained through higher interest rates. Growing consumer ease with financial products may also mean that they are comfortable to make their own choices at their own pace, aided by dedicated web sites and financial pages in the press, which allow comparisons between offerings to be made.

4.6.2 To relate or not to relate?

Underlying the whole issue of relationship building and banking is the question of whether customers actually seek relationships with their banks, and furthermore, whether these providers are providing the kind of relationship which customers might be seeking (Barnes 1994). Gronroos (1997) believes that latent relationships always exist between customer and provider and that either or both parties may choose to activate the relationship under certain circumstances. He argues that a firm may choose to have a relational intent or transactional intent with its customers and the choice is based on which is more profitable. Customers who are price-sensitive, for example, may be better served on a transaction basis rather than by drawing them into a relationship (Li and Nicholls 2000) that may, in the long term, be unprofitable.

It is this notion of customers choosing the nature of the relationship that opens up the whole question of relationship banking and is much more in line with current marketing thinking (see Chapter 2). Customers are far more likely to stay with a provider, whether they see it as a relationship or not, if they feel that they are in control. In their efforts to retain customers, FSRs should refrain from any behaviour that might be interpreted as controlling or dominating by the consumer. A further consideration for FSRs, is the profitability of individual customers over a period of time, as many financial service customers have accounts with a selection of providers, i.e. they are multi-banked. FSRs need to understand the dynamics of retaining customers, which have been reviewed during the course of this chapter. They also need to explore whether cross-selling a range of financial services erodes relationships or the intent to stay with an existing provider.

4.6.3 Branding

The advent of virtual retailing may mean that the relationship exists between the customer and the brand (Stone et al. 1996) instead of between customer and a person representing the FSR. Effective branding by FSRs could then allow the establishment and maintenance of relationships with customers, and encourage the desired multi-product holdings. Effective branding and positioning would then contribute to retention across a variety of distribution channels. Barclays Bank, for example, claimed in a campaign in 1999 to be 'the biggest bank' against a background of overseas locations; although this campaign was not universally well received, as it may have been undermined by actions that Barclays took in other areas, e.g. branch closures. Branding by FSRs has had limited success (see Chapter 3), but this need not be the case.

Consumers can interact with the service in order to create additional value through ATMs, accessing web sites and by tailoring the service more to their individual needs (McEnally and de Chernatony 1999). It is unlikely that FSRs will be able to gain loyalty through non-personal channels without being fully aware of branding strategy.

4.7 Retaining customers in retail financial services

The starting point for retention in retail financial services is that FSRs will derive significant competitive advantage from capturing and holding onto desirable customers through lowered costs and improved revenue. FSRs can lower costs by retaining existing customers rather than continually acquiring new ones, thus reducing customer 'churn'. Relationship banking (see section 4.6) includes the notion of converting customers to profitability or, at the very least, that existing customers present further selling opportunities. FSRs generally aim to increase the number of products a customer holds and, by retaining customers, the probability of selling them related products is thought to increase and so enlarge their 'share of the customer's wallet'. These assumptions form the core of CR in retail financial services.

It is possible in financial services that profitable customers do not necessarily have to be loyal, it may be sufficient for the organisations merely for them to stay. As the earlier discussion showed, customer loyalty is a complex construct composed of both attitude and behaviour; staying with a provider does not necessarily mean that the customer is loyal or even satisfied. As consumers become more knowledgeable and more confident about financial services and individual products, they are more willing to take responsibility for the product choice themselves. This confidence frees them from the dependency of their current provider so that they can seek an offer, which to them provides the highest perceived value, whether it is on the high street, through virtual channels or an independent financial services adviser. The emerging power of the customer can be partially explained by a lack of allegiance in the face of extensive choice. Building relationships that are viewed as desirable by the customer provides one of the ways in which customers can be retained, if indeed, that customer is of value to the organisation.

The distinction between contract and client retention symbolises the shift from transactional to relational exchange in marketing (see Chapter 2). Contract retention, although containing the word 'retention', is, more properly, an example of a transactional exchange. The nature of the product implies a lengthy partnership, but the exchange lacks any of the features of a relational exchange for example, a dialogue. The consumer has few ties with the provider and has often chosen the product purely on the basis of price or convenience and feels little or no loyalty. Client retention emphasises the customer and not the product, so that the role that the customer plays is recognised and that the exchange is put onto a more relational footing. Although these two types of retention appear distinct, they are, in fact, related. Contract retention could form a necessary condition of client retention but it would not guarantee it. This distinction between client and contract retention is an important one and is largely overlooked in the literature on retention. FSRs have to appreciate fully this distinction as client retention involves significantly more effort and expenditure on their part; it is possible that contract retention may be a better use of resources in situations or with customers where a transactional approach is more suitable (e.g. Li and Nicholls 2000).

4.8 Conclusion

This review has indicated a number of considerations for FSRs if they are attempting to retain their customers. These considerations cover a range of organisational activities, which, for the purposes of this research are labelled 'strands'. These strands are identified and expanded below.

Management need to provide resources, training and demonstrate leadership to bring about the significant shift in thinking required to retain customers and to support relational exchange (see section 4.4.4). Service quality, IT and a long-term perspective all require significant commitment and clear signals from senior managers with appropriate reinforcement. There is a need for clear **corporate input** and this is the name for this first strand of customer retention.

FSRs need to examine their traditional hierarchies to find out whether they are supportive of CR (see 4.4.3). A structure, which sustains a holistic approach, co-ordinates and integrates functions (Schmittlein 1995), is as important as a customer-centred culture in successful customer retention. Customers will only be retained successfully in the long-term if a customer-driven culture exists within the organisation. A strand of **structure/culture** is the second strand in retaining customers.

The means of retaining customers through the building of relationships has already been discussed (see section 4.4) and RM has been reviewed at length.

Segmentation strategies based on meaningful variables, form a key element of relationship marketing, but poses a number of challenges to FSRs ranging from investment in database technology to cultural shifts in adapting their marketing efforts to match individual customers. The formation of a marketing strategy that supports the retaining of customers and relational exchanges forms the third strand.

Information systems provide essential data for retention but with the advent of virtual banking, the focus on 'information' may be too narrow. Systems that are fast, efficient and reliable, based on a close understanding of customer needs, are likely to form the operational fulcrum of the new service encounter and merely to cite information systems is too restrictive.

For staff to deliver promises, which forms a central tenet of services marketing (Zeithaml and Bitner 1996), they must have the necessary skills, abilities, tools and motivation (Bitner 1995). Satisfied staff are more likely to provide superior value and should be supported by first-class services and policies (Appiah-Adu and Singh 1999). The final strand of CR, therefore, acknowledges that staff, whether in branches or interacting with other staff behind the scenes, contribute to retaining customers.

The five strands identified in this chapter form the basis of one part of the data generation, which is described in the following chapter. However, in spite of the strength of the argument for these five strands, it is acknowledged that there may be aspects of retaining customers that have not been addressed in the CR literature. There is, therefore, an equally strong case to be made for pursuing a less structured approach to data collection. Details of this element in the research as well as the remaining aspect of the research methods selected to achieve the research objectives are set out in the following chapter.

CHAPTER 5

RESEARCH DESIGN

5.1 Introduction

This chapter describes in detail the procedures undertaken to realise the research objectives (see Chapter 1). Based on the methodology discussed in Chapter 2, the research design is a combination of qualitative and quantitative research. This choice reflects the researcher's own beliefs as well as, hopefully, providing the optimal means of achieving the research goal. It is based on the belief that a philosophical continuum exists between positivist and interpretive schools of thought, so that a shared range of strategies is open to researchers of both persuasions (Deshpande 1983). This study incorporates induction so that an interpretation could be drawn from the body of qualitative data generated by interviews, and deduction, in the form of two surveys, which provided data for structural definition of the research question. Within the pluralistic research methods school, three classifications have been noted (Hammersley 1992), and this research follows the complementarity route, where the two strategies of interviews and surveys, are employed to dovetail different aspects of the investigation. This multiple methods approach was adopted for the following reasons:

- the complexity of the dynamics underpinning customer retention,
- the lack of research conducted into retaining customers (see Chapter 4),
- the changes experienced in marketing theory and practice (see Chapter 2)
- the mutations in the retailing of financial services (see Chapter 3).

This is as cross-sectional study, which means that it examines how something is done at the time of the study. It tries to identify and understand differences between samples (Remenyi et al. 1998) and to provide a descriptive analysis (de Vaus 2001) of how customer retention (CR) is organised based on staff perceptions.

The chapter continues with detailing the sampling approaches used, the interview process adopted, the development of the surveys and how the data were analysed. It concludes with a brief review of the research design.

5.2 Sampling

The research is concerned with examining customer retention in traditional financial services (see Chapter 3), and to assist in drawing up samples for the research, the Directory of Members of the Council of Mortgage Lenders (1996) was consulted. This directory contains details of all providers of mortgages and although the research is not exclusively concerned with mortgage lenders, it holds detail on all the principal financial service retailers, because they all lend money for house purchases. Non-high street providers of financial services such as First Direct were excluded from the research as the whole of their strategy is based on virtual banking. Other non-specialist retailers such as Marks and Spencer were omitted as their culture and structure (see Chapter 4) could be assumed to be quite distinct from that of traditional retailers of financial services. Having applied these selection criteria, a list of 30 FSRs was compiled. All the FSRs on the list were characterised by an established high street presence and offered only financial services. The list also contained addresses, telephone numbers and during the course of the research, the name of the manager responsible for retention was added (see Appendix A).

Three samples were drawn using this list, and the nature of each sample depended upon the research approach being adopted. The first sample consisted of retention specialists so that CR could be explored in-depth within a loose interview structure. The criteria for picking this sample were quite simple: the participants had to have managerial expertise and experience in retaining customers, or be 'information rich' and be willing to participate in the research. To assemble the sample for the interviews, a telephone call was made to the headquarters of one of the FSRs on the list, asking to speak to the manager responsible for customer retention. Contact was made with a number of managers, four of whom were selected for interviewing. The sample contained a senior or middle manager, working for different types of FSR and who considered themselves to be experts or, at least, very familiar with retention in financial services.

The second sample was constructed so that experts in retaining customers could be surveyed to refine and define the parameters of customer retention developed in the literature (see Chapter 4). This sample chosen for refining the items could be considered as purposive, which according to Robson (1993) is drawn up to satisfy the particular requirements of the researcher. A second series of telephone calls was made to each organisation on the list of 30 FSRs, to identify managers responsible for retaining customers. In most cases (28 out of 30), direct contact was made with the manager so that the nature of the research could be explained and rapport could be established. This process generated a list of 30 names of managers, as well as their job titles and addresses, who described customer retention as a significant part of their responsibilities.

The third sample was a random composition of FSR employees, including managers, non-marketing staff as well as customer contact staff. As argued in Chapter 1, exploring the perceptions of staff towards customer retention in their respective organisations would engender unique insight into customer retention so the final sample in the research consisted of staff. As Brownlie (1997 p746) states:

> Organisations are staffed by people, who see things differently, have different agendas and what they actually say is regulated by expectations and norms.

Since descriptive research is concerned with identifying differences and understanding them, surveying different types of staff in different FSRs would provide the data needed for this type of exercise. To design the sample for this stage, the researcher was guided by questions of: how closely do the findings of a sample typify the situation more generally, and has the researcher established population validity? The external validity of the research into customer retention would be established more firmly by sound sampling procedure, but equally there is a trade off between maximising information and minimising costs (Sudman 1988). The practical considerations of gaining access, administering the questionnaire and analysing the data, also figured in the sampling considerations.

Probability sampling offered the most rigorous procedures for minimising error and two methods of probability sampling were considered. Systematic sampling where sample members are selected at regular intervals after a random start so that each employee has an equal chance of being included in the sample was chosen. Stratified sampling was the other option and the researcher here divides the parent population into mutually and exhaustive subsets, for example, managers and counter staff, and then samples the elements on a random basis (Churchill 1995). Systematic random sampling was chosen after deliberation so that perceptions of all levels and types of staff could be measured to depict customer retention. A further and vital consideration was gaining access to staff in FSRs, since access was critical to the research, permission to survey staff had been obtained at an early stage of the research. Two FSRs had agreed to participate and had provided lists of all their staff so that random samples could be framed.

Sampling theory guides the trade-off between the desired precision of the research and the resources available (Henry 1998), and there are factors for determining sample size (Diamontopoulos and Schlegelmilch 1997). A heterogeneous population requires a larger sample and the employee survey would involve people engaged in a number of tasks and responsibilities. On the other hand, costs and data entry precluded too large a sample for the survey. The expected response rate was also used as a guide (Saunders et al. 2000) and although questionnaire response rates vary substantially, a response rate of about 30% was expected. Based on these criteria, two samples of about 500 were drawn for the staff survey. As descriptive statistics had been planned for the analysis, this was an ample number of units. To frame the sample, every fourth name on the lists provided by the participating FSRs was selected, based on this procedure, two samples of 500 units were drawn up. A Mailmerge list of staff was prepared which consisted of the respondent's name, job title and place of work.

In order to check that the samples had population validity, classification questions were included in the questionnaire so that comparisons could be made between the respondents and the target population (Malhotra and Birks 1999). Information for the comparison was obtained from the human resource management departments of the participating organisations. One question seeking information about gender and another asking respondents to circle an age category were added at the end of the questionnaire. It is inevitable that research findings will contain some bias. Some respondents, for example may have replied to the survey because they were prejudiced against customer retention, others, because they were open-minded, may have felt that their opinions were not important and did not respond. By obtaining figures from the participating organisations, it was possible to compare the characteristics of the respondents with the characteristics of the staff as a whole using classification questions and so reduce bias.

5.3 Interviews

To introduce greater flexibility within the study which is consistent with pursuing exploratory research and based on the rationale described in Chapter 4, section 8, interviews with the expert practitioners formed the first stage of the field work. Since a prime objective of qualitative research is conceptualisation

(Okeley 1994), the interviews were semi-structured or 'conversations with a purpose' (Burgess 1984 p102). The interviews were designed to gain an in-depth description (Weiss 1994) of the principal aspects of CR in retail financial services. A bare interview outline was prepared around a number of key issues relating to CR that had arisen from the review of the banking and customer retention literature, such as staff issues. This outline proved valuable in enabling the researcher to keep the interviewees more or less 'on track', but, at the same time, letting the discussion unfold according the views of the experts (Marshall and Rossman 1995). This lack of structure was important in the research so that the respondents' opinions and reflections could be explored as fully as possible within constraints of time and the situation. To facilitate the expression of opinions and reflections about customer retention, the researcher took time to build a relationship, starting with the initial telephone call and continuing after the interview had been completed, by supplying interview summaries. The interviews adhered to a protocol, and the wishes and concerns of the interview participants were respected throughout the process (Wilson 1996). An interview outline was supplied, dark formal dress was worn for the interviews to blend in with banking culture and knowledge of banking terminology and concerns was discreetly displayed (Arksey and Knight 1999) by the use of appropriate vocabulary.

The interview participants consisted of - a marketing director, two customer retention managers and a direct mail manager in financial services retailing. The interviews were conducted in the summer of 1996 at the head offices of the financial service retailers and lasted approximately one hour. The responses of the practitioners are presented and discussed in Chapter 6. The interviewees were encouraged to talk around the issues of customer retention in order to ensure that no significant areas had been omitted. At appropriate moments, probe questions (Jones 1996) were used to investigate some areas in greater detail, for example, staff matters. The interview data were collected in the form of field notes, as respondents had not been willing for the interviews to be taped. The data were analysed by identifying themes or categories (Arksey and Knight 1999) and details about the analysis and the interview findings are presented in the following chapter.

5.4 Surveys

The quantitative aspect of the multiple method research strategy took the form of two surveys – the first surveying retention 'experts' and, the second surveying FSR staff in two institutions. The aim of the surveys was to collect standardised information on CR from specific samples of experts and FSR staff, by means of a questionnaire (Robson 1993). The questionnaires only provided information that related to the respondents' interpretation of the questions, so the information on CR obtained was conditioned by the design of the questions and the respondents' interpretation (Phelan and Reynolds 1996). In spite of the standard objections to the use of questionnaires, such as difficulties with isolating variables, coding and bias (Marsh 1982, Sayer 1992), it has been shown that measuring the perceptions of respondents show reliability and validity (Clark 1997). The selection of surveys was anticipated as being an efficient means of obtaining the information needed through asking questions (Schuman and Presser 1996) about CR.

The questionnaires, in both surveys, were completed by the respondents themselves and this choice of a self-completed questionnaire was driven by:

- the ability to reach the respondent by means of in-house mailing.
- the nature of the respondents in the first survey, i.e. busy but informed professionals
- the large number of respondents planned for the second survey
- an increase in reliability when respondents complete questionnaires themselves (Peterson 1994).

Since low response rates are a frequent problem with self-administered questionnaires, the questionnaire for each sample was designed so that the costs incurred by respondents were low, in terms of answering and returning questionnaires.

5.4.1 Developing the questions

Measuring a single response to any of the aspects of CR would be very unlikely to provide a satisfactory outcome so composite measurement was adopted (Wilson 1996) for the questionnaires. Each strand of customer retention was unravelled according to the discussion in the literature review (see section 4.8) and approximately 16 "raw" notions emerged for each of the aspects. These notions were then converted into statements, following guidelines in the research literature (Churchill 1995, Fowler 1998). For the first survey, sampling experts or 'thought' leaders (Deng and Dart 1994), 80 statements were drawn up which covered the aspects of CR. For example the strand of strategy, the following items were constructed:

"Direct mailing offers us a more effective method of communicating with our customers than press or television."

"We recognise that different market segments may require specific offerings."

After the 80 items had been formulated, qualitative judgement was obtained, primarily to check that the items were representative of customer retention, but also to check for interpretation and clarity. Systematic error is concerned with factors that affect the observed score in the same way every time the measurement is made, such as poor questionnaire design (Malhotra 1996) and careful screening and testing helped to reduce this type of error. To screen the items, a marketing director and a customer retention manager in two separate institutions were requested to work through the list with the researcher (Jones 1996). They gave valuable advice on any ambiguities, assumptions and generalisations (Malhotra 1996) that arose within the battery of items at that stage. They both warned the researcher that a long questionnaire would result in unacceptable levels of non-response error, as most managers in retail financial services were too busy to answer to devote time to answering numerous questions. After this first screening, the statements were reviewed.

Some specialised banking vocabulary was inserted such as 'share of customer' and 'lifetime value' as these phrases would be readily understood by all respondents in both surveys. A second screening process took place with a third manager in yet another institution on the next version and some further refinement was made, specifically, some wording was improved. By this time the response categories had been decided (see 5.4.2) and were checked during this screening. The layout of the survey was appraised for space so that it would appear attractive and interesting to the respondents. At the end of this process, the original 80 statements had only been reduced to 72, which was rather more than intended at this stage (see Appendix C). Although the experts' questionnaire still seemed rather long, it was not at all clear which items could be safely deleted at this point in the research.

5.4.2 Measurement detail

Since the objective of the surveys was to measure the perceptions of experts and staff, measurement details were considered at the same time as question development (DeVellis 1991). Measurement assigns numbers to characteristics of objects according to specified rules, and must be isomorphic, which means that there has to be a one-to-one correspondence between the numbers and the characteristics being measured (Diamontopoulos and Schlegelmilch 1997). A form of scale measurement was selected which involved a continuum along which the measured objects i.e. responses to statements about CR, were located. Closed questions, as opposed to open questions, were chosen, although their use would restrict the ability to explore the research issue in depth. Closed questions did present significant advantages in terms of ease of response, administration, coding and analysis. The disadvantage of closed questions was offset, to a certain extent, by adopting a multi-method strategy (see Chapter 2).

The research methods literature (e.g. Bagozzi 1994, Swift 1996) cites four scales of measurement: nominal, ordinal, interval and ratio. The use of ordinal scales in this research provided a system for ordering the observations of the respondents on the basis of the greater the number, the greater the property (Churchill 1995). This investigation is concerned with description, therefore descriptive methods and techniques such as percentages, the median and pie charts were used to analyse the data, which are suitable for analysing non-parametric data. The measurement adopted for the survey resembles a Likert-type scale, and features five positions ranging from inaccurate to accurate with a middle point of 'uncertain'. Using seven points instead of five had been seriously considered, although reliability levels off with more than five points (Hinkin 1998), validity may be greater with seven-point scales (Jones 1996). The decision to use a five-point scale was chosen because of the characteristics of the samples. The interviewees and the other people involved in the preparation of the field work, had stressed that all FSR staff were busy and that finding time to complete a survey might be difficult. The mode of response had to be seen as being easy, quick and unthreatening so that non-response error would be reduced and the adoption of the five-point Likert-type scale seemed the most suitable. The respondents in both surveys were invited to respond to each statement by circling the number that most closely described the situation in their organisation.

5.4.3 Surveying the experts

The first questionnaire of 72 items was sent to the sample of specialists in an A4 booklet with a letter explaining the academic nature of the research (see Appendix C). This sample consisted of 30 managers with responsibility for managing customer retention in each FSR in the frame for the study as described in section 5.2. To achieve an acceptable response rate in this small sample, a voucher for a retail store, a personalised letter and a reply-paid envelope accompanied the questionnaire (Jobber and O'Reilly 1995), which was sent to the sample in spring 1998. A reminder of a second wave of the list of items, minus the voucher, was sent to all respondents two weeks later when the first flush of responses had dropped off to reduce non-response (Mangione 1998). Owing to the sensitive nature of the research, there had always been a concern that participation by FSRs may have been limited in spite of all the assurance that had been previously sought and given. The response of 26 completed and usable surveys, was further evidence that the specialists and the FSRs were willing to assist and that a questionnaire was a viable means of gaining information.

5.4.4 Preparing the employee survey

The items in the experts' survey formed a basis for the employee survey but a number of modifications were made. The items were reviewed by a panel of FSR employees to identify those that were reasonable, within the bounds of the respondents' knowledge and clear to this new sample. Details of this process and the elimination of items are given in Chapter 7. As a further measure, the items that remained were subjected to reliability analysis using Cronbach's alpha, which is a test normally suitable for parametric data, but its value is considered to be so great (e.g. Peterson 1994, Bagozzi 1994) that it was deployed here for these non-parametric data. The strands of CR, which formed the basis for the employee survey as well as for the experts' are restated as follows:

- corporate, includes items on management commitment and resources
- structure/ culture, covers orientation and cross-departmental items
- strategy contains items on relationship marketing and service quality
- systems refers to information and databases
- staff, the role of staff, both contact and non-contact in fostering retention.

To ensure that the returned questionnaires represented the views of the sample as a whole, classification questions were included at the end. The first question enquired whether the respondent was in contact regularly with customers and was developed as the literature suggested that the onus for retention may fall on contact staff (see 4.3). Perceptions may have differed on CR according to the degree of contact that staff had with customers. Information was also required on gender and age group, although respondents were assured that they did not have to complete these classification questions if they did not wish to. This reassurance was given in case staff perceived the items as threatening or intrusive, and so refused to complete the questionnaire or completed it incorrectly. Staff opinion had been obtained about the suitability of these classification questions before they were included on the questionnaire. Five FSR staff completed drafts of the instrument, or "mini-pilots" (Oppenheim 1966). They were also consulted on the appearance of the instrument, the ease of interpretation and its clarity and, most importantly, whether their colleagues would be prepared to complete it. They were also questioned about what type of inducement to respond to the questionnaire would be suitable for the target group.

Participants in a survey generally make a subjective judgement about whether to respond or not to a questionnaire depending upon perceived rewards, costs and trust (Dillman 1978). To reward the respondents to this survey, an inducement to respond (Jobber and O'Reilley 1995) was arranged in the form of a draw with a prize of a £10 voucher for each FSR. Respondents were invited to complete a separate prize draw form with their name and address and return it with the completed questionnaire. A personalised covering letter was composed according to a checklist provided by Churchill (1995). The letter referred to the importance of the recipient's response to the research, the brevity and simplicity of the questionnaire, the anonymity of the respondent and concluded with the researcher's profound gratitude. The sample was also assured in the letter that the personal details for the prize draw would be separated from the questionnaire before responses were examined (see Appendix D).

To minimise the costs to respondents in completing and returning the form, the questionnaire had been designed from the outset to be attractive as well as appearing quick and easy to complete. The principal motivation to respond to the survey has to lie in the questionnaire itself. Respondents would be unlikely to consider the questions themselves as relevant to their lives and, might have chosen not to complete the questionnaire as a result (Wilson 1996). These steps were all so that sampling and non-sampling error would be reduced. The problem of non-response can be so severe that some researchers, for example Dillon et al. (1987), consider all mail surveys to be based on non-probability or convenience samples. Informed consent of participants was ensured so that ethical research principles were followed (Sapsford and Abbott 1996). The covering letter stated that the findings might have an impact on the way that customer retention would be implemented within their organisation. The trustworthiness of the data generation procedure was conveyed to the sample principally through reassuring them on the care and consideration taken in constructing the survey.

A pilot survey was conducted (Reynolds et al. 1993) to test the whole of the administration on an independent sample (Kent 1993). The sample was drawn from a FSR not involved in the survey. Two of the institution's branches were chosen for the pilot that were large enough to contain a variety of staff, for example customer contact and non-contact staff, as well as a number of levels of responsibility. The questionnaire was sent in the internal mail system with the covering letter to 113 named staff. Participation in the prize draw was not offered, otherwise the conditions of the pilot resembled as closely as possible the conditions of the full survey. The pilot resulted in 39 useable responses being returned via the post. Using SPSS, the data from the completed questionnaires were entered onto the planned data set and descriptive statistics were used to analyse this small sample. The results from the pilot survey suggested that the research objectives would be achieved by surveying the employees with this refined instrument and the final step was implemented.

5.4.5 Surveying the employees

The mailing for the employee survey was prepared using 'Mailmerge' to address personally each letter and envelope. A prize draw form, a copy of the questionnaire, the covering letter and a reply-paid envelope was sent via the internal mail system to 500 staff in each of the participating FSRs, generating a sample of approximately 1000. Two colours were used for the questionnaire so it was known immediately from which FSR any response came. Within 10 days, envelopes began to return to the researcher, containing completed questionnaires and, in many, but not all, cases the completed prize draw form. A follow-up mailing was not used for this survey owing to the size of the sample. Instead, the participating institutions were contacted and asked to remind recipients, via internal communications systems, to complete and return any questionnaires if they had not already done so. Research by Mitchell and Brown (1997) found that follow-up mailings have no significant effect on response rates, a finding that conflicts with previously accepted ideas e.g. Malhotra and Birks (1999). The flow of returned questionnaires gradually tailed off over a five-week period and resulted in a response rate of approximately 40%

5.5 Analysing the surveys

Preparations for analysis such as coding responses had been made at the same time as the construction of the survey, as a structured data collection instrument had been used (Swift 1996). All the items were coded according to the guidelines given by Kinnear and Gray (1999) for analysis using SPSS. Each completed survey was assigned a case number e.g. 177 and each item was described using a shorthand variable name e.g. *senmgt* which stood for "Senior management fully understands and supports customer retention." Finally, each response, which consisted of a circled number, was entered as a value (1-5), so a data set was established for each sample.

5.5.1 Data preparation

The data were edited, transcribed and cleaned to ensure that they were in the best form for providing a fair summary of what had been studied and could be readily analysed (Swift 1996). Editing improved the precision of the research by screening the returned questionnaires so that any illegible, incomplete and inconsistent responses could be identified (Malhotra 1996). There were no difficulties with the experts' survey in spite of its length and all the returned questionnaires were usable. In the employee survey, only one returned questionnaire was found unusable. Missing values in the employees' survey occurred in two separate areas. In a very few instances, the respondents had failed to indicate a value, and a value was assigned on the basis of estimating a mean of the other responses the respondent had made (Tabachnick and Fidell 1996). A few respondents in one sample did not complete the item that indicated whether they were contact or non-contact staff, similarly there were isolated examples of non-response from the gender and age. A separate numerical category of non-response was created for these omissions.

5.5.2 Analysis techniques

The data have been presented using tables giving response rates as percentages and pie charts, and the median value was calculated for each item (de Vaus 2001) as is consistent with an ordinal scale. Two comparisons were made between samples. Firstly, a comparison was made between the two participating institutions. Then comparisons were made between contact and non-contact staff in each institution. The responses of the two participating institutions were compared, as the literature review had suggested that there might have been different approaches to CR between FSRs, for example owing to differing cultures and corporate objectives. The test used for comparison was the Mann Whitney U test for non-parametric data, i.e. those data generated by ordinal scales (Diamontopoulos and Schlegelmilch 1997) where the null hypothesis is that the two samples are equal.

Reliability is the extent to which a scale produces consistent results if repeated measurements are made, and reliability can be defined as the extent to which measures are free from random error (Malhotra and Birks 1999). The equivalence measure of reliability focuses on the internal consistency of the set of items that form the scale (Churchill 1995). To assess the internal consistency of the measure, all the items within a strand, were examined simultaneously, using coefficient alpha (Bryman and Cramer 1992). This procedure was carried out on the specialists' survey with the aim, in each case, of assessing the reliability of the items.

5.6 Reviewing the research design

The objective of any data generation exercise is to have data that can assist in the development of 'a systematic and transparent way of understanding and interpreting the phenomenon' (Marsh 1982 p236). The trustworthiness of the data collected has to be established as far as possible and the accuracy of the measurement verified. The data generation consisted of firstly, listening to specialist views and secondly, measuring observation scores about customer retention and involved both qualitative and quantitative data questions.

5.6.1 Sampling

The samples were drawn from populations to generate different types of data so that a pluralist view of CR could be obtained. The interview sample was constructed according to the willingness and interest of the expert participants. The second sample also was heavily dependent upon practitioner interest as well as the ability to track down the appropriate person in the various organisations in the list drawn up. The employee sample was drawn on a probability basis so that questions of sampling error are known and, in addition, the characteristics of the sample have been measured against those of the population.

5.6.2 Interviews

The interviews could almost have been described as social encounters (May 1993) and shed light on how these experts made sense of their social, in this case commercial, world. The interviews revealed the views and concerns that the expert respondents had about CR in their organisations. For assessing the soundness of the interviews, four criteria were used (Lincoln and Guba 1985). Firstly, the interview data was evaluated for its credibility, against the financial services literature. Secondly, for appraising the transferability of the data, reference was made back to the theoretical arguments developed in the review of the customer retention literature, in particular the key aspects of CR. The dependability of the data - the third criterion - was assessed by comparing the findings across the interview sample. Interview participants were also invited to comment on the interview summaries and two sets of comments were received, agreeing on the content of the interviews.

5.6.3 Surveys

The use of structured instruments meant that the respondents had to choose a pre-ordained alternative instead of selecting their own answer (Schuman and Presser 1996), and this is a classic criticism of structured instruments (Chisnall 1997). The problems of structured questionnaires, such as non-response error were addressed through the rigorous pre-testing and piloting of the instrument (see section 5.4), but it is possible that bias occurred by participants merely being involved in the research. The response rate for both questionnaires was acceptable and both sets of responses had few missing cases. Both these factors tend to suggest that error was kept to an acceptable level and vindicate the survey preparations and pilot.

5.7 Conclusion

This chapter has provided the detail in how the field work was conducted. In accordance with a pluralistic methodology, the design consisted of an inductive and deductive element, which are characteristic of interpretive and positivist approaches. As well as conventional positivist activities such as probability sampling, structured questionnaire design and statistical analysis, loosely structured interviews were conducted with specialists. The semi-structured interviews explored as fully as possible the specialists' perceptions of CR within the constraints of the interviews. The use of a completely unstructured interview may have made comparisons across the institutions difficult, for example, key themes, such as staffing issues, were common in all the interviews. The increasing demand, within marketing academe, for a multi-disciplinary basis for marketing (e.g. Brownlie 1997) has given weight to alternative methodologies and, for this research, a pluralistic stance has been adopted.

CHAPTER 6

INTERVIEWS

6.1 Overview

This chapter relates the interviews, which formed one of the research generation processes of the investigation into CR. The interviews consisted of 'conversations with a purpose' (Bryman 2001) with managers who had experience and knowledge about customer retention in financial services. The first section of this chapter explains the strategy underpinning the interviews. In the second half of the chapter, the interview material is presented on a thematic basis and discussed. The approach to the interviews is based on Silverman's (1993 p107) assertion that

> ..we need not hear interview responses simply as true or false reports on reality. Instead, we can treat such responses as displays of perspectives and moral forms.

The use of the word 'perspectives' in this quotation emphasises the role of perspective in the research objectives so that distinctive and unexplored dimensions of CR can be revealed.

6.2 Interview strategy

The research, throughout, was concerned with the subjects' perspective (Bryman 1992), and to "document the array of concepts used by a particular group to deal with some aspect of their experience" (Boulton and Hammersley 1996 p285). The fundamental assumption in the qualitative research was that the informants' perspective should unfold as the participant and not as the researcher viewed it (Marshall and Rossman 1995), although the researcher acted as the instrument. Interviews, however, would only get at what the informants said they did, rather than what they actually did (Arksey and Knight 1999). Converging these data with other data, in this case, quantitative, was valuable. The following extract reinforces the approach used in this research.

> Qualitative studies ultimately aim to describe and explain (at some level) a pattern of relationships, which can be done only with a set of conceptually specified analytical categories. Starting with them (deductively) or getting gradually to them (inductively) are both legitimate and useful paths.
>
> (Miles and Huberman 1994 p431)

The strategy adopted for interpreting these interview data consists of a descriptive/interpretive approach so that a coherent and inclusive account of informant perspectives of CR can be arrived at. The role of the literature in interpreting these data is minimal, as the aim of the interviews was to gain new insight into CR as perceived by the informants.

6.2.1 Interview design

As with most data generation methods, interviews have their limitations. These informants, for example, may have been unwilling to share information and may not have been completely truthful (Hakim 2000). Although truthfulness may not necessarily be a requirement of qualitative interviewing, gaining the managers' perspectives (Silverman 1993) on how their institutions were retaining customers accords with the research objectives. The interviews with managers working in the area of customer retention created the opportunity of moving the research on from the parameters of the existing literature (see Chapter 4). So that maximum benefit could be derived from the informants' knowledge and views, the style of interview was as loosely structured as possible. An interview guide was drawn up to achieve a degree of consistency (see Appendix B) throughout the series of interviews and to form part of the audit trail suggested in qualitative research (Arksey and Knight 1999). The interview guide performed two further functions. Firstly, it provided a means of gaining informed consent for the interviews in line with ethical questions in research. Secondly, it addressed the concerns of the informants that the interviews were being conducted within the agreed framework and established the integrity of the interviewer so that informants felt that they could talk freely and openly about retaining customers.

6.2.2 Informants

The first step in arranging the interviews was to consult the list of traditional financial services retailers once more (see Appendix A). The head office of each institution was contacted by telephone and a request made to speak to the manager responsible for customer retention. In some cases, this was not a title recognised by the telephone receptionist, in which case, the researcher asked to speak to the marketing manager in charge of customer relations. When contact was made on the phone, the researcher performed introductions, explained the academic nature of the research, described its contribution and importance both to academic and practitioner fields. The manager was asked if his/her current responsibilities would enable them to assist the researcher in her enquiry. If the manager confirmed this, the value of an interview was emphasised. It was further stressed that the research was purely academic, for a doctoral thesis and that the researcher abided by accepted ethical procedures so that the managers were reassured about the transparency of the research process (Remenyi et al 1998) and to build trust. To encourage the managers to make a snap judgement to agree to be interviewed (Arksey and Knight 1999), the researcher explained her status as an academic and researcher, the value and interest of the project, in what was hoped a professional and concise fashion. Four managers agreed to participate in the interviews on the phone, and two of the four requested an idea of the questions that they were likely to be asked. Each of the four managers was faxed an outline of the interview (see Appendix B).

Although the informants did not strictly fall into the category of 'elite' informants (Arksey and Knight 1999), they were 'savvy' and quite capable of turning an interview around (Marshall and Rossman 1995). They also expressed an unwillingness for the interviews to be tape recorded, which was unfortunate as it is almost mandatory to record interviews on tape (Bryman 2001). The interviewer was obliged to make notes and to manage the interview at the same time. A small consolation was the suggestion that good material is often obtained when a tape recorder is turned off (Arksey and Knight 1999). Owing to the nature of the interview informants, it was not difficult to start the conversation, and the challenge was to ensure that the guide was followed to ensure some reliability across the interviews. The interview guide was little more than an *aide-memoire* (Bryman 2001), mainly to ensure that the principal areas were covered. To deal with sensitive topics, a number of different types of questions were anticipated, such as probes and follow-ups (Arksey and Knight 1999).

6.3 The interviews

The interviews took place in either at the headquarters of the FSR in open-plan offices and one was held in an empty staff restaurant and each interview lasted approximately one hour. The interviews began with a brief conversation about background to break the ice and to attempt to build rapport (Arksey and Knight 1999), since the social context of the interview was intrinsic to the understanding of the data (Silverman 1993). Although it was recognised that a rigorous and systematic procedure for managing and analysing data (Stroh 2000) was necessary, the researcher made the decision to 'trade-off' between consistency, which would involve following a similar interview pattern for each interview, and letting these 'elite' professionals talk freely. The conversations were listened to with a critical ear (Lincoln and Guba 1984). In particular, the researcher listened for bias in the responses in overstating the company's capacity for retaining customers, a possible example of social desirability effect (Bryman 2001), and if detected the matter was returned to later in the interview.

6.4 Interpreting the interviews

Immediately after the interviews, the notes were checked to ensure that they were intelligible and any obvious blanks were filled in while the record of the interview was still fresh in the memory. This method of recording the interview data was based on the view that the organisation of field data constituted a key research activity (Hughes 1994). The handwritten notes of the interviews were then were typed up within 24 hours and these notes are presented in edited and condensed transcripts (Hakim 2000). Two analytic procedures were utilised to interpret the interview data.

6.4.1 Processes in interpretation

A system of coding was developed to manage the interview data, specifically looking for categories (Bryman 2001), which could then be developed as themes of customer retention. A matrix was prepared (Rossman and Rallis1998), but the coding was an iterative process, and required several attempts to be able to develop categories that embraced the patterns, which the conversations had taken. The matrix in Table 6.1 is the final result of many efforts and still reflects some of the overlapping which is inherent in the data. For example, analysing defections could be subsumed under the theme of systems, but in the conversations, it was more a question of managing customer/provider interface.

Table 6.1 Example of coding of interview data

Data extract	Code	Category	Final theme
attrition rates	costs	lowering costs	delivery
short term gain		branch networks	
analyse defections	trends		
retention central			
propensity to buy	info	database	systems
group direct marketing system		customer loyalty	
at risk customers	tracking		
household relationships			

Throughout the analysis, alternative explanations for the categories were looked for as these always exist (Marshall and Rossman 1995), and these final categories are proposed as being the most plausible. Although, as the material in Table 6.1 denotes, coding the interview data was quite useful in identifying categories, the data were also subjected to the following processes. The transcripts were organised and re-read numerous times (Marshall and Rossman 1995) to try and search out patterns and this process generated the first salient theme of the interpretations (see section 6.5.1). All the informants returned to ideas of change, flux, evolution new appointments, and new initiatives. This theme however was not initially accepted and a number of different themes were identified and then rejected, when possible alternatives were found.

There were also a number of inconsistencies in the transcripts, such as descriptions of segmentation strategies but at other stages in the interviews, there were reported weaknesses with information systems. Divergent views were few across this sample of informants, but there was evidence to suggest that there were differences between planning horizons.

6.4.2 Veracity and rigour

The validity of the interviews, within a qualitative context, was concerned with the extent to which the observations reflected the informants' perspectives on customer retention. Bias in the interviewing can arise from either interviewer or informant (Saunders et al. 2000). To reduce the potential for interviewer bias, the interviewer had explained to the interviewee of the nature of the interviews and had revised interview skills acquired during earlier training so that an imposition of beliefs could be minimised. Interviewee bias is a reflection of the intrusive nature of interviews (Saunders et al. 2000), and bias of this nature could have resulted in only a partial picture of CR being presented. To address this type of bias, the informants were reminded of the research topic, the value of their time and responses and the confidentiality of their responses and their anonymity.

It was vitally important to gain the trust of the informants so that they would talk openly about retention and, how it was approached in their organisations. They had been assured throughout the process, from the initial telephone call to the final stages, that the anonymity of the organisation and the confidentiality of their responses would be maintained. At intervals during the course of the interviews, the interviewer checked with informants her understanding of certain issues. For example, the one interview participant spoke about the culture of his institution as being 'warm and cuddly', which the interviewer asked him to explain. Another point checked for understanding was targeting, because the informants had all talked quite lengthily about this activity, something, which they seemed to accord a great deal of importance in retaining customers.

The informants were sent the transcripts of the interviews (Yin 1994), within a week of the interview taking place, inviting comments on how the transcript accorded with their recollection of the interview. Gummesson (2000) suggests that validity is a continuous process, integrated with theory where the research assumptions are assessed and revised and where weaknesses are aired. Corroborating interviews this way has drawbacks as interview informants may well want to amend transcripts when they have had time to consider the political or confidential nature of the data. One respondent made one minor amendment to the shortened transcript on targeting customers.

Transposing the criteria for validity into a qualitative context has been criticised (Janesick 1994) so instead the data were evaluated for soundness using the following criteria (Lincoln and Guba 1985). Firstly, the data seemed credible within the parameters of the setting, the populations and the theoretical framework. For example, the theme of lowering costs and branch decisions featured in the literature. Furthermore, a degree of credibility had been achieved by means of respondent validation as explained in the previous paragraph. Qualitative data is not usually viewed from the perspective of transferability, the strength being the generation of a 'thick description' (Bryman 2001). The interview data provide an informative and detailed picture of issues and CR activities in the informants' institutions. The dependability of the interview data can be viewed by means of the 'audit trail' (Marshall and Rossman 1995). The trail started with the formulation of the research problem, continued through the selection of the informants and concluded with decisions about analysing the data. Finally, the confirmability of the data has been addressed by an iterative process of analysis, so that neither personal values nor theoretical inclinations swayed the interpretations (Bryman 2001).

6.5 Outcomes

The categories that emerged during the analysis were then compared to the theoretical components of customer retention elaborated in Chapter 5 and the outcomes are related in the following sections. The edited transcript provided a single interpretation of the interview, and so is neither neutral nor value-free, even though they were sent to the informants for comment. Both the transcripts and the notes were then studied, repeatedly, to gain a heightened awareness of the data, to tease out salient themes (Arksey and Knight 1999) and note key differences. For example - what was there in the data that challenged the patterns of customer retention as presented in the literature review? The themes, general statements and key differences that emerged during the interviews are presented below. For ease of interpretation the four participating managers and their institutions are briefly described in Table 6.2. Code names have been supplied for both the informants and their respective FSRs to protect their anonymity and guarantee confidentiality.

Table 6.2 Respondent and FSR details

Interview name: FSR code name	Background detail
Terence: Pickwick	Marketing modelling manager, graduate, worked there 7 years in large bank with extensive high street presence. 8 million customer accounts
Susannah: Jarndyce	Direct marketing manager, graduate worked there for 2 years, large national building society in process of converting to bank. 5 million customer accounts
Christian: Brownlow	Customer relations manager, 'homegrown' with 23 years experience with the same FSR. Building society with strong regional presence. 1 million customer accounts.
Stefan: Trotwood	Marketing director, graduate with 12 years experience in bank. Bank with distinctive position in the market place. 1.2 million customer accounts.

The identification of themes went through a number of phases. Initially eight themes were ascertained and included products and branch networks (see Appendix B). The notes were studied repeatedly and the immediate impressions made after the interviews were expanded. This process resulted in substitutions, additions and deletions being made and material re-organised under the themes. On several occasions, the data were pushed to one side to allow space for reflection and reconsideration of the themes. A final version is presented in the following sections, which captures as much of the interview data as possible.

6.5.1 Change and evolution

All the institutions participating in the interviews were experiencing considerable change in response to shifts in their environment. These changes were seen to relate in particular to customer behaviour and global forces. Terence described customers now as being 'multibanked', i.e. customers have different types of account with different providers and that the bank needed to learn how to manage its "share of the customer's wallet". The need to lower costs or improve cost/income ratio was cited by both Stefan and Terence as being an important element in driving change within their organisations. Internally, change was being effected on a number of fronts with decisions about the way that retention was managed. In particular, there was evidence to show that both retention managers across the product range and product-based retention managers had been in post at different times. The connections between retention managers, product managers and marketing were not clear, even after the matter had been revisited during the course of the interviews. At Pickwick, the marketing director (not the informant) was described as being chiefly interested in the promotion of products and services. It was thought, by the informant, that this director would only be in post for only a relatively short period of time. Jarndyce had already had one retention manager, who was no longer performing that task, and they now had a retention manager with responsibility for mortgage customers only. The interviewer asked for clarification, and this point was expanded, so that it emerged that retention was seen within the FSR as being contract retention, where customers were discouraged from defection rather entering a relationship or extending patronage.

Appointments of relationship and retention managers were in the process of being made in Terence's and Christian's institutions, but both informants stated that the role of these managers was not yet defined. Terence talked about running loyalty campaigns, but when pressed by the interviewer into a more detailed description, the campaigns were described as promotional.

The organisational structures of the FSRs were based around the products, so that there were departments for mortgages and sections for investments. Stefan said that in his bank they tended to work as project teams. Terence talked of significant problems of cross-functional co-operation and integration when describing the structure of his organisation. From the responses of the informants, structure did not appear to be a major pre-occupation of the informants. Stefan expressed the view that the bank branch "will continue to have a relatively strong presence in the bank's strategy". A further detail cited by all informants was the turnover of marketing managers. Terence, Christian and Susannah all mentioned that senior positions in their organisations had recently been filled by candidates from other financial institutions.

The amount of effort directed at pursuing new customers rather than keeping existing ones varied somewhat across this sample. The resource demands of converting from building society to bank resulted in the converting FSR being focused on short-term goals according to Susannah. Their current ratio of 80% effort directed at retention was likely to shift in favour of acquisition, and they devoted considerable effort "in prospecting for new customers". She stated that they aimed to retain customer segments as opposed to individual customers. The respondent thought that senior management "were paying lip service" only to customer retention. This belief contrasted with the comment from Stefan who said that his CEO (chief executive officer) who was seen to "drive the product", was understood by staff to be very aware of marketing issues. Clarification of the phrase 'drive the product' was obtained and it referred to the vigour of the CEO in leading marketing initiatives.

Terence said that, as far as his bank was concerned, retaining customers was very much a new initiative and that it was considered an evolutionary process. He described the ratio of activities as being 10% devoted to existing customers and 90% to new. He also thought that customers introduced by intermediaries, e.g. independent financial advisers, were less likely to remain with the society for any length of time. Since the bulk of this organisation's business was still mortgages, there was less opportunity to cross-sell and attempts to arrest defections would be more likely to fall under the heading of contract retention. Susannah's succinct description of her activities as balancing the short term with strategy provides a fairly accurate portrayal of the situation in these FSRs.

All the informants saw their institutions as responding well to change. This subject was revisited during the course of the interviews looking for evidence to support this assertion. When probed, the Brownlow informant said that the institution viewed itself as being reactive. He cited as an example of this that until the FSR had been focused on arresting mortgage defectors. He added that the institution had a high cost base and that it was the least known of the major building societies, but both these concerns were being dealt with. All the institutions were concerned with lowering or containing costs and/or improving cost/income ratio, usually through staff reductions.

6.5.2 Sales and products

The theoretical bases of retaining customers (see Chapter 4) cite the importance of culture in effecting successful retention, therefore, the informants were encouraged to talk about the prevailing culture in their institutions. It was mainly described by the informants as being a sales culture, reinforced by the setting of sales targets and incentives to front-line staff. Susannah and Stefan both referred to their institutions as being "product-led" and Susannah went on to describe the organisational culture in her organisation as being:

> not customer-driven and the structure is inimical to the integration of effort.

Susannah described the changes that Jarndyce was trying to bring about in the branches, where the emphasis would shift from enabling transactions to making sales. Susannah said:

> branch staff are being encouraged to cross-sell and branches are no longer seen as merely places of financial transactions.

In Stefan's organisation, retention was the focal point for cross-selling. There were also product managers for product lines although he, later in the course of the interview, described his organisation as being project-based in spite of the fact that project based organisations are not usually characterised by strong product divisions. Christian stated that in his organisation "retail branches have gross mortgage and lending services targets", which was further evidence of a selling-driven orientation.

There was considerable evidence in the interviews that these FSRs pursued a product-driven approach, which was accompanied by a sales culture. The apparent difference between contract and client retention as described in Chapter 4, seemed to be blurred. In the first instance, it was seen to be important to retain the customer for a particular product, for example a mortgage, conforming to Ennew and Hartley's (1996) description of contract retention. Once acquired, the customer would then be offered a range of products, which according to the information held would appear to be suitable, and thus fulfilling the description of client retention. Pricing was an important issue in the conversation with Stefan. He said that, in his bank, price "shifted major volume of business", but at the same time branding was "considered to be very strong". He went on to explain that the Trotwood's brand had been developed "in tandem with bank's unique ethical position", and this makes their pricing approach even less easy to understand.

Pricing was also seen as being a key component of retention in Terence's institution where they used low prices as a means of retaining customers. The same respondent described, later during the interview, their strategy as "offering a premium service at a premium price". These approaches are clearly not consistent with marketing theory, but seem to common practice in retailing financial services. Terence explained that, at bank branch level, staff received commission as an incentive to sell products. The informants viewed retention, to a certain extent, as an opportunity to sell related products, although they also aimed to prevent customers defecting.

The interview informants were all asked whether their institutions were customising products to meet individual customer needs (Pine 1993). This question obtained little response other than some puzzlement and an enquiry about the term. The subject of new product development was perceived as being very important by all of the informants. Terence considered "the mortgage was the focal point of analysis", which seemed to indicate the principal area of interest for his organisation.

Three institutions in the interview sample were organised along product lines e.g. a retention manager for investment. This approach suggested strongly that retention was seen as contract retention, where customers were discouraged from defection rather entering a relationship or extending patronage, which is more characteristic of client retention. Appointments of relationship and retention managers were in the process of being made in two of the institutions but the role of these managers was not yet defined. There seemed to be little change to conventional or existing structures with the advent of relationship banking and customer retention. Susannah talked of significant problems of cross-functional co-operation and integration and she explained that "the structure is inimical to integration". The issue of structure did not appear to be a major pre-occupation of the informants. Three of the informants were somewhat dubious about the degree of management commitment to retention, as their institutions were experiencing change in either senior management or corporate direction, although Christian said "the view from the top is that this will change". Terence appeared to be firmly convinced that senior management supported retention in his organisation.

6.5.3 Relationships

The informants' views on consumer behaviour were consulted. Terence thought that customers were more financially astute and suggested that this characteristic may have impacted adversely on loyalty. He thought that one way that the bank could respond was to 'learn how to manage their share of the customer's wallet'. Targeting customers was a major pre-occupation of all the interview informants. Susannah said, "customer relationships are largely product-defined". She, then, went on the mention 'relational products' and cited the cheque account as being an example. As direct marketing manager, she described her job as "pulling together various product groups" and that it had a strong cross-selling element. She was currently engaged in 'upping the level of analysis in segmenting and targeting new and existing customers'. When questioned about the meaning of this phrase, she explained that it meant that the organisation was trying to improve the take-up rate of direct mailings.

Terence described the segmentation approach of his bank as based on 'household relationships', and which consisted of building business with the family members or household of an individual customer. This approach meant that the bank had to consider its actions in the light of a "knock-on effect with the rest of the household". Relationships had until recently been managed by "dedicated managers" but this informant went on to explain that branch-based schemes were "in the process of being rolled-out" at the time of the interview. Customers, in Jarndyce, were analysed according to the products that they held, which emerged from the interviews as being regarded as fairly standard practice in the sector. Competitors, according to these informants, were those organisations that competed in that product range for example, mortgages or loans and would vary according to the product. At that time the FSR where Susannah worked, saw their flagship product as the personal loan.

Stefan explained that his bank had recently introduced socio-demographic variables as a basis for segmentation and added that they planned to use attitudinal data in the near future. Brownlow had recently adopted a new segmentation package (Define), which would be used in conjunction with socio-demographic data. All the informants expressed an awareness of how important segmentation was in retaining customers. It also emerged from the interviews that all the FSRs in the sample were actively engaged in improving their targeting capabilities with a view to acquisition as well as retention.

The informants were asked about how they gained the trust of their customers and their responses were varied. Terence thought that trust and commitment 'were fundamental to the brand proposition', and that they figured in the bank's customer satisfaction index. Christian expressed the view that, as a mutual, they were more likely to have gained the trust of their customers. Commitment was interpreted as being driven by the customer, and the example was cited of: the more products the customer bought, the greater the discount awarded. The informant described this as a "quid pro quo" arrangement. Susannah interpreted trust and commitment within the confines of her role, and saw it based around the 'serious exchange of data' between the FSR and its customers. She later extended this view to include the corporate image of the institution and personal selling, but even when pressed, did not address the way in which the organisation tried to engender trust. Stefan thought that trust was gained by offering lifetime guarantees with their products, which readily matched anything that their competitors offered.

6.5.4 Staff

Terence thought that that staff were responding to retention issues and he spoke of "loyalty" campaigns and how retention was to be "sold to the staff". He outlined his hope that staff would be champions of the bank's products, but stated that branch closure and staff reductions resulted in "a double-edged attitude to staff". Both Terence and Stefan linked cost savings with staff losses, although Stefan's bank had a policy of no redundancies, which meant that staff numbers would be reduced by wastage. Three of the four institutions participating in the interviews were involved in reducing staff costs, which the informants said were generating considerable anxiety amongst staff.

The thrust of staff training in all the FSRs was on providing service quality and none of the informants indicated that there were initiatives aimed at relationship-building or inspiring trust and commitment in their customers. Staff issues connected with customer retention were assumed by the informants to refer to branch and sales staff and no mention of any other employees connected with customer retention was made. Three main points emerged from the discussion about staff. Firstly, staff received commission for sales. Susannah mentioned that, although branch staff were encouraged actively to sell, they were not being appropriately trained. Secondly, training was mainly centred on providing service quality and did not cover relationship-building or inspiring trust in their customers. Finally, the importance of empowering staff was being addressed, but, at the same time, there was little evidence to indicate that staff could take responsibility for actions that might retain customers. The exception here was Stefan's bank, where he said:

> discretion was being devolved to bank staff to retain customers through the use of credits.

The excellence of branch staff in delivering high quality service was a common theme in the interviews. Christian stated "staff took particular pride in offering good service".

6.5.5 Delivery

This theme that emerged from the interviews covers the way in which retail financial services are delivered to the customers, often through multiple channels. Trotwood was engaged in two delivery/channel activities. Firstly they had established an entirely distinct phone bank that would run in parallel to the existing branch-based bank. They had already developed a call centre so that all calls to the bank were routed through a call centre based in the north-west and the informant did not believe that this system would be rationalised in the near future. Pickwick had had a 'telephone arm' for three years, which Terence believed was not widely known, possibly, because the bank has such a strong branch presence (which they were in the process of reducing). Brownlow was establishing a number of 'gateways', which Christian described as channels of distribution, so that the customer had a choice in the way in which they contacted the society. Later, this statement was contradicted, as this informant related that retention issues were being centralised and that all enquiries would be dealt with over the 'phone. Jarndyce had created a dedicated 'telecare' unit to deal directly with customer enquiries, which bypassed the branch network. These FSRs were all setting up arms or channels quite distinct from the branch network and all the informants talked about the closure of branches, which formed part of cost saving measures. If branches were not being closed their continuing existence was under review.

6.5.6 Customer information

The final strand that emerged from the interviews is concerned with customer information, the way that it is managed and its availability to staff concerned with retaining customers. Information systems were not generating the type of information needed for accurate targeting (see section 6.5.2). The systems in Jarndyce, as described by Susannah, could not as yet identify loyal and profitable customers. They could, however, provide information on the number of products a customer held, the length of the relationship i.e. how long they had had the products and how the products were being used. This informant described that she wanted to develop more effective information systems but was frustrated by lack of management support. She also commented that they had a "group direct marketing system" which linked into branches for special initiatives. She commented that Jarndyce's branches were moving towards gaining access to customer information where limited customer detail would be available to staff. Their systems were also experiencing considerable difficulties in integrating sources of data from a merger which had occurred a year or two previously, which could be compounded by conversion issues. She thought that the CIS (customer information system) would "provide information for managing customer relationships in two years' time". Pickwick's customer database supported their marketing strategies, but its developments and capabilities were not generally understood by branch staff.

A different picture of customer information emerged from the interview at Trotwood. Branch-based staff updated customer records, and a data warehouse was being developed. Christian admitted when probed that "customer profitability was not entirely known", but their systems did permit them to analyse customer defections. Mortgages were the focal point of their analysis, and loyalty was assesses as with the other FSRs on the number of products held over time. They could also identify "intertwined products" i.e. products that had a higher probability of being held together, for example cheque accounts and credit cards. Their systems enabled them to capture customer characteristics from a number of sources so that a customer profile could be created. The system was referred to as 'the customer relationship system'.

The informants stated that their customer databases were unable to provide the kind of information needed to support customer retention. Susannah was frustrated with her database's failings even, to fulfil short-term objectives such as direct mailing with the required degree of accuracy. Stefan's bank was aiming at a data warehouse that would not be "owned by any department or division" within the bank. Terence observed that integration of data needed to target customers was hampered by the structure of his organisation, where retail banking was separate from mortgage business. He also talked about the development of "crude measures of profitability" which the bank was beginning to develop as an integral part of retaining desirable customers. There was a noticeable air of frustration when describing the limitations of their existing customer information systems on the part of the informants. Generally, they reported problems with integration of systems, inability to profile and a general lack of sophistication and, as yet, these retailers could not identify loyal and profitable customers. They could, to some extent, detect customers who were likely to defect and offer them inducements to stay. The challenge of systems and service delivery is a severe one in financial services retailing and which is, probably, needs to be subjected to continuing investment and re-appraisal.

6.6 Discussion and conclusion

In Chapter 3, it was argued that there are characteristics within traditional providers of financial services that require distinct organisational approaches to customer retention. The specific purpose of the interviews was to identify themes and patterns in the interview data that challenged, or indeed confirmed, the theoretical aspects of customer retention as presented in the literature review. These four interviews provided a wealth of insight into the organisational issues of CR and some of the issues that arose from implementing retention. The interview data need to be considered with the other data sources in order for the requirements of a pluralistic approach to be fulfilled, but there is interesting detail that warrants mention at this stage.

The informants talked a great deal about customer relationships, in particular Terence, but the descriptions of their activities and concerns fitted 'old' marketing interpretations, with the four 'p's' of product, place, price and promotion very much underpinning the conversations (see Chapter 2).

Pricing as a marketing strategy is usually more in tune with transactional marketing, and efforts at establishing a brand would be undermined by the use of low of competitive pricing. These assertions are somewhat at odds. Pricing, especially as described by Stefan, is not supportive of branding where a distinctive brand usually carries a higher price.

As discussed in Chapters 3 and 4, branding and positioning are key marketing strategies that FSRs have not always been successful in executing, although

Trotwood has achieved a degree of differentiation in the marketplace through its ethical policies.

The interview data also suggest that the FSRs in the interview sample share a product-driven approach in their marketing strategy and outlook. The question of how customers can be retained successfully with this style immediately arises. If the emphasis is on product development rather than customer satisfaction and meeting customer needs, then retention is going to be difficult to achieve. One institution (Jarndyce) aimed to retain customer segments as opposed to individual customers, which is a departure from the usual interpretation of retention where the emphasis is usually on individual customers.

The data seems to indicate that retaining customers was at developmental stage, with lots of ideas being tried out for example, whether to have an overall retention manager or managers for each product. Customer retention was seen as being important by all the institutions interviewed; however, their approaches differed. What may undermine their success in retaining customers is an incomplete understanding of marketing strategies, and in particular relational exchange theory. It was apparent from the interviews that contact staff played and would continue to play a key role in retaining customers but the contrast of seeking to retain customers while losing staff had not been lost on the informants.

An additional impediment to retention was the indication, particularly on the part of Terence, that FSRs may have significant staff turnover at managerial level. This turnover might mean that the necessary pool of staff to provide the professional skills and knowledge required for retaining customers. Given the pivotal role of trust in building and maintaining relationships, the data seems to indicate that, as yet, this sample of FSRs had not devoted sufficient thought to how customer trust might be gained.

The FSRs seemed to be some way from the level of database development needed for customer retention. The weaknesses alluded to by the informants would also impede any efforts at customisation (Pine 1993). Mass customisation (see Chapter 4) requires sophisticated information systems for individual customer tracking. Moreover, Susannah described her institution as identifying segments as opposed to individual customers (see section 6.5.2). This inability of customer information systems to perform the kind of tracking has been cited in the literature (e.g. Murphy 1996). The difficulties raised by the informants in integrating data (see section 6.5.6) is the kind of structural anomaly cited in the literature that impedes customer satisfaction in current marketing environments (e.g. Cravens et al 1996).

The need for developing specific relationship-building skills in front-line staff had not been addressed, instead the FSRs preferred training in service quality. Although the provision of service quality is usually considered a pre-requisite for retaining customers (e.g. Ennew and Binks 1996), it is a necessary rather than a sufficient condition. The role of branch staff in retaining customers seemed to be marginalised from the interview data.

The informants noted the distinction between contract and client retention but they saw the retention of a customer as being the basis of initiating dialogue. This interpretation of retention is similar to Harrison's (2000) view discussed in Chapter 5, but there were few distinctive differences between contract and client retention according to the informants.

The similarity of the concerns of the informants was noticeable, particularly the weakness of the systems, the reliance on front-line staff and the emphasis on relationship banking. This is really quite surprising given the diversity of organisations participating in the interviews, it would seem that there are similar concerns shared by these traditional institutions in retaining customers. It was noted that the interview informants used specific terms and phrases, for example, 'share of wallet'.

The creation of a flexible but searching data generation method interview structure, at this point in the research, had achieved its objective in discovering particular aspects of retention in the retailing of financial services. The interviews were conducted according to an inductive model, or theory generating perspective. The research now moves onto a deductive style of investigation in which the theory of customer retention forms the basis for inquiry. The interview data will be viewed in greater depth along with the data from the surveys in Chapter 9.

CHAPTER 7

ASKING THE EXPERTS

7.1 Introduction

This chapter marks the shift in research methods from qualitative driven by an interpretive methodology to a quantitative style of enquiry. To develop a rounded picture of customer retention (CR) in retail financial services, a number of data sources were involved as well as alternative styles of enquiry, as argued in Chapter 2. The interviews provide a perspective derived from an inductive approach of how FSRs retain customers, based on the responses from a small number of practitioners closely involved with customer retention in their respective organisations. This chapter now portrays an alternative view, derived from quantitative data, generated by means of surveying a number of retention experts in retail financial services. The full details of the research design are given in Chapter 5, but a brief outline of the method will be given here.

7.2 Survey method

From the discussion in Chapter 4, five strands of CR were identified and these strands formed the core of the deductive part of the investigation. For each strand a number of items was created. For the corporate strand, 15 items were developed which were deemed to capture the principal aspects of this aspect of CR for example:

> "We adopt a long-term perspective on investment, for example retention programmes."

and for strategy

> "Direct mailing offers us a more effective method of communicating with our customers than press or TV advertising."

The items were then reviewed and piloted as detailed in Chapter 5.

The type of institution that formed the basis for this enquiry was the traditional high street bank or building society (see Appendix A). A list of 30 managers was drawn up to form the participants in the survey as described in Chapter 5. From this list of 30 managers, 26 completed surveys were received and the results of this survey are presented in the next section. This chapter analyses the responses of these experts to this lengthy battery of items to obtain a clearer picture of customer retention by means of quantitative data and a descriptive analysis. The items are then subjected to a reliability test using Cronbach's alpha. This procedure was used to discover if the strands identified in the review (see Chapter 4) are supported by the data, in addition to discovering suitable items for the employees' survey.

The details of the respondents to the experts' survey are presented in Table 7.1.

Table 7.1 Details of respondent FSRs

	Respondent position	Size of institution (no. of customer accounts)	Type of institution
1.	Customer information manager	2 million	clearing bank
2.	Direct marketing manager	4.5 million	converting
3.	Marketing manager	2 million	clearing bank
4.	Senior manager – customer retention	7 million	mutual
5.	Marketing modelling manager	8 million	clearing bank
6.	Marketing development manager	1.2 million	mutual
7.	Marketing manager	1 million	mutual
8.	Customer retention manager	350,000	converting
9.	Marketing analyst	300,000	clearing bank
10.	Customer retention manager	1 million	mutual
11.	Director of operations	55,000	clearing bank
12.	Manager of retail banking	4.5 million	clearing bank
13.	Customer targeting manager	20 million	converting
14.	Head of loyalty & retention	1.3 million	mutual
15.	Head of personal marketing	2 million	clearing bank
16.	Marketing manager	14 million	clearing bank
17.	Marketing manager	400,000	mutual
18.	Manager- customer strategy	8 million	clearing bank
19.	Customer service manager	450,000	mutual
20.	Communications manager	350,000	mutual
21.	Customer strategy manager	15 million	clearing bank
22.	Direct marketing manager	5 million	converting
23.	Research manager	360,000	mutual
24.	Customer information research controller	2 million	mutual
25.	Details incomplete	details incomplete	clearing bank
26.	Non-response	non-response	non-response

Two respondents (25 and 26) completed the item section of the questionnaire but did not fill in the personal or institution details. This table demonstrates the variety in the sector of retail financial services in terms of size and nature of providers. The largest provider in the sample has 20 million customer accounts and is in the process of converting from mutual to clearing bank. The smallest provider has 55,000 customer accounts and is a clearing bank, but this small number of accounts may be businesses. The survey respondents were asked to state their position or job title and the diversity of managers responsible for retaining customers is interesting, ranging from senior managers in large institutions e.g. 12, to a customer service manager (19).

7.3 Analysis of the experts' survey

The results are presented according to each of the strands identified in the literature review and are as follows: corporate, structure/culture, strategy, systems and staff. For ease of interpretation, the results of the experts' survey are presented in tabular form using percentages to report the responses of the experts. To illustrate points of particular interest, pie charts are used, with the median as the measure of central tendency (de Vaus 2001). In the pie charts the results are reported as follows: 5 denotes 'accurate', 4 – 'partially accurate', 3- 'neither accurate nor inaccurate', 2 – 'partially inaccurate' and finally 1 – 'inaccurate'. The data were entered onto a data matrix, each item given a label and SPSS was used to provide frequency statistics and pie charts. The analysis of the experts' survey starts with the corporate strand of customer retention.

7.3.1 Corporate

This strand was developed, as explained in Chapters 4 and 5, to gauge the perceptions of the respondents on corporate issues relating to the retaining of customers and consists at this preliminary stage of 15 items. Firstly, the charts are presented and then the findings are discussed.

Table 7.2 Results of corporate strand

Item	Response	%
1. Senior management fully understands and supports customer retention	inaccurate	0
	partially inaccurate	3.8
	neither accurate nor inaccurate	26.9
	partially accurate	46.2
	accurate	23.1
2. Improving cost/income ratio is the most important business objective for us at present	inaccurate	3.8
	partially inaccurate	11.5
	neither accurate nor inaccurate	34.6
	partially accurate	23.1
	accurate	26.9
3. We can best achieve growth by acquiring new customers	inaccurate	0
	partially inaccurate	23.1
	neither accurate nor inaccurate	53.8
	partially accurate	23.1
	accurate	0
4. The bulk of our activities is directed towards keeping existing customer	inaccurate	3.8
	partially inaccurate	34.6
	neither accurate nor inaccurate	38.5
	partially accurate	23.1
	accurate	0
5. We adopt a long-term perspective on investment e.g. retention programme	inaccurate	3.8
	partially inaccurate	15.4
	neither accurate nor inaccurate	42.3
	partially accurate	34.6
	accurate	3.8
6. Our resources are optimised to provide high levels of service quality	inaccurate	0
	partially inaccurate	23.1
	neither accurate nor inaccurate	38.5
	partially accurate	30.8
	accurate	7.7
7. Our aim is to increase the number of products sold to selected customers	inaccurate	0
	partially inaccurate	7.7
	neither accurate nor inaccurate	15.4
	partially accurate	46.2
	accurate	30.8
8. Measuring lifetime value of a customer is consistent with the strategic objectives of the organisation	inaccurate	3.8
	partially inaccurate	3.8
	neither accurate nor inaccurate	11.5
	partially accurate	50.0
	accurate	30.8
9. Senior management recognises that customers have diverse and individualis ed needs	inaccurate	0
	partially inaccurate	3.8
	neither accurate nor inaccurate	23.1
	partially accurate	57.7
	accurate	15.4
10. Our strategies reflect that that it is becoming increasingly difficult to predict customer behaviour	inaccurate	0
	partially inaccurate	15.4
	neither accurate nor inaccurate	69.2
	partially accurate	15.4
	accurate	0

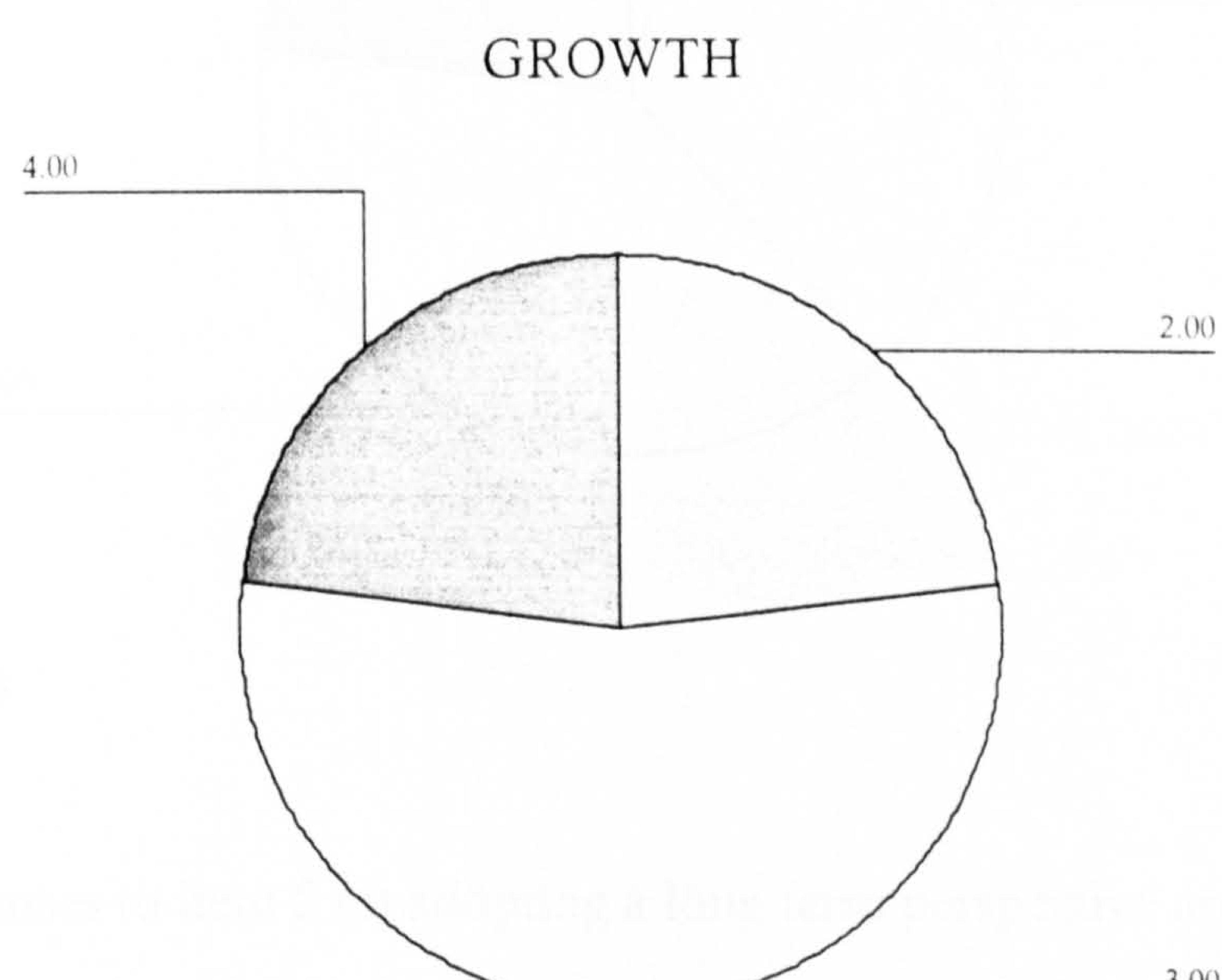
11. Senior management regards customer retention as being the most effective way to improve profitability in the long term	inaccurate	11.5
	partially inaccurate	7
	neither accurate nor inaccurate	7
	partially accurate	38.5
	accurate	34.6
12. We may wish to let unprofitable customers go	inaccurate	0
	partially inaccurate	3.8
	neither accurate nor inaccurate	30.8
	partially accurate	50.0
	accurate	15.4
13. Our resources ensure that we provide a dependable service for our customers	inaccurate	0
	partially inaccurate	11.5
	neither accurate nor inaccurate	15.4
	partially accurate	50.0
	accurate	15.4
14. Senior management fully acknowledges the role of front-line staff in customer retention	inaccurate	0
	partially inaccurate	3.8
	neither accurate nor inaccurate	19.2
	partially accurate	50.0
	accurate	26.9
15. We can lower costs by developing our customer information systems	inaccurate	0
	partially inaccurate	7.7
	neither accurate nor inaccurate	34.6
	partially accurate	50.0
	accurate	7.7

As argued in Chapters 3 and 4, retaining customers should be considered as an organisational goal that accordingly engages the entire workforce. Commitment to retaining customers by senior management should be exceedingly clear to all staff, but the results of the first item about senior management understanding show only partial support (46.2%), with 26.9% being unsure about the accuracy of the statement in their FSR. The accuracy level of item 8 on lifetime value is higher with over 80.0% in support of the statement, which is not really consistent with the responses to the first item. The measurement of lifetime value is an established aspect of personal banking and this phrase probably has particular resonance for the respondents to this survey. The responses to item 2, concerning cost/income ratio, tend to undermine the widely held belief that FSRs are seeking to improve their profitability by this means, with over a third of the respondents replying in the neither accurate nor inaccurate category (34.6%). Nor does a clear trend appear in the responses to item 11, on CR and profitability, which indicates perhaps a degree of ambivalence to CR and the long-term view that it requires. There has often been a question mark about long term strategic thinking in FSRs (see Chapter 3).

The responses to item 3 on acquiring new customers show that 53.8% of the respondents are equivocal about the growth of their organisation (see Figure 7.1). It is possible that FSRs are not necessarily thinking of growing their customer base. They may be thinking of increasing the revenue from their existing customers, but if that was the case, then more responses in the inaccurate categories might have been expected.

Figure 7.1 Growth

Q3 "We can best achieve growth by acquiring new customers"

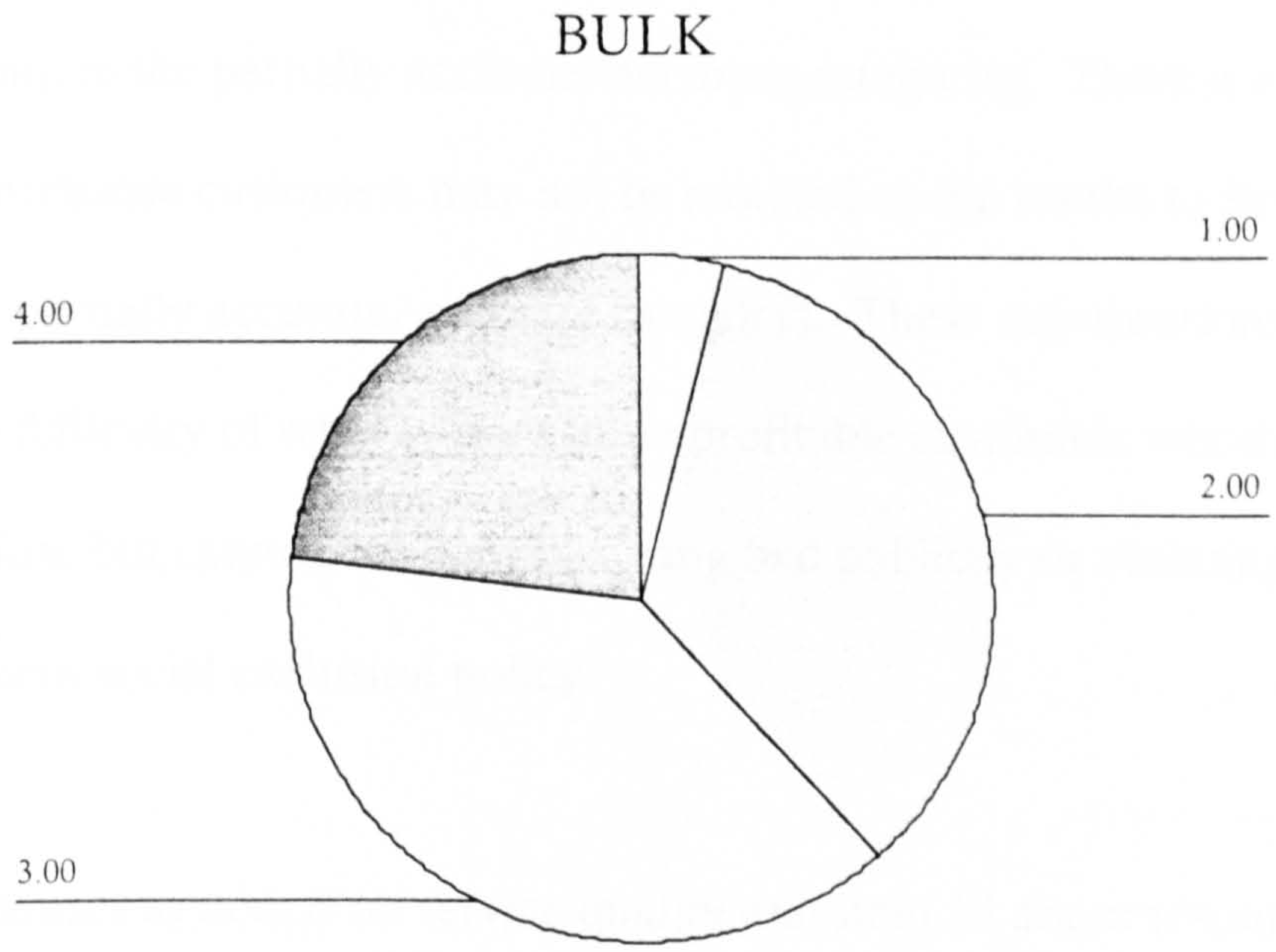


median=3

Item 4 on keeping customers has the same median as item 3 (see Figure 7.2), but a different distribution with 38.2% of the sample describing the statement as being partially inaccurate/inaccurate. These responses show that there is some uncertainty about retention amongst this sample, and that there are activities in these FSRs directed towards the acquisition of customers. The challenge for these organisations is to balance their strategies so that the retention and acquisition of customers do not conflict.

Figure 7.2 Bulk of activities

Q4. "The bulk of our activities is directed towards keeping our existing customers"



median=3

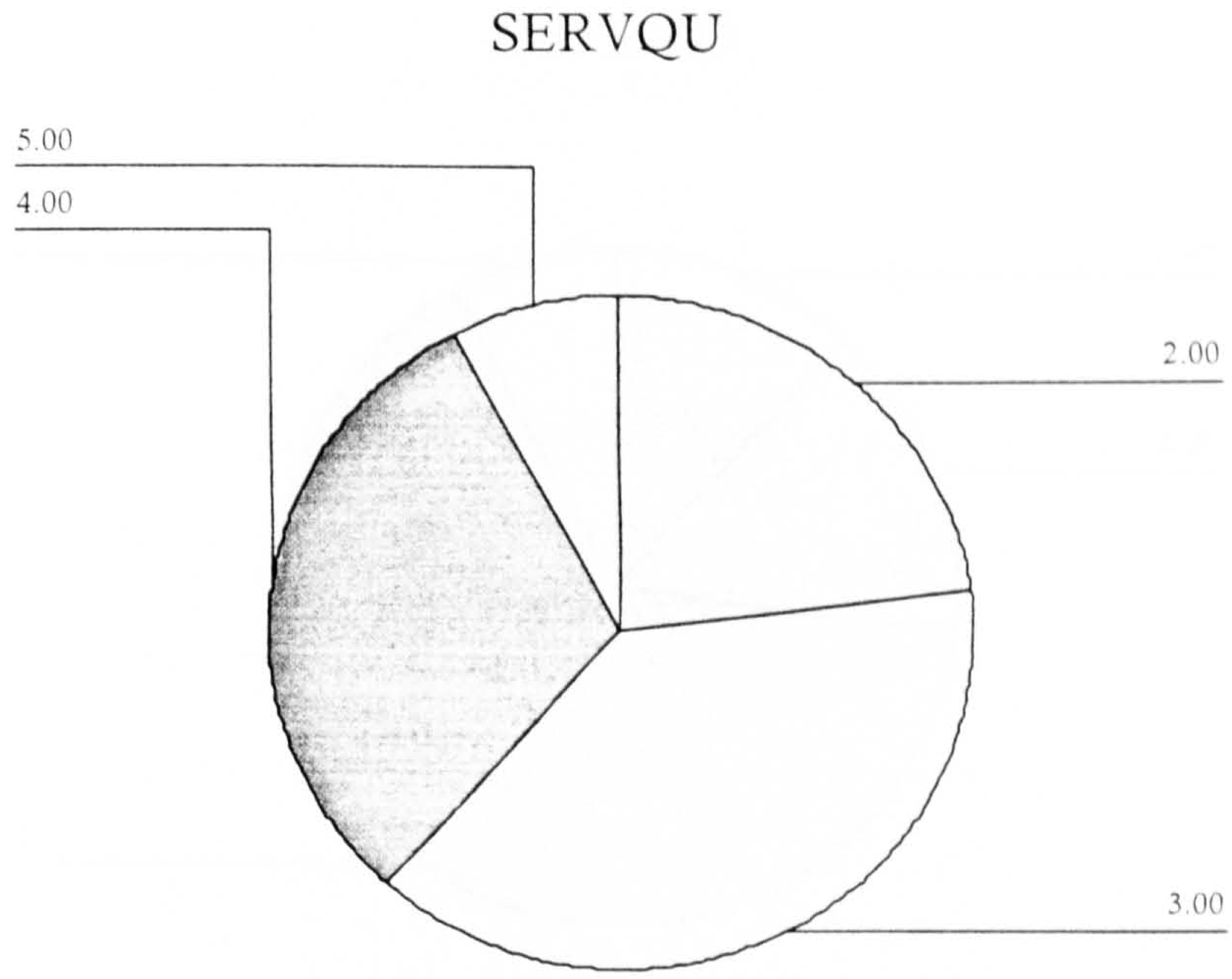
The responses to item 5 on adopting a long-term perspective are quite consistent with these findings where there appears to be only limited support with only 40% responding in partially accurate/accurate categories. If retention was a major strategic or corporate objective for these institutions, then a higher percentage of responses in these categories would have been expected.

The concept of micro-segmentation was set out in Chapter 4, and the respondents seem aware of its challenges as responses to item 9 indicate (73.1% fall in the partially accurate/accurate categories). However, the results of item 10 on changes in customer behaviour, which assists in the identification of micro-segments, do not reflect a positive reply. The banking literature emphasises the sector's desire to cross-sell and the results to item 7 on increasing sales to existing customers fully support this belief with 77% responding in the partially accurate/accurate categories. There is a realisation that unprofitable customers may not be retained as the results to item 12 suggest (65.4% - partially accurate/accurate category). These organisations are faced with the difficulty of what to do with unprofitable customers whom they may wish to lose but cannot, without incurring bad publicity or violating government social exclusion policy.

The responses to item 6 on service quality and item 13 about resourcing dependable service are interesting (see Figures 7.3 and 7.4).

Figure 7.3 Resourcing service quality

Q6. "Our resources are optimised to provide high levels of service quality"

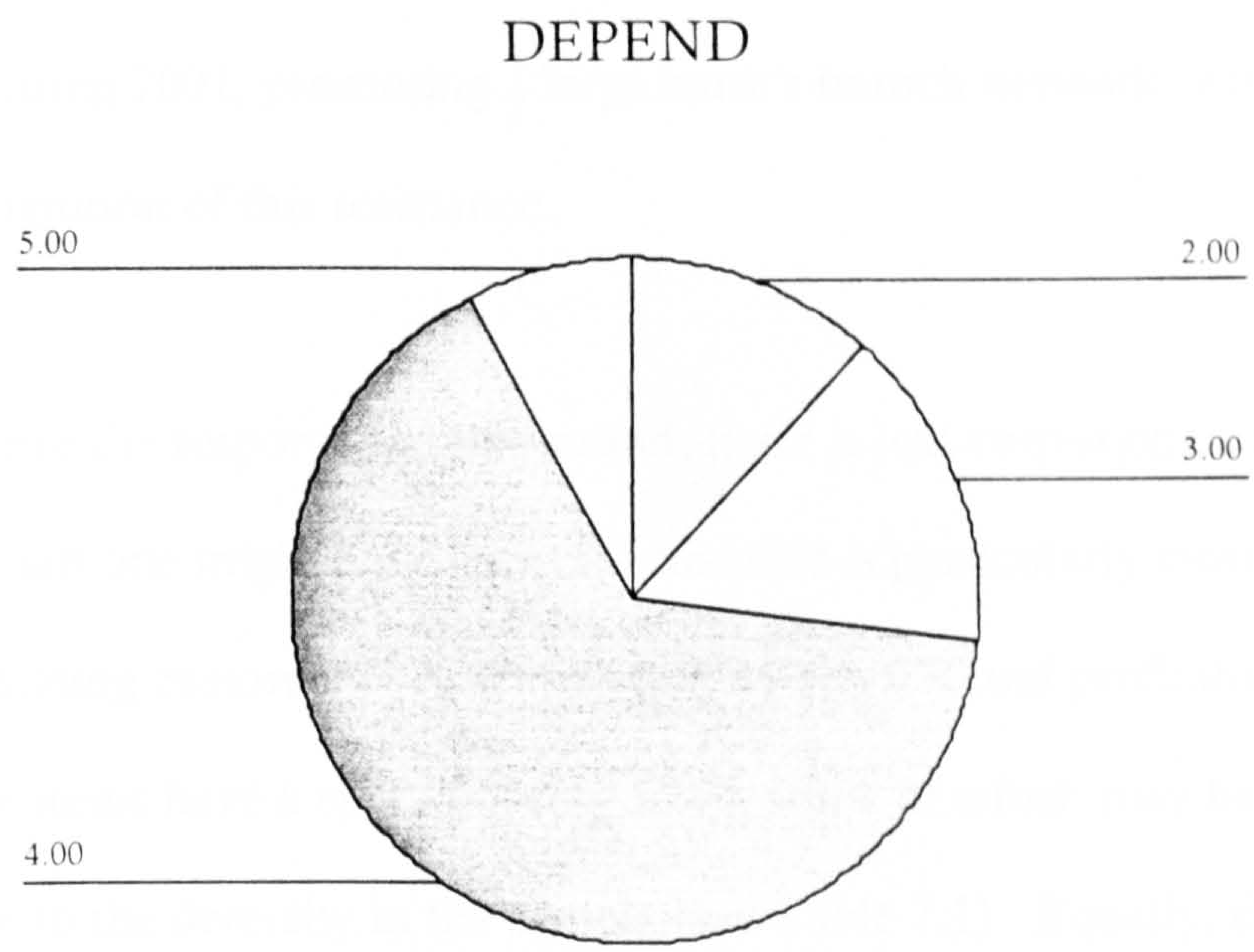


median=3

For item 6, over half (61.6%) of responses fall within either 'partially inaccurate' or uncertain categories, but for item 13 about two thirds (65.4%) of the respondents reply in the 'partially accurate' category to the first of these items (see Figure 7.4).

Figure 7.4 Dependable service

Q13. "Our resources ensure that we provide a dependable service for our customers"



median=4

Dependability is one of the five dimensions of service quality (Parasuraman et al. 1988), and although the respondents seem to believe that their service is dependable, they are less sure about service quality as a whole. The role of front-line staff is clearly acknowledged by the responses to item 14, but 50% of the responses fall within the partially accurate category rather than the accurate category, as one might have expected. It is possible that these respondents feel that the vital role performed by front-line staff is not fully appreciated by senior management. The importance of information systems in lowering costs in item 15 is generally supported (57.7%) falling within the partially accurate/accurate categories). This item was developed with the advent of virtual banking in mind, which was discussed in Chapter 3 and which requires fast and reliable information systems to respond to customer contact through a variety of channels. There is a degree of consumer resistance to virtual banking, possibly as a result of the enthusiasm of banks in encouraging customers to switch to using non-branch methods of access and delivery. A series of advertisements appeared during 2001, promoting a large bank's branch network, would appear to be a recognition of this resistance.

To summarise the responses to this strand, there is less convergence in these responses than one might have expected and this is particularly clear in the items on existing customers (4), service quality (6), CR and profitability (11). All of these items have a spread of responses, some of which may be attributable to the diversity in the sample (see Table 7.1). Equally, there are a number of items which show considerable agreement across the sample, for, increasing the number of products sold (7) and lifetime value (8). On the basis of the responses to this strand, it would appear that there is something of a time lag to the value of retaining customers. This is surprising, since it is clear in the literature that retaining customers presents a number of distinctive advantages such as lowered costs and improved revenues (see 4.4). Although customers in financial services are still relatively inert (Mintel 1999), traditional FSRs could leverage this inertia by adopting a more customer-driven outlook in their thinking and practices.

7.3.2 Structure/culture

This strand is concerned with the structural/cultural issues that were identified in the marketing literature and relate to CR. There are, once more, 15 items that examine this strand and the results are presented below and with commentary at the end.

Table 7.3 Structure/culture

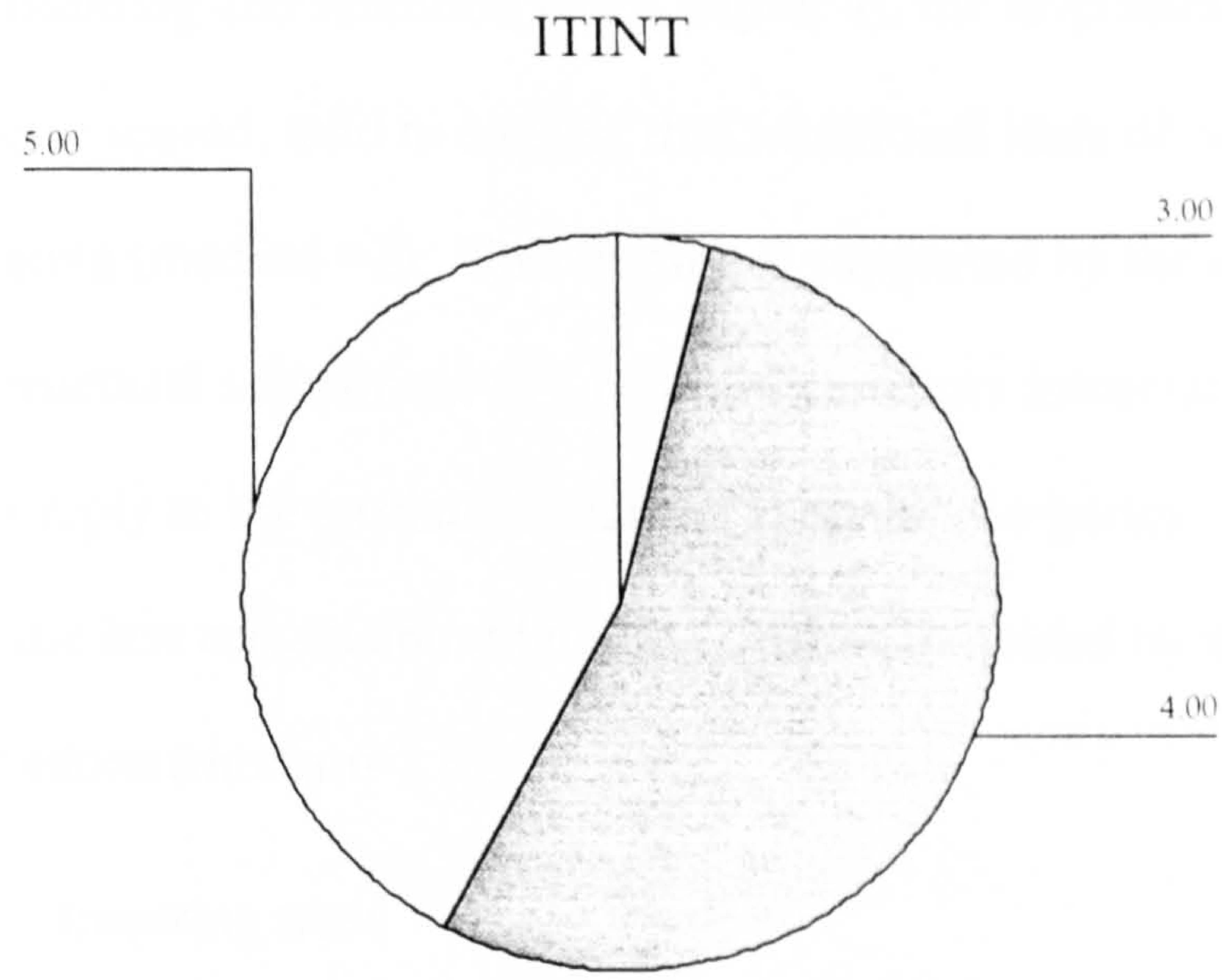
Item	Response	%
16. There are organisational barriers to plans for customer retention in this institution	inaccurate	11.5
	partially inaccurate	30.8
	neither accurate nor inaccurate	30.8
	partially accurate	26.9
	accurate	0
17. We see the role of IT at the customer interface as increasing	inaccurate	0
	partially inaccurate	0
	neither accurate nor inaccurate	3.8
	partially accurate	53.8
	accurate	42.3
18. We all work towards creating satisfied customers	inaccurate	
	partially inaccurate	19.2
	neither accurate nor inaccurate	19.2
	partially accurate	53.8
	accurate	7.7
19. We are largely organised along product lines	accurate	0
	partially inaccurate	19.2
	neither accurate nor inaccurate	53.8
	partially accurate	19.2
	accurate	7.7
20. The development of the customer information system is bringing about structural readjustment in the organisation	inaccurate	3.8
	partially inaccurate	7.7
	neither accurate nor inaccurate	26.9
	partially accurate	50.0
	accurate	11.5
21. We actively address the need for inspiring trust in our customers	inaccurate	0
	partially inaccurate	11.5
	neither accurate nor inaccurate	38.5
	partially accurate	42.3
	accurate	7.7
22. Our institution has a single manager responsible for customer retention/loyalty across all product lines	inaccurate	26.9
	partially inaccurate	38.5
	neither accurate nor inaccurate	7.7
	partially accurate	11.5
	accurate	15.4
23. The branch will continue to be a key channel for reaching our customers	inaccurate	7.7
	partially inaccurate	7.7
	neither accurate nor inaccurate	26.9
	partially accurate	30.8
	accurate	26.9

24. Our organisational/marketing structure is aligned to the needs of our chosen market segments	inaccurate	7.7
	partially inaccurate	23.1
	neither accurate nor inaccurate	34.6
	partially accurate	26.9
	accurate	7.7
25. Our levels of service quality ensure that our customers stay with us	inaccurate	0
	partially inaccurate	15.4
	neither accurate nor inaccurate	23.1
	partially accurate	42.3
	accurate	19.2
26. We generally receive co-operation from colleagues elsewhere in the institution in implementing retention plans	inaccurate	0
	partially inaccurate	11.5
	neither accurate nor inaccurate	23.1
	partially accurate	53.8
	accurate	11.5
27. Each product line has its own retention manager	inaccurate	3.8
	partially inaccurate	15.4
	neither accurate nor inaccurate	23.1
	partially accurate	38.5
	accurate	19.2
28. Alternative channels will gradually replace branch business in this institution.	inaccurate	0
	partially inaccurate	11.5
	neither accurate nor inaccurate	42.3
	partially accurate	30.8
	accurate	15.4
29. We consider that we understand the customer's point of view	inaccurate	0
	partially inaccurate	7.7
	neither accurate nor inaccurate	34.6
	partially accurate	57.7
	accurate	0
30. We offer incentives to our front-line staff for meeting sales targets	inaccurate	30.8
	partially inaccurate	46.2
	neither accurate nor inaccurate	11.5
	partially accurate	7.7
	accurate	3.8

The first item in this strand (16) on organisational barriers is reverse-scored, that is, respondents disagreeing with this item were indicating a positive orientation to CR. Over a quarter of the respondents (27%) report the statement to be partially accurate and the median score for this item is 3. There are some FSRs in the sample that are clearly encountering hurdles in structuring themselves for retaining customers. Item 17 is concerned with the role of IT at the customer interface and almost all respondents reply in the partially accurate/accurate category (96.1%), indicating a very vigorous view that personalised banking is going to diminish (see Figure 7.5).

Figure 7.5 IT at the interface

Q17. "We see the role of IT increasing at the customer interface."



median=4

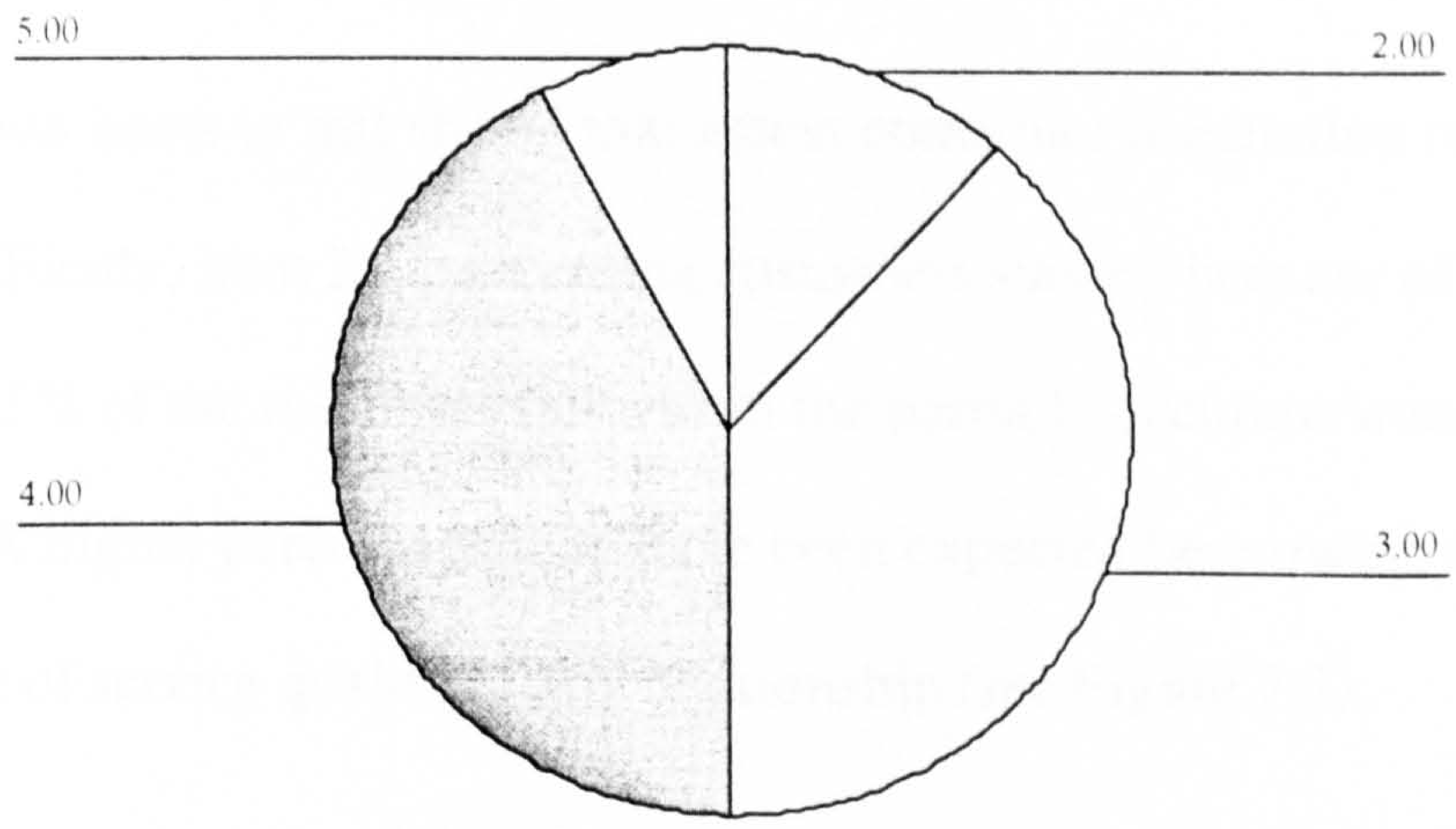
This trend may be consistent with conducting basic transactions such as cash withdrawals but it may need to be balanced with personal elements if the selling aims of the previous strand are to be achieved. Conversely, the selling of even quite complex products such as mortgages is increasingly being conducted via remote links. The long-term implications of financial products being viewed as commodities are fraught with danger for these FSRs as customers will 'shop around' seeking those offerings which appear to them to offer the best value, and their preferred delivery channel.

Item 18 is concerned with the whole workforce contributing to customer satisfaction and 53.8% reply in the partially accurate category, but nearly 20% respond in the partially inaccurate category. As with service quality, customer satisfaction has been an elusive target for FSRs, and there is a suggestion with the responses to this item that some are still struggling with creating satisfaction. As a cross-functional structure has been suggested as supportive of relationship building and retention (see Chapter 4), the responses to item 19, which is reverse scored, tend to suggest that traditional lines of organisation may be changing (median =2). This finding is supported by the responses to item 20 on structural adjustment as a result of customer information systems, where 61.5% reply in the partially accurate/accurate categories. The respondents are less certain about building trust as indicated by item 21 within their organisations (median=3.5).

Figure 7.6 Inspiring trust

Q21. "We actively address the need for inspiring trust in our customers"

ACTTRUST



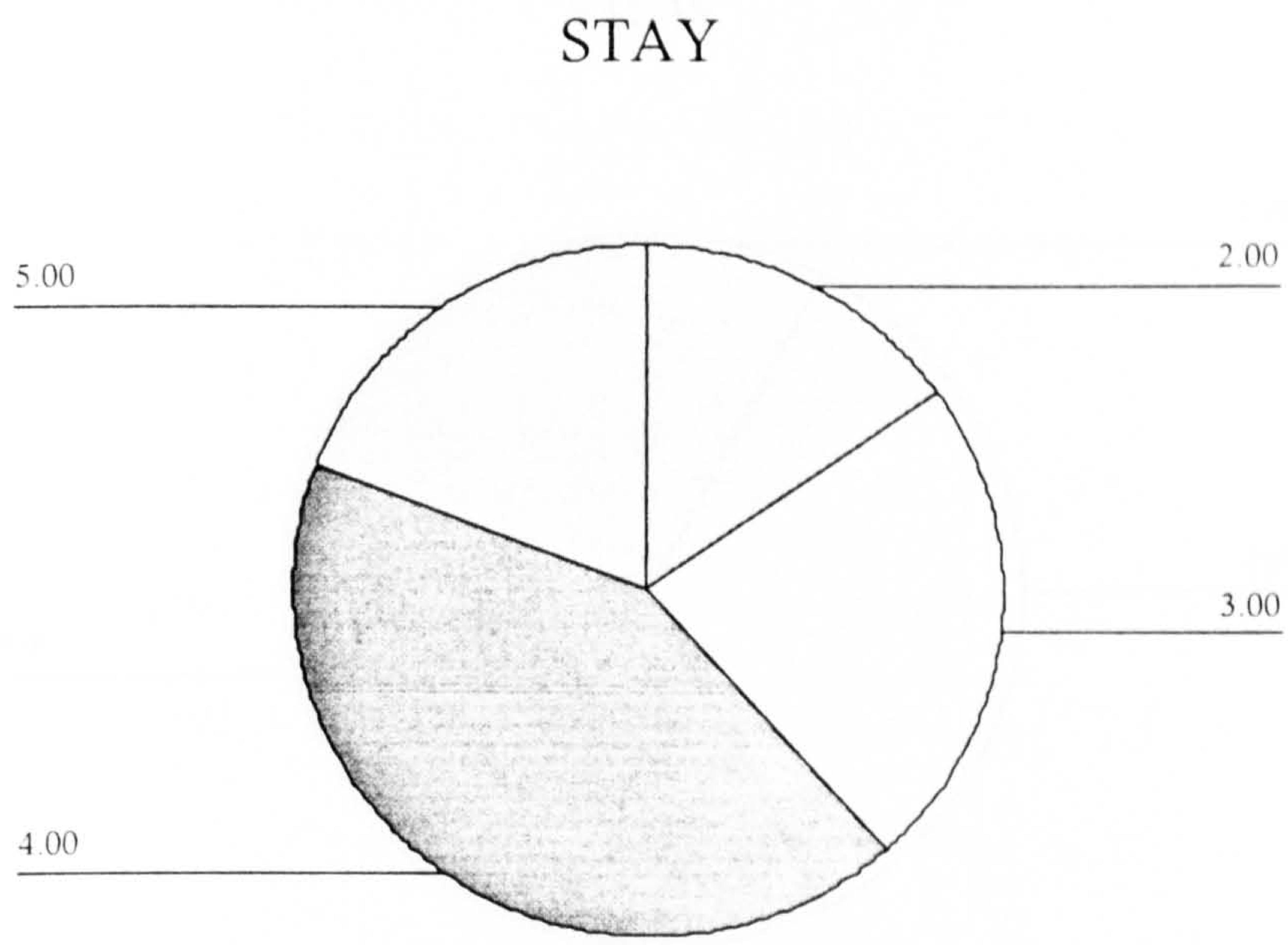
median=3.5

If FSRs are seeking to build relationships with customers, it is surprising to note these responses, as trust is an integral part of relationship marketing (O'Malley and Tynan 1999). Retention is not managed across product lines according to the responses to items 22 and 27, in spite of the agreement in the literature that retention and relationship management is a holistic endeavour (e.g. Gronroos 1999). An unclear set of responses is shown in item 24 on aligning structure to market segments with a median score of 3, which the marketing literature (Day and Montgomery 1999) extols as effective in retention. As far as the distribution of financial services is concerned, the responses to item 23 show that the branch will remain a key channel, but the responses do show a spread in their distribution to this item. Item 26 is concerned with co-operation amongst colleagues and 65.3% respond in the partially accurate/accurate category. Somewhat surprisingly, in the light of the banking literature, (see Chapter 3) the role of alternative channels between provider and customer is less certain according to item 28 where 42.3% of respondents reply in the neither accurate nor inaccurate category.

There are two items in this strand that assess consumer orientation or customer-centricity. Firstly, item 25, concerning customers staying because of service quality, 61.5% of the responses fall within the partially accurate/accurate category. A higher percentage may have been expected here owing the importance of service quality in any relationship (see Figure 7.7).

Figure 7.7 Service quality and customers

Q25. "Our levels of service quality ensure that our customers stay with us."

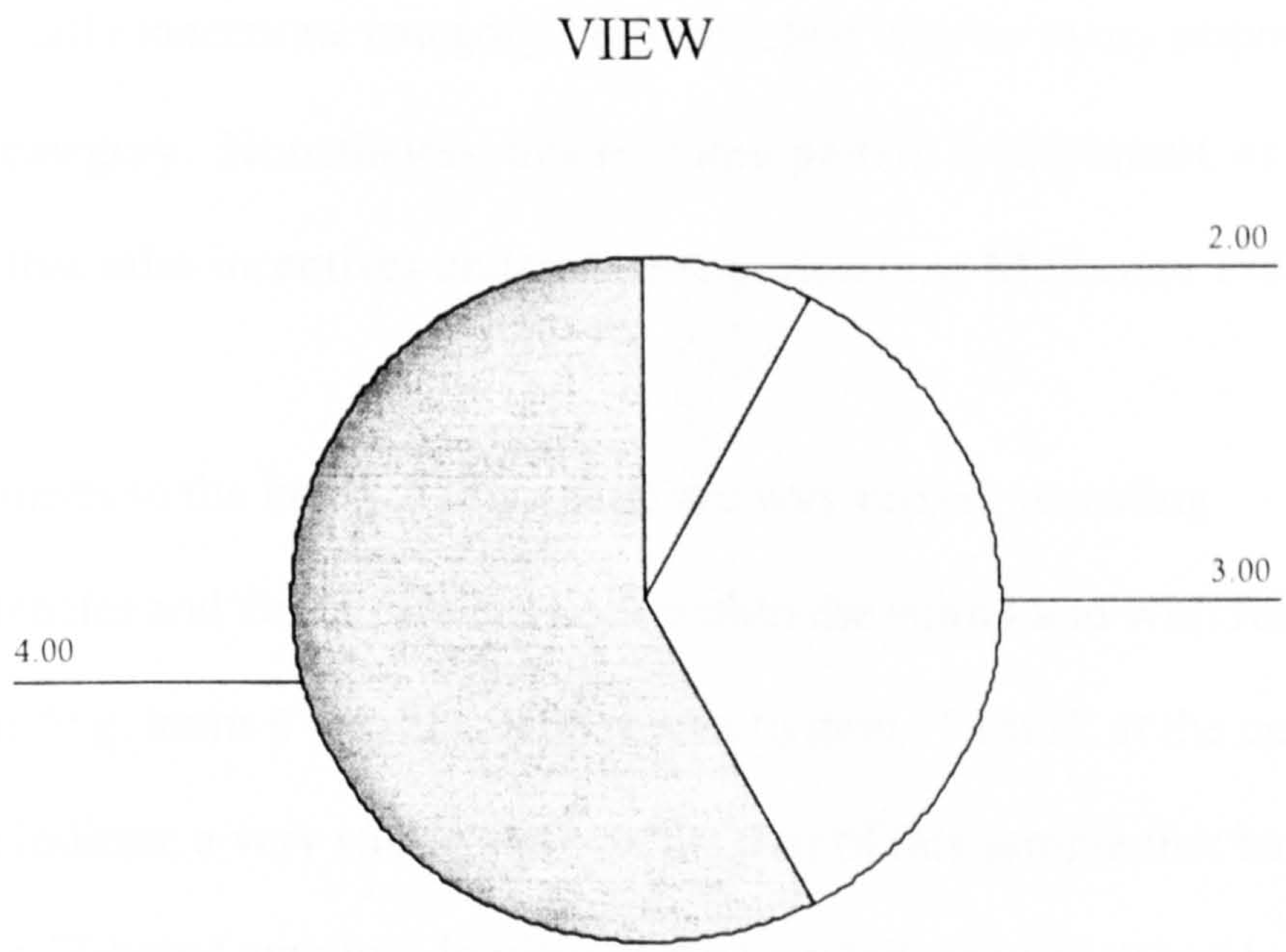


median=4

Secondly, item 29 on understanding the customer's point of view, which is axiomatic to marketing but attracts a spread of responses and none in the accurate category (see Figure 7.8).

Figure 7.8 Customers' view

29. "We consider that we understand the customer's point of view."



median=4

The responses to these items indicate that FSRs may still have problems with a customer focus. The responses to item 25 on customers staying fall into higher categories than item 6 in the previous strand on service quality and resource implementation. The responses to this item had seemed to indicate that the respondents think that more could be done by the organisation. Item 27 explores further how retention is managed and asks whether each product line has its own manager and is reverse-scored. An integrated approach to CR is prescribed, so a low median is desirable if accepted models of retention are being followed. However, the responses to item 27 have a median score of 4 with over half the respondents replying in the partially accurate/accurate category. This kind of approach is more consistent with contract retention (see

Chapter 4). The responses to the final item 30, again a reverse-scored item, suggest that incentives for sales targets are not offered, although 46.2% respond in the partially inaccurate category. It is not clear why so many responses fall into this category. Nonetheless, this response pattern is important, as it is believed that sales incentives undermine retention (e.g. McKenna 1988).

The responses to the items in this strand are very mixed, revealing inconsistencies and contradictions both within the strand and with responses elsewhere (e.g. items 6 and 25). The results to item 17 on IT at the customer interface indicate a very strong view on the part of this sample that banking will shift to an IT-based activity. In view of the very low costs incurred by banks in providing banking on-line and over the 'phone, their view is understandable. Customers who prefer branch banking are likely to diminish in number, and the customers whom banks wish to deal with are more likely to be using virtual channels. There seems to be an unspoken desire to use IT as a means of selecting and possibly 'deselecting' customers. Choosing appropriate segments is an integral part of CR, but this may not sit easily with long-held views of traditional banking in the UK. This pattern of responses suggests that organisational structures may be unsupportive of CR and that the culture is not customer-centric.

7.3.3 Strategy

This strand relates to the strategic activities connected with retaining customers and consists of a number of items derived from the relationship marketing literature as well as classical marketing theories such as segmentation and new product development. Table 7.4 presents the results for this strand of CR.

Table 7.4 Strategy strand

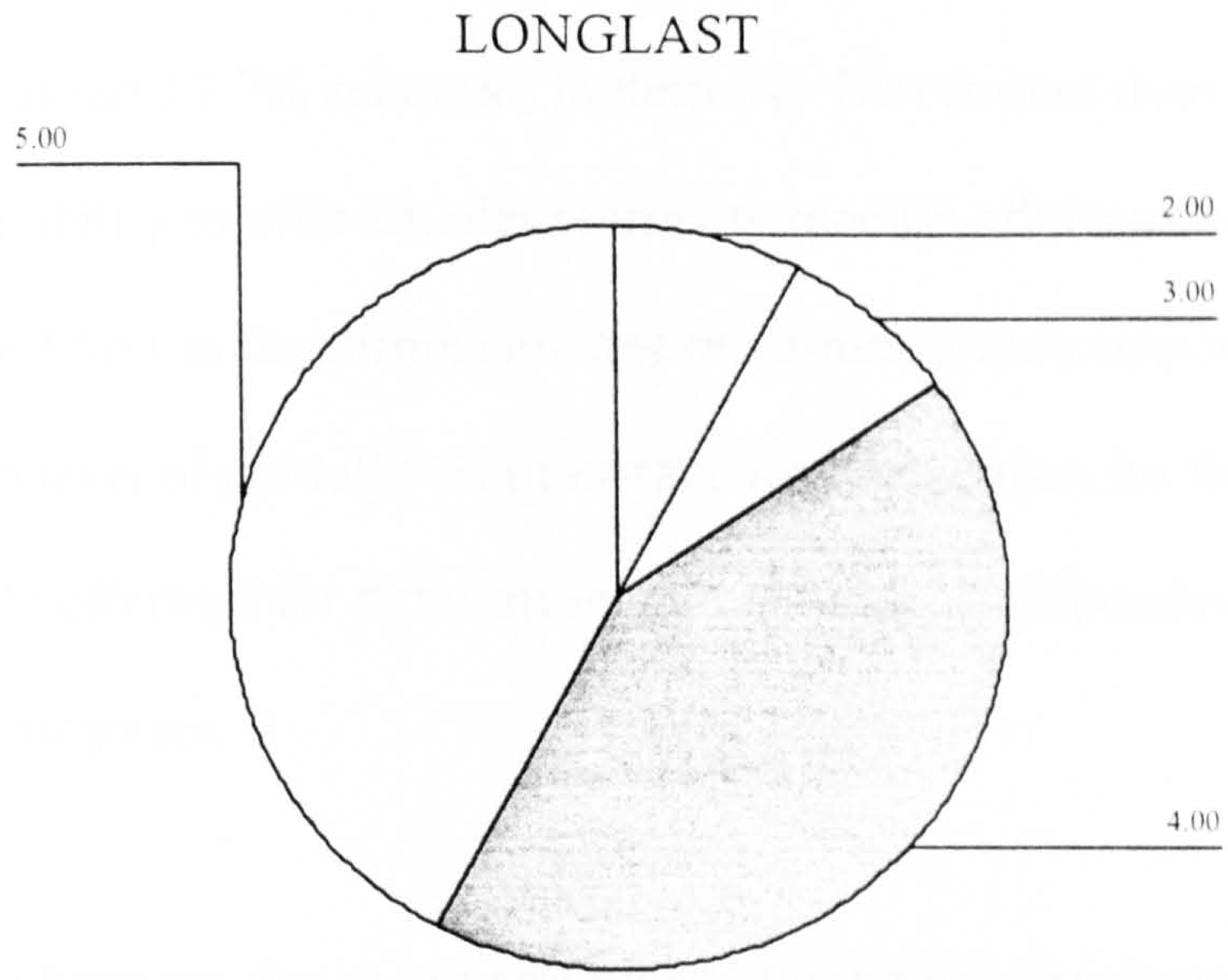
Item	Response	%
31. We seek to build long lasting relationships with selected customers	inaccurate	0
	partially inaccurate	7.7
	neither accurate nor inaccurate	7.7
	partially accurate	42.3
	accurate	42.3
32. Learning how to manage our share of the customer's wallet is of key importance	inaccurate	3.8
	partially inaccurate	7.7
	neither accurate nor inaccurate	30.8
	partially accurate	26.9
	accurate	30.8
33. Our strategies identify and target increasingly smaller segments	inaccurate	0
	partially inaccurate	15.4
	neither accurate nor inaccurate	23.1
	partially accurate	53.8
	accurate	7.7
34. Direct mailing offers us a more effective method for communicating then TV or press	inaccurate	3.8
	partially inaccurate	7.7
	neither accurate nor inaccurate	34.6
	partially accurate	46.2
	accurate	7.7
35. We recognise that different market segments may require specific offerings	inaccurate	0
	partially inaccurate	0
	neither accurate nor inaccurate	0
	partially accurate	57.7
	accurate	42.3
36. Our segmentation strategies are based on an analysis of consumer behaviour	inaccurate	0
	partially inaccurate	7.7
	neither accurate nor inaccurate	23.1
	partially accurate	38.5
	accurate	30.6
37. We view new product development as vital in retaining customers	inaccurate	0
	partially inaccurate	3.8
	neither accurate nor inaccurate	26.9
	partially accurate	50.0
	accurate	19.2
38. We offer price inducements to attract new customers	inaccurate	0
	partially inaccurate	11.5
	neither accurate nor inaccurate	26.9
	partially accurate	42.3
	accurate	19.2
39. Selling more products to selected customers is a prime objective	inaccurate	0
	partially inaccurate	11.5
	neither accurate nor inaccurate	15.4
	partially accurate	53.8
	accurate	19.2
40. We can tailor products to meet individual customer needs	inaccurate	0
	partially inaccurate	26.9
	neither accurate nor inaccurate	34.6
	partially accurate	30.8
	accurate	7.7

41. We consider our brand as an important element in customer retention	inaccurate	0
	partially inaccurate	7.7
	neither accurate nor inaccurate	11.5
	partially accurate	42.3
	accurate	38.5
42. We reward or plan to reward loyal and profitable customers	inaccurate	0
	partially inaccurate	3.8
	neither accurate nor inaccurate	26.9
	partially accurate	46.2
	accurate	23.1
43. We offer price inducements to attract new customers	inaccurate	23.1
	partially inaccurate	30.8
	neither accurate nor inaccurate	34.6
	partially accurate	11.5
	accurate	0
44. We incorporate 'attitude' as a segmentation variable	inaccurate	15.4
	partially inaccurate	26.9
	neither accurate nor inaccurate	26.9
	partially accurate	23.1
	accurate	7.7
45. We assess the loyalty of a customer on a number of products held continuously	inaccurate	3.8
	partially inaccurate	42.3
	neither accurate nor inaccurate	42.3
	partially accurate	11.5
	accurate	0
46. Our retention plans include recognising and addressing individual customer requirements	inaccurate	3.8
	partially inaccurate	7.7
	neither accurate nor inaccurate	23.1
	partially accurate	50.0
	accurate	15.4

The responses to the item 31 on long lasting relationships (see Figure 7.9) show that the respondents believe that this statement reflects the state of affairs within their organisations (84.6% in partially accurate and accurate).

Figure 7.9 Lasting relationships

Q31. "We aim to build long lasting relationships with selected customers."



median=4

Four respondents, however, are not supportive of the statement, which may possibly reflect a product or sales orientation within their institution. If this response distribution is compared with the results to the items in the previous strand of structure/culture, particularly item 21 on trust, the question of how relationships are to be built arises, if trust is not a higher priority for these FSRs. Managing the share of a customer's wallet is an acknowledgement that customers are multi-banked (see item 32), over half the respondents (15) thought this item applied to their organisation.

The fragmentation of markets is a recurrent theme in the marketing literature and micro-marketing has attracted both academic and practitioner interest (see Chapter 4) and this item is connected with item 9 in the corporate strand. Item 33 on small segments, however, attracts a lower score than expected with only

60% of respondents denoting its accuracy. Direct mailing can be a reflection of a one-to-one dialogue, a characteristic of relationship marketing, and again there are slightly lower levels of accuracy than expected (46.2% reporting partially accurate and 7.7% accurate) to item 34. Direct mail does offer companies the ability to offer smaller segments specific offerings, so it would appear that the FSRs in the sample are not maximising their opportunities here. There is a high level of partially accurate/accurate responses for the following item on specific offerings for different segments, with all respondents replying within those categories.

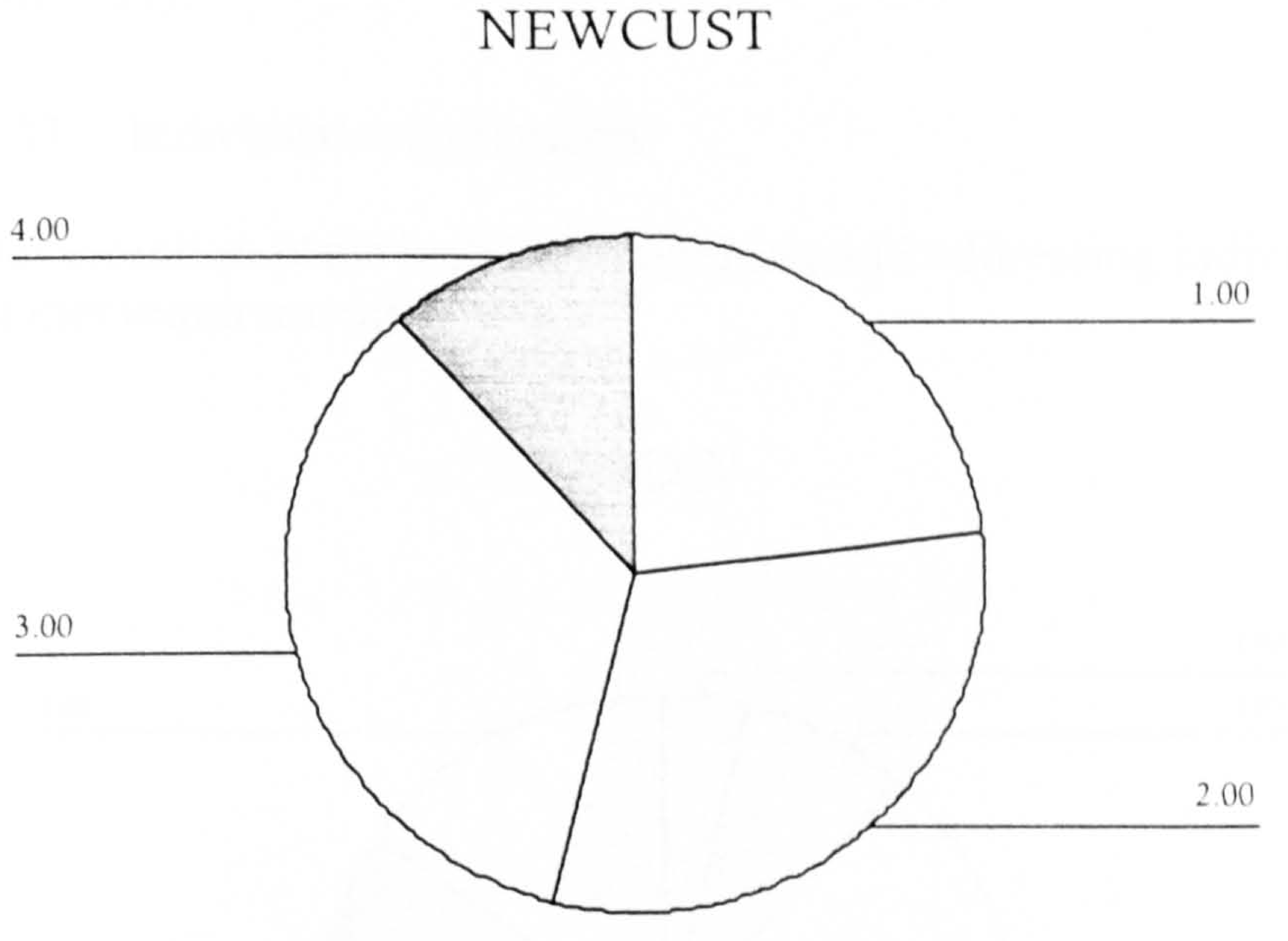
Any difference between this result and those of previous statements may be attributable to a conflict between desire to achieve targeted offerings and capability of actually achieving this objective. This pattern of responses demonstrates that FSRs are fully aware of the importance of segmentation and targeting, and that they not market in an undifferentiated fashion. How segments are determined is crucial, and there are a number of *a priori* and *post hoc* alternatives (Harrison 2000) as discussed in Chapter 4. An analysis of consumer behaviour is an example of *post hoc* segmentation and the responses to item 36 suggest that the majority of respondents (69.3%) believe that this is the case in their organisations. If customers are to stay with an organisation for a period of time, then products need to be offered which match changing needs. The responses to item 37 on new product development suggest that the respondents to this survey are aware of this aspect of marketing, with 18 out of the 26 respondents replying in the partially accurate/accurate categories.

Rewarding customers financially for staying in a relationship is the counterpoint to offering new customers enticing introductory rates, as well as an illustration of the distinction between transactional and relational exchange. The responses to item 38 on offering financial inducements suggest that the FSRs in the sample are, at least, contemplating this tactic. One of the key objectives of retaining customers and relationship banking is the cross-selling of related products, so that individual customer profitability increases. The responses to item 39, designed to measure this aspect, fall slightly below expectations with 53.8% responding in the partially accurate category. Customising products to fit individual customer needs (Pine 1993), can be a source of competitive advantage and a means of cementing relationships. The responses to item 40 on the tailoring of individual products to customer needs seem to indicate that it is not a major plank of retaining customers in this sample.

A strong brand in the building of relationships is thought to go some way to addressing the diminishing personal interaction (Stone et al. 1996). Item 41 assesses responses to branding and retention, and 80.8% responded within the partially accurate/accurate categories. The next item (42), although concerned with reward once more, differs in that only profitable customers will benefit and it reflects the focus on profitability, which is inherent within customer retention, rather than keeping customers regardless of their worth to the organisation. Most respondents (69.3%) indicate that this is either happening or planned within their organisation. The interviews indicated that acquisition of customers was still high on the agenda of some FSRs and item 43 investigates the use of pricing in the acquisition/retention question (see Figure 7.10).

Figure 7.10 Attracting new customers

Q43. "We offer price inducements to attract new customers."



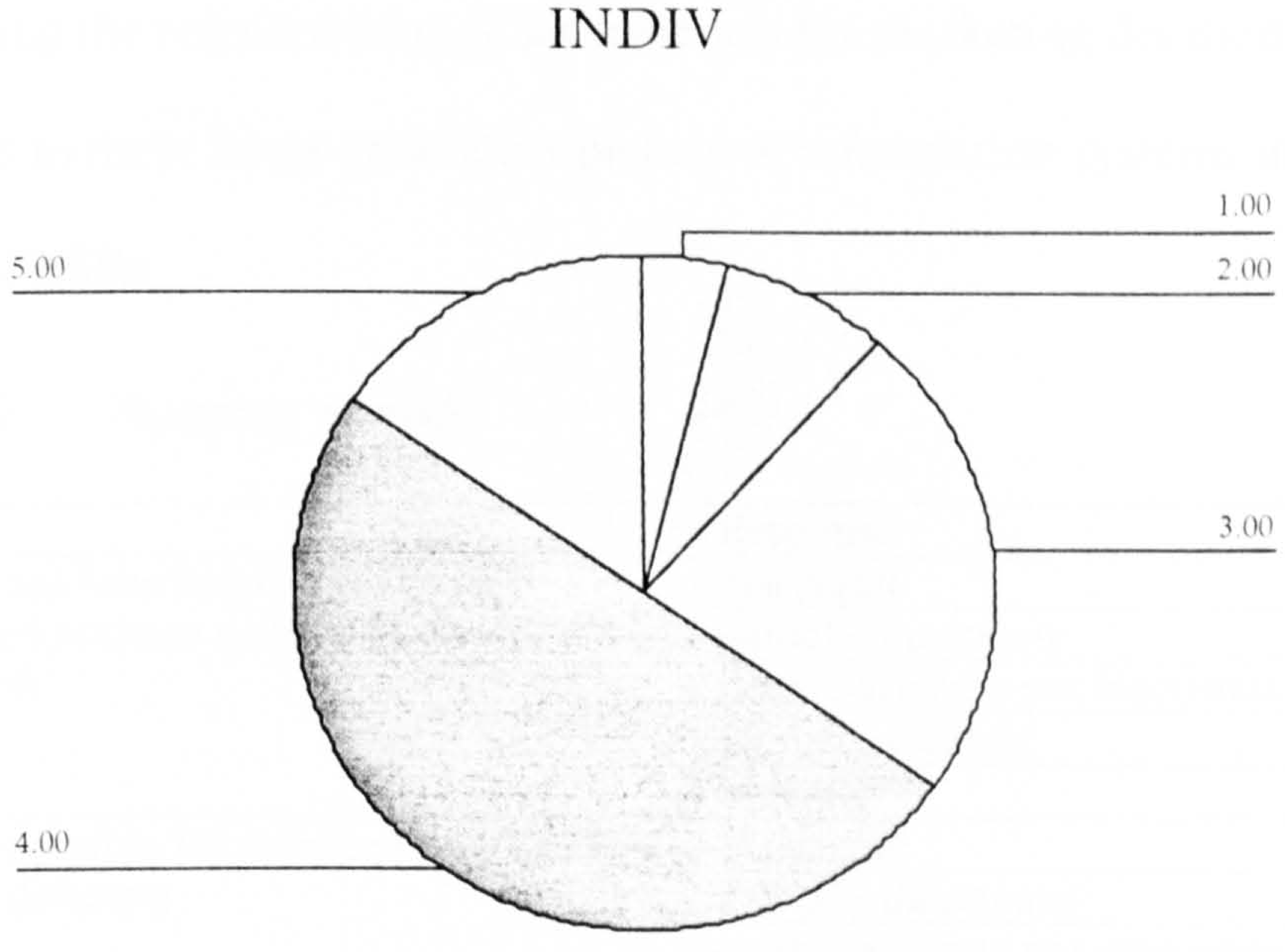
median=2

The responses seem to show that most FSRs in the sample were not setting out to attract new customers using price inducements and these responses are consistent with previous items (38 and 42) on related themes.

To examine the issue of loyalty and segmentation an item on attitude was developed (item 44). Attitude is one of the two components of loyalty along with behaviour (Dick and Basu 1994) and is likely to engender a longer lasting relationship. Only a minority of the respondents indicated that attitude formed a segmentation variable, with 30.8% of respondents replied within the partially accurate/accurate categories to this item. Looking at how many products a customer has continuously could provide a crude metric of customer loyalty, but the responses to item 45 seem to show that this approach is not widely used (90.2% fall in the 1-3 category). This final item in this strand is a core tenet of retaining customers and concerns addressing individual customer requirements (see Figure 7.11).

Figure 7.11 Individual requirements

Q46. "Our retention plans include recognising and addressing individual customer requirements"



median=4

The majority of the responses (65.4%) report that their plans include this aspect is either partially or completely accurate, but it worth noting that it may be planned perhaps rather than actually happening. The respondents to this survey would be expected to be very much concerned with the items in this strand on retention and its strategic development. The implementation of retention issues is fundamental to any success that it may have but without clear strategic vision, at the right level within the organisation, CR will just be reduced to another short-term tactical initiative.

7.3.4 Systems

These items in this strand relate to the importance of systems in retaining customers. Without adequate information as well as the systems to deliver it on time to those who need it, it is unlikely that FSRs would be able to retain customers and to sell them products that match their needs. Some time ago, it has been noted (Fletcher et al. 1994) that FSRs have a long way to travel in establishing the required level of information for marketing decisions. The responses to these items generate a picture of information systems in this sample of FSRs.

Table 7.5 Systems 'strand'

Item	Response	%
47. There has been major investment in customer information systems in our organisation	inaccurate	0
	partially inaccurate	7.7
	neither accurate nor inaccurate	15.4
	partially accurate	26.9
	accurate	50.0
48. There are steps in place to stop desirable customers defecting	inaccurate	0
	partially inaccurate	0
	neither accurate nor inaccurate	11.5
	partially accurate	57.7
	accurate	30.8
49. We are establishing criteria for identifying profitable customers over a period of time	inaccurate	0
	partially inaccurate	7.7
	neither accurate nor inaccurate	11.5
	partially accurate	46.2
	accurate	34.6
50. We can segment our customer into readily targetable groups	inaccurate	0
	partially inaccurate	11.5
	neither accurate nor inaccurate	15.4
	partially accurate	46.2
	accurate	26.9
51. We are able to identify customers who may be on the point of defection	inaccurate	3.8
	partially inaccurate	15.4
	neither accurate nor inaccurate	26.9
	partially accurate	38.5
	accurate	15.4

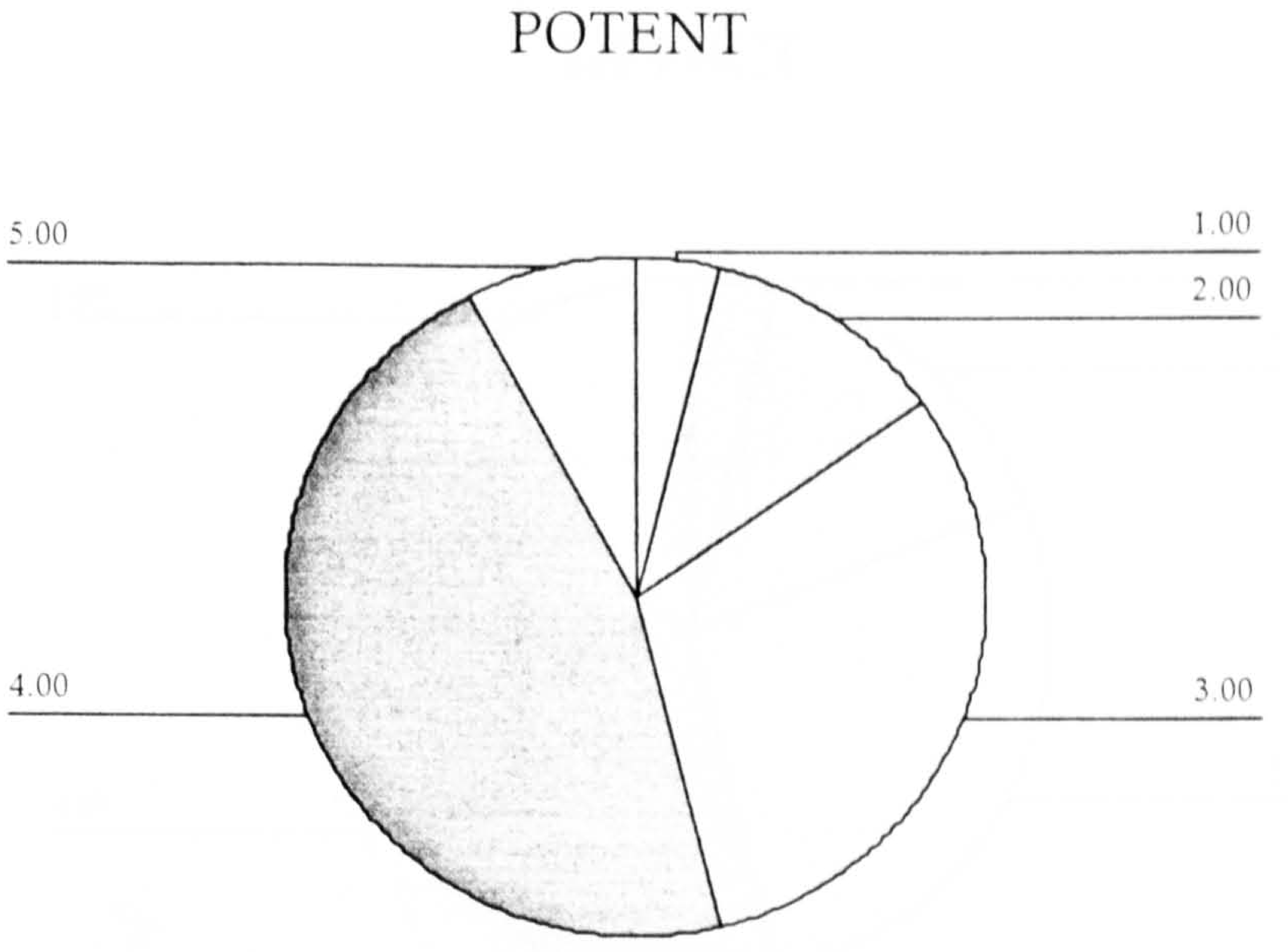
52. We have made radical changes to our information systems in order to build relationships with customers	inaccurate	3.8
	partially inaccurate	15.4
	neither accurate nor inaccurate	19.2
	partially accurate	42.3
	accurate	19.2
53. We can identify customers who have the potential to be profitable	inaccurate	3.8
	partially inaccurate	11.5
	neither accurate nor inaccurate	30.8
	partially accurate	46.2
	accurate	7.7
54. Our information systems are seen as improving cross-selling opportunities	inaccurate	0
	partially inaccurate	26.9
	neither accurate nor inaccurate	46.2
	partially accurate	23.1
	accurate	3.8
55. Our systems can track the lifetime value of our customers	inaccurate	3.8
	partially inaccurate	50.0
	neither accurate nor inaccurate	38.5
	partially accurate	7.7
	accurate	0
56. Our customer information place our customers into standard segments eg geo-demographic	inaccurate	7.7
	partially inaccurate	38.5
	neither accurate nor inaccurate	19.2
	partially accurate	30.8
	accurate	3.8
57. The development of our customer information system lacks status in the organisation	inaccurate	7.7
	partially inaccurate	19.2
	neither accurate nor inaccurate	23.1
	partially accurate	38.5
	accurate	11.5
58. What we would like to achieve in terms of customer retention is thwarted by the limitations of the information systems	inaccurate	7.7
	partially inaccurate	19.2
	neither accurate nor inaccurate	23.1
	partially accurate	38.5
	accurate	11.5
59. Our customer information systems will expand in line with providing an increased array of automated services	inaccurate	0
	partially inaccurate	11.5
	neither accurate nor inaccurate	34.6
	partially accurate	50.0
	accurate	3.8
60. There are plans to encourage customers to use IT-driven channels	inaccurate	0
	partially inaccurate	11.5
	neither accurate nor inaccurate	26.9
	partially accurate	50.0
	accurate	11.5

These 14 items were planned to assess the role of information systems in the sample of FSRs. The responses to item 47 (median score of 4.5) suggest that significant investment has been made by this group in updating their information systems. This investment appears to have contributed to the identification of defectors as the responses to item 48 show that steps are in place to achieve this with 88.5% of the responses in the partially accurate/accurate category. According to classical marketing theory (e.g. Kotler 1991) the next step, after segments have been identified, is to target groups of customers. The respondents have mainly replied in the partially accurate/accurate categories to item 50 on this subject (73.1%). Those FSRs who have replied in other categories reveal a lack of fundamental marketing knowledge and are may be hampered in their efforts to retain customers.

Information systems provide the means for tracking individual customers as in item 49 and the notion of retaining profitable customers is pivotal to retention as part of improving profitability with 21 respondents replying within the partially accurate/accurate category. Again, this item recognises that this ability is an iterative and fluctuating process and recent theoretical advances tend to suggest that this capacity is elusive. FSRs are peculiarly challenged in identifying profitable customers owing to the number and nature of accounts a customer may have and how circumstances change over time. Item 53 (see Figure 7.12), which attempts to find out if the sample FSRs can identify potentially profitable customers, has a lower number of responses in the partially accurate/accurate categories (53.9%).

Figure 7.12 Profit potential

53. "We can identify customers who have the potential to be profitable."



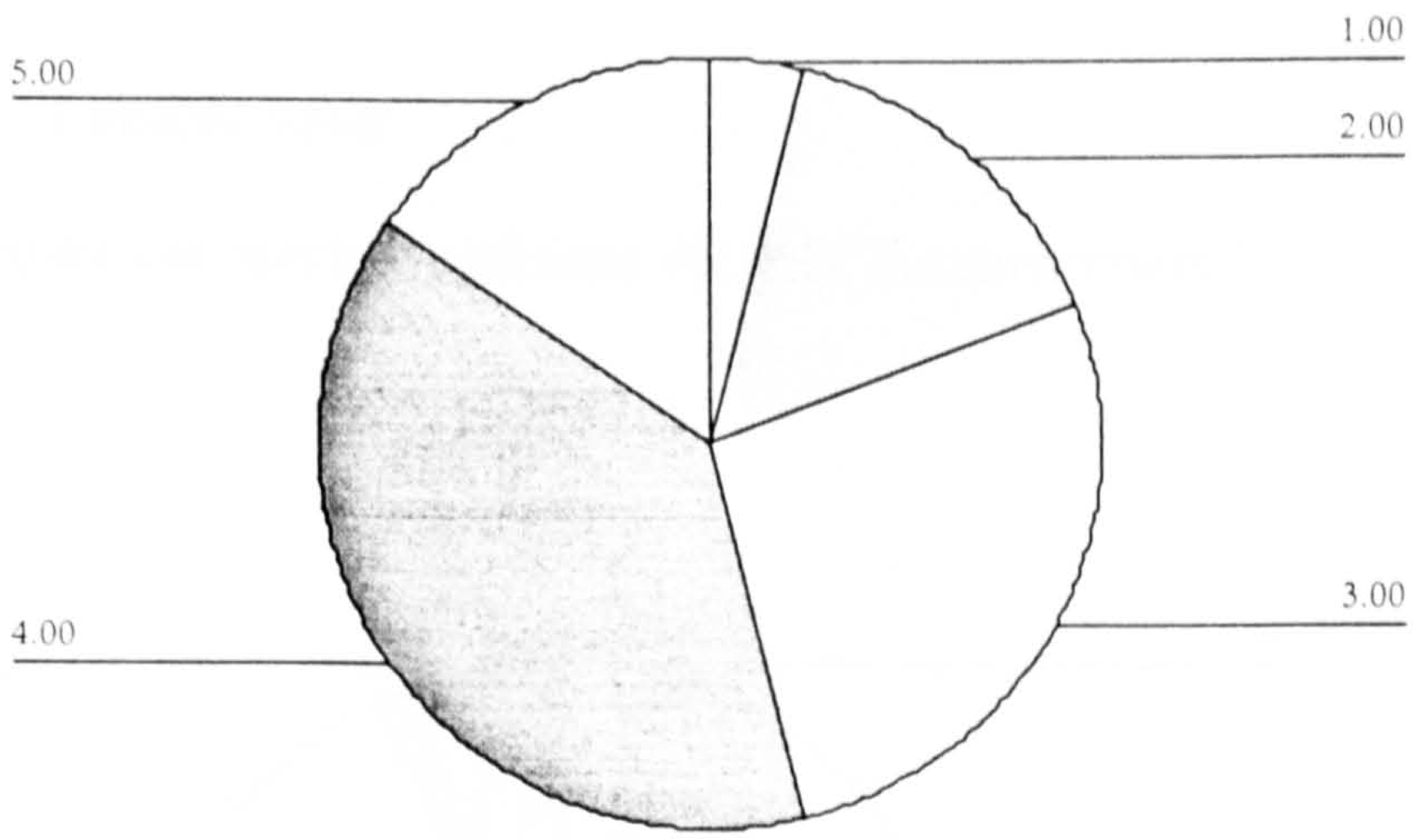
median= 4

Although customer profitability may be a challenge, the identification of defecting customers is fundamental, whether profitability can be calculated or not. The responses to item 51, on spotting defections, shows that only just over half of the respondents (14) believe that this is possible within their organisations (see Figure 7.13).

Figure 7.13 Defection identification

51. "We are able to identify customers who may be on the point of defection."

DEFECT



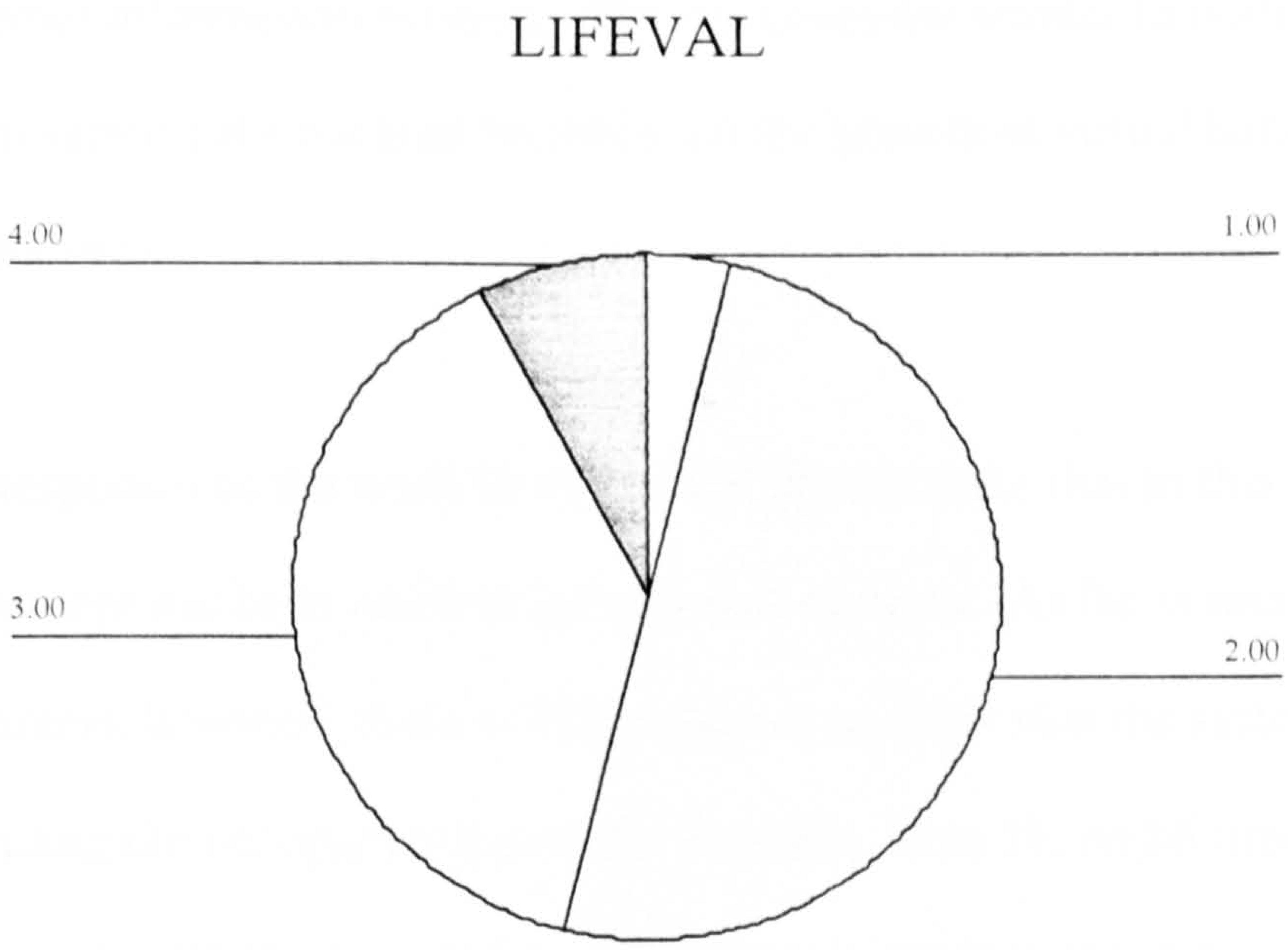
median=4

The amount of change that these organisations have had to undergo to meet the objective of building customer relationships cannot be underestimated as shown in the responses to item 52. Nearly two thirds of the respondents (61.5%) reply in the partially accurate/accurate category. Although this is quite a high response in the accurate categories, there is, equally, a third responding in the remaining categories. This level of response may mean that these FSRs have yet to update their information systems.

Cross-selling, as discussed in the review, is a particular concern of FSRs and the responses to item 54, show that selling to existing customers is not necessarily the principal function of the customer information system (median=3). Seven respondents thought the statement applied to the organisation but 12 were not sure. These results may indicate the prevalence of relationship banking rather than relationship marketing (see Chapter 4). The problems of tracking lifetime value are highlighted by item 55 (see Figure 7.14), which forms a central plank of retaining customers.

Figure 7.14 Lifetime value

55. "Our systems can track the lifetime value of our customers."



median=2

A median score of 2 for this item strongly suggests that this capability does not exist in the sample. The responses to item 56 on geo-demographic segmentation, which is a widely used method of *a priori* segmentation, suggest that this base is not used or that the sample's systems are not yet capable of targeting segments using these data (median=3). The development of a customer-driven database is thought to be a vital factor in developing relationships, but occasionally its development may not be seen as a priority.

The responses to item 57 strongly suggest that this may be the case in half the respondent organisations, and may be a result of investment being directed elsewhere. Item 58 shows that over half the respondents find that their desired achievements are not thwarted by limited information systems. So, in spite of the information systems lacking status (item 57), much of what FSRs want to achieve is accomplished by the information systems. The final two items 59 and 60 assess the integration of the distribution of financial services and the customer information systems. The responses are similar to both items and which support the banking literature on the growth of virtual banking (median=4).

The responses to the items in this strand demonstrate that in this sample investment has been made in information systems. As far as retaining customers, however, there is little evidence to show that the systems are providing the necessary support, for example, item 55, on lifetime value. The responses to the items based on segmentation matters are also quite interesting in that a major segmentation variable – geo-demographic- does not seem to be widely used as only 34.6% reply in the partially accurate/accurate categories.

7.3.5 Staff

There are fewer items in this strand (12) than in the preceding ones, although the importance of the staff, particularly front-line, in retaining customers has been a constant theme in the research to date. In spite of the move towards virtual banking, some providers are beginning to promote branch-based banking in their advertising e.g. NatWest. The role of staff in retaining customers may change but whether they form the front-line or design systems, staff play a vital role in CR. Staff in this research means everybody within the organisation, including managers. The results for this strand are in Table 7.6.

Table 7.6 Staff strand

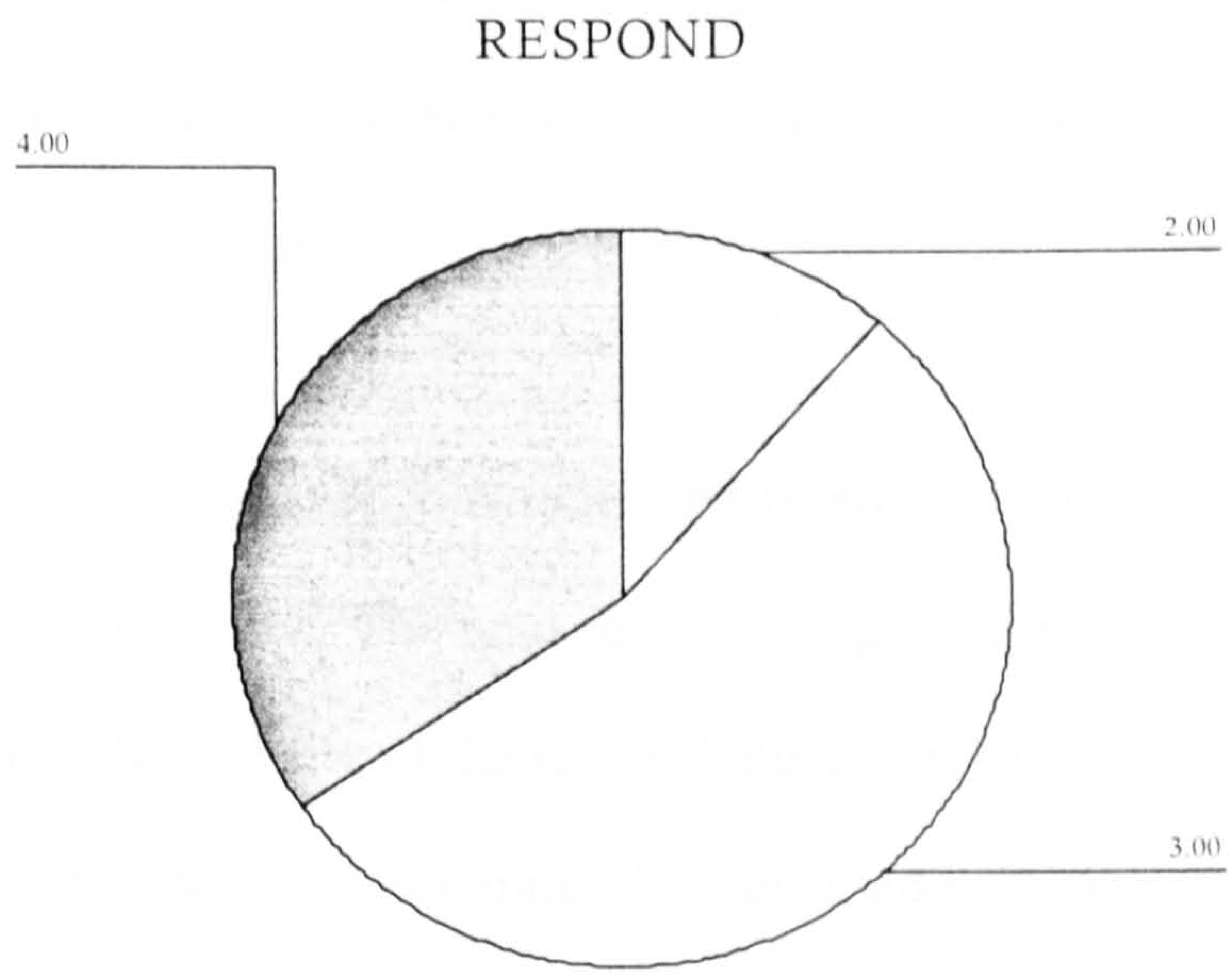
Item	Response	%
61. We offer or plan to offer financial inducements to customers to stay in the relationship	inaccurate	0
	partially inaccurate	15.4
	neither accurate nor inaccurate	26.9
	partially accurate	50.0
	accurate	7.7
62. Providing reassurance to customers is part of our retention approach	inaccurate	0
	partially inaccurate	19.2
	neither accurate nor inaccurate	42.3
	partially accurate	30.8
	accurate	7.7
63. We know we respond satisfactorily to customer needs	inaccurate	0
	partially inaccurate	26.9
	neither accurate nor inaccurate	50.
	partially accurate	19.2
	accurate	3.8
64. Our staff have the necessary skills for building relationships	inaccurate	0
	partially inaccurate	15.4
	neither accurate nor inaccurate	34.6
	partially accurate	42.3
	accurate	7.7
65. Staff are aware of and understand the development of the customer information system	inaccurate	0
	partially inaccurate	23.1
	neither accurate nor inaccurate	42.3
	partially accurate	34.6
	accurate	0
66. Staff are being trained to link in with the customer information system development	inaccurate	0
	partially inaccurate	19.2
	neither accurate nor inaccurate	38.5
	partially accurate	38.5
	accurate	3.8
67. Staff can add value by taking action on individual customer needs	inaccurate	0
	partially inaccurate	0
	neither accurate nor inaccurate	11.5
	partially accurate	73.1
	accurate	15.4
68. Front-line staff are empowered to make decisions about meeting customer needs	inaccurate	0
	partially inaccurate	19.2
	neither accurate nor inaccurate	23.1
	partially accurate	50.0
	accurate	7.7
69. Staff know they need to inspire trust and commitment in customers	inaccurate	0
	partially inaccurate	0
	neither accurate nor inaccurate	11.5
	partially accurate	73.1
	accurate	15.4

70. Staff are responding positively to the requirements of the customer information systems	inaccurate	0
	partially inaccurate	11.5
	neither accurate nor inaccurate	53.8
	partially accurate	34.6
	accurate	0
71. Information gathered by staff at point of contact is entered on the customer information system	inaccurate	0
	partially inaccurate	34.6
	neither accurate nor inaccurate	7.7
	partially accurate	42.3
	accurate	15.4
72. Staff are encouraged to act to 'recover' situations where customers are dissatisfied	inaccurate	0
	partially inaccurate	3.8
	neither accurate nor inaccurate	11.5
	partially accurate	57.7
	accurate	26.9

This strand taps the perceptions of experts on staff issues in retaining customers not merely for front-line staff but for staff as a whole. The role of front-line staff is seen, in some of the banking literature and by practitioners, as pivotal in retaining customers. However, it is recognised that successful relationship building and continuance depends on all staff, including senior managers, according the principles of internal marketing (see Chapters 2 and 4). However the responses to item 63 on satisfactory responses to customer needs attracts a low level of responses in the accurate categories (23%). There is evidence on these data that staff are receiving appropriate training. Half the respondents report that item 64 on relationship skills is partially accurate (see Figure 7.16), equally, 50% cannot confirm the accuracy of the statement. This response rate suggests that relationship-building has not been identified as a subject for staff training.

Figure 7.15 Customer needs

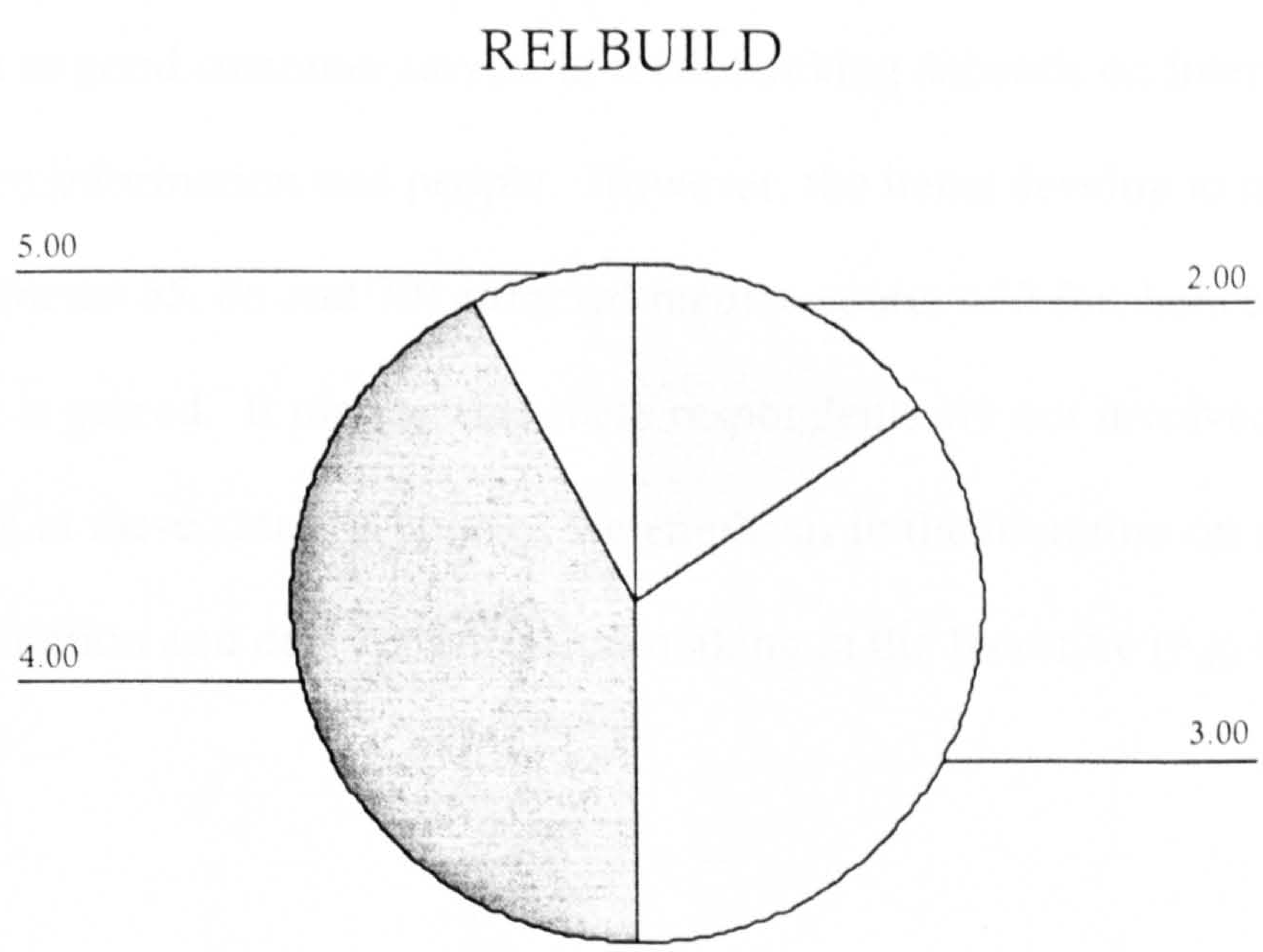
63. "We know we respond satisfactorily to customer needs."



median=3

Figure 7.16 Skills for building relationships

64. "Our staff have the necessary skills for relationship-building."



median=3

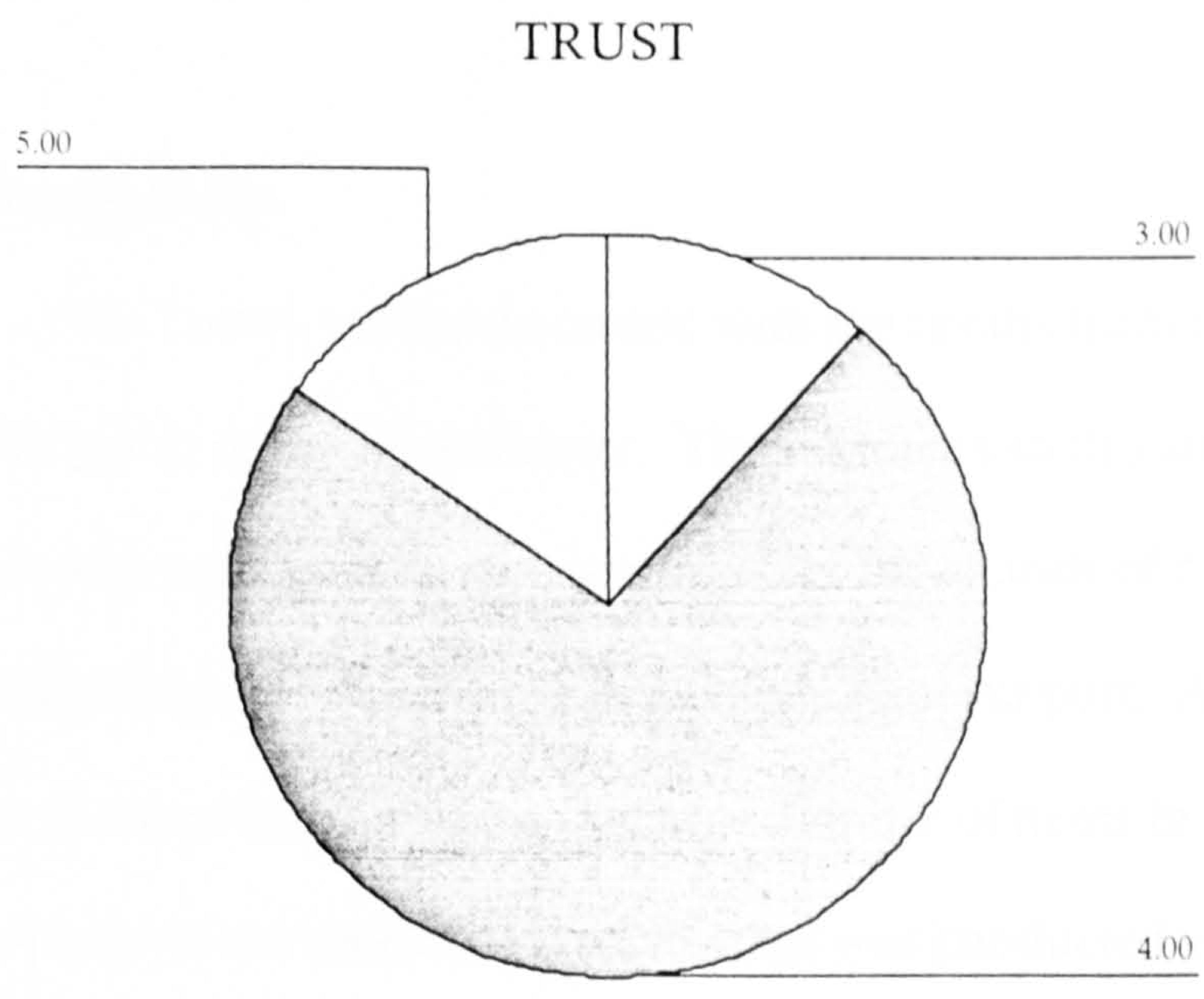
Two items in this strand (62 and 63) relate to service quality and customer satisfaction. The results in this survey attract quite low median scores of 3 for both of these statements. This should be quite disturbing for the FSRs in the sample, as attempts at customer retention are seriously undermined by poor performance in these areas.

Equally, these findings are consistent with responses to items on similar themes elsewhere in the survey. The onus for satisfying customer needs would appear to fall upon staff as 88.5% of the respondents report that item 67 on adding value is partially accurate/accurate. However, adding value can only be fully realised if staff are empowered and the results to item 68 on empowerment demonstrate limited support (57.7% in partially accurate/accurate categories). Attempts to build relationships are seriously eroded if customer needs are not met, so there is an inconsistency between the responses here. Three items were designed to measure the integration of staff with the customer information system as good customer service in retail banking depends on interaction between information and people. However, the items develop to measure these issues (items 65, 66 and 70) attracted median scores of 3 for, hence no real insight is gained. It may be that these respondents are not involved in decision-making in these areas, in spite of the emphasis in the literature on integration, co-ordination and devolved decision-making in the literature (e.g. Gronroos 2000).

The importance of feedback from staff to systems is assessed in item 71 and this appears to be happening as over the half of the respondents (57.7%) answer in the partially accurate/accurate category. As discussed in the strategy strand, inspiring trust for building relationships is given great prominence in the literature (e.g. Morgan and Hunt 1994) and 88.5% of the respondents report a degree of accuracy for item 69 (see Figure 7.17).

Figure 7.17 Trust and commitment

69. "Staff know they need to inspire trust and commitment in customers."



median=4

The final item is concerned with recovering service failures, which Gummesson (1997) has advocated as the sixth dimension of service quality. Nearly all the respondents (22) reply in the partially accurate/accurate category for this item.

However, key elements of service recovery are empowerment (Palmer et al. 2000) and assurance, but responses to these items were not so positive. Service recovery would therefore be weakened by lack of support in these other two areas. The results for this strand tend to confirm the view that responsibility for retention falls on staff but that key aspects of retention are missing (e.g. responding to customer needs). The burden for making good these deficiencies falls upon staff, which can incur high emotional labour costs (Farquhar et al. 2002).

7.4 Item refinement

The results of this survey will be discussed with the results from the other data generating activities in the final chapter. The responses to this survey of experts' were also employed to discover whether the strands of customer retention identified in the literature has any empirical support. A number of processes were adopted for refining the large number of items in this survey to provide the basis for the employees' survey that was conducted subsequently. Firstly, the items were checked bearing in mind the characteristics of the prospective population. The first survey had been administered to 'experts' in retaining customers, whereas this second survey was to be answered by a range of FSR employees's with varying skills and capabilities. The items, therefore, have to be considered very carefully from this new perspective, in particular whether these respondents would actually know some of the detail of customer retention. Although it can be argued that all staff should know about retaining customers and the strategy of the organisation, this is not always the case. In order to reduce non-response error owing to respondents not knowing about CR detail, items were very carefully checked with a panel of FSR employees's for knowledge as well as the other criteria for good question design (see Chapter 5).

In the following sections, the questions of each strand are appraised for their suitability for the new instrument. The remaining items are also subjected to analysis using Cronbach's alpha to assist in eliminating unsuitable items. The items after the analysis are presented in the tables below showing the item-to-total correlation and alpha if item deleted. The minimum acceptable value for item-to-total correlation is .3 and a minimum of .7 for overall coefficient for the strand (Peterson 1994). Although the use of the Cronbach technique is generally applied to parametric data, it is such a widely used technique, that it in this instance it was used as an additional measure for item reduction (Bagozzi 1994, Peterson 1994).

7.4.1 Corporate

This strand initially consisted of 15 items and a number of items were dropped. Questions 2, 3 and 9 did not fall readily within the limitations of the knowledge of employees's within FSRs and so were eliminated:

2. Improving cost/income ratio is the most important business objective for us at present.
3. We can best achieve growth by acquiring new customers
9. Senior management recognises that customers have diverse and individualised needs.

Question 7 asked about selling products and better worded items on a similar theme was asked in the strategy strand, so this item was also dropped from this strand.

7. Our aim is to increase the number of products sold to selected customers.

The following items attracted a high number of responses in the neither accurate not inaccurate category and were also eliminated

10. Our strategies reflect that that it is becoming increasingly difficult to predict customer behaviour.
15. We can lower costs by developing our customer information systems

The final item to be eliminated was somewhat controversial and might have provoked a hostile response as the issue of serving only profitable customers has yet to gain widespread acceptance.

12. We may wish to let unprofitable customers go.

This strand originally consisted of 15 items and has been reduced to 7 items using reliability analysis. The remaining items are presented in Table 7.7.

Table 7.7 Analysing corporate (n=8)

Item	Item-to-total correlation	Alpha if item deleted
1. Senior management fully understands and supports customer retention	.46	.79
4. The bulk of our activities is directed towards keeping existing customers	.47	.78
5. We adopt a long-term perspective on investment e.g. retention programmes	.66	.76
6. Our resources are optimised to provide high levels of service quality	.46	.77
8. Measuring lifetime value of a customer is consistent with the strategic objectives of the organisation	.27	.82
11. Senior management regards customer retention as being the most effective way to improve profitability in the long term	.64	.77
13. Our resources ensure that we provide a dependable service for our customers	.57	.77
14. Senior management fully acknowledges the role of front-line staff in customer retention	.62	.76
Alpha coefficient		.80

Eight items remain in this strand after analysis and discussion that remain as possible entries for the employees' questionnaire. Measuring lifetime value has a markedly lower item-to -total correlation than the other items in this strand

and is a possible candidate for deletion. The results of these analyses have proposed a number of items suitable at this stage for the employees's' survey.

7.4.2 Structure/culture

This aspect of investigating customer retention has proved more challenging. The results of the survey may be indication of lack of development on the part of the financial institutions participating in this study in cultural and structural issues connected with retaining customers. In preparation for the employees' survey, these items were subjected to thorough scrutiny.

Items 17 and 23 were considered to fall outside the knowledge of employees's, so were excluded from the employees' survey. Item 17, in particular had attracted a very high level of agreement, which also reduced its usefulness as an item.

17. We see the role of IT at the customer interface as increasing.
23. The branch will continue to be a key channel for reaching our customers.
28. Alternative channels will gradually replace branch business in this institution.

Item 19 required the level of understanding that again might not be widespread within the organisation and although useful to know did not meet the level of necessity that other items possess for this much shorter survey.

19. We are largely organised along product lines.

Items 20 and 24 were considered to be rather convoluted questions to be included in the employees' survey and were jettisoned.

20. The development of the customer information system is bringing about structural readjustment in the organisation.
24. Our organisational/marketing structure is aligned to the needs of our chosen market segments.

The responses asked for by item 27 was also being asked by a question which was not reverse structured (item 22).

27. Each product line has its own retention manager.

The final item deleted from this strand was item 30 which had attracted a high level of response in the partially inaccurate/inaccurate categories.

30. We offer incentives to our front-line staff for meeting sales targets.

The reliability analysis indicated weaker item-to-total and results in a lower coefficient correlations than the previous strand of corporate but, nonetheless, meets the criteria of acceptability for initial research (see Table 7.8).

Table 7.8 Analysing culture/structure strand (n=7)

Item (label)	Item-to-total correlation	Alpha if item deleted
16. There are organisational barriers to plans for customer retention in this institution.	.34	.72
18. We all work towards creating satisfied customers"	.41	.70
21. We actively address the need for inspiring trust in our customers"	.50	.69
22. Our institution has a single manager responsible for customer retention across all product lines"	.33	.75
25. Our levels of service quality ensure that our customers stay with us	.44	.70
26. We generally receive co-operation from colleagues elsewhere in the organisation in implementing customer retention"	.57	.67
29. We consider that we understand the customer's point of view	.75	.65
Alpha coefficient		.73

7.4.3 Strategy

The analysis of this strand yielded a high number of reliable items. This was not surprising, as the respondents were precisely those managers who were responsible for developing the strategic aspects of customer retention. In spite of the high number of items in this strand after this analysis, further deletions were not made as the strategic nature of retention is widely acknowledged in the literature (e.g. Reichheld and Kenny 1990) as well as the importance of staff being aware of strategy.

Item 33, although potentially a useful item was superseded in importance by item 36 (see Table 7.5), as behavioural segmentation is an indicator possibly of loyalty monitoring as well as an example of *post hoc* segmentation.

33. Our strategies identify and target increasingly small segments.

Item 34 on direct mailing was deleted as it was not really an issue with which employees's could expect to be conversant. Items 38 and 42 were concerned with rewarding customers for staying in a relationship rather than offering new customers discounts for entering the exchange. Item 38 seemed more complex than 42 and so was removed from the item list.

38. We offer or plan to offer financial inducements to customers to stay in the relationship.

The item on branding (41) had attracted a very high level of response in the partially accurate/accurate category and was rather reluctantly deleted. Although it would have played a useful role in assessing the level of internal marketing, this was not a research objective. Item 43 concerning price inducements for new customers, in a longer questionnaire it would have been useful in reliability assessment, this shorter questionnaire lacked the space for a concept being measured by another item (42.)

43. We offer price inducements to attract new customers.

The remaining items are presented in Table 7. 9 with the reliability measures.

Table 7.9 Analysing strategy strand (n=11)

Item	Item-to-total correlation	Alpha if item deleted
31. We seek to build long-lasting relationships with selected customers	.65	.83
32. Learning how to manage our share of the customer's wallet is of key importance	.72	.82
35. We recognise that different market segments may require specific offerings	.66	.84
36. Our segmentation strategies are based on an analysis of consumer behaviour	.64	.83
37. We view new product development as vital in retaining customers	.51	.84
39. Selling more products to customers is a prime objective	.47	.84
40. We can tailor products to meet individual customer needs	.49	.84
42. We reward or plan to reward loyal and profitable customers	.33	.85
44. We incorporate attitude as a segmentation variable	.53	.84
45. We assess the loyalty of a customer on the number of products held continuously	.42	.84
46. Our retention plans include recognising and addressing individual customer requirements	.60	.83
Alpha coefficient		.85

These items reflect classical interpretations of customer retention. The role of selling is somewhat ambivalent as argued in Chapter 4. Cross-selling certainly plays a role in relationship banking, owing to the low revenue and high costs of providing current accounts, but it less easily justified when the customer has a mortgage with a provider, where the product itself generates profit. There are more items in strategy than the other strands, which is probably because of the importance of these items to this particular group. They are for the most part managers with specific responsibility for performing these very functions.

7.4.4 Systems

The results for this proposed strand proved interesting, as the interview participants had generally expressed dissatisfaction with the capabilities of their information systems. Items 48 and 49 were deleted as simpler questions seeking the same information had been developed in this strand (51 and 53).

48. There are steps in place to arrest the defection of desirable customers.
49. We are establishing criteria for identifying profitable customers over a period of time.

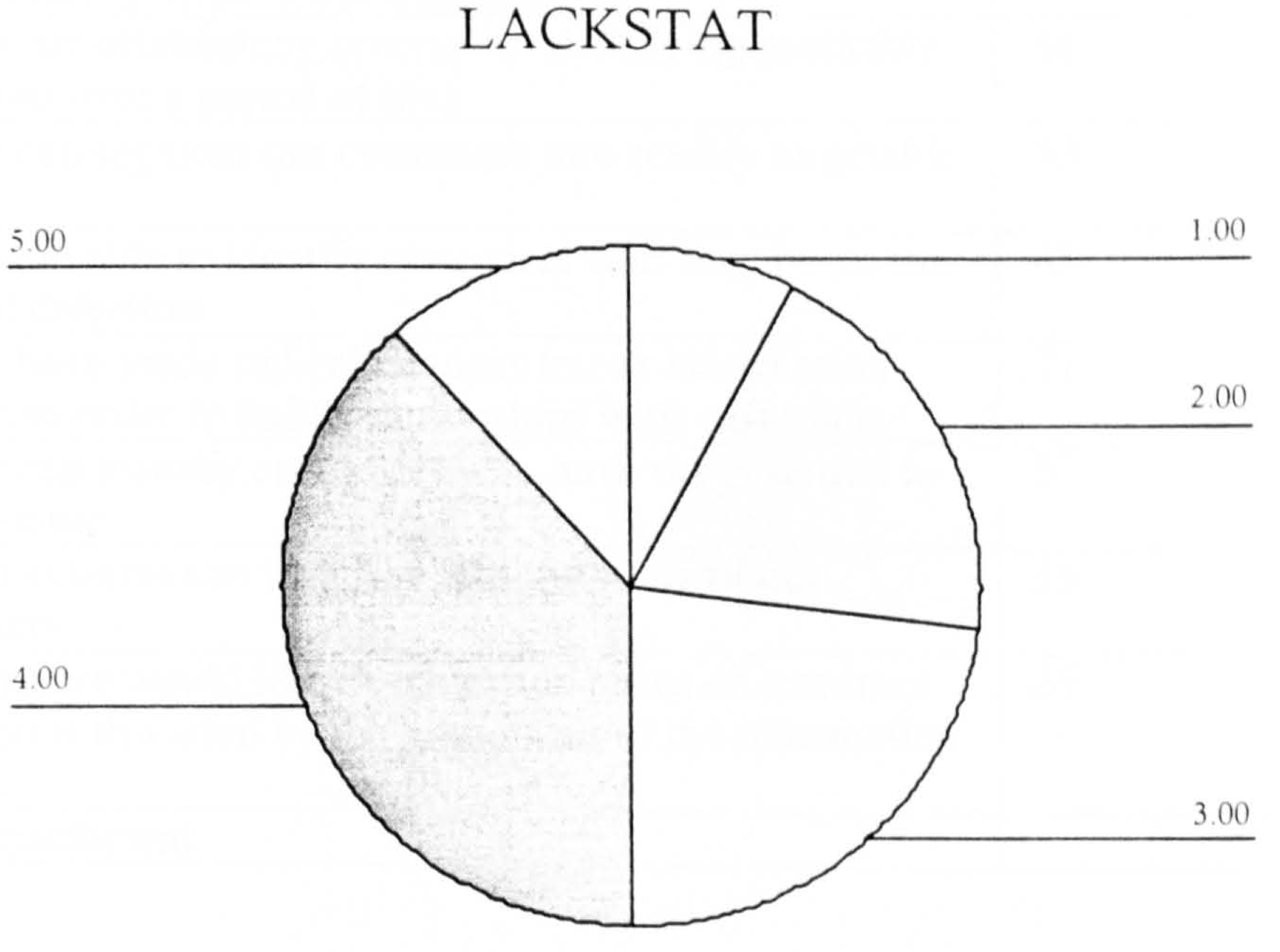
Item 54 had attracted a high number of responses in the neither accurate nor inaccurate category, and its value as a question may have been questionable.

54. Our information systems are seen as improving cross-selling opportunities.

Two items sought information about segmentation bases, this one on geodemographic segmentation, attracted quite a high level of inaccurate/partially accurate responses and was deleted with other questions on segmentation remaining e.g. item 44. To managers competing for limited resources, item 57 would have quite a strong resonance, but to employees', it would have less relevance, so this item was eliminated from the survey to staff (see Figure 7.18)

Figure 7.18 Status of customer information systems

57. The development of our customer information system lacks status in the organisation



median=3.5

The following table illustrates the results of the analysis using Cronbach's alpha

Table 7.10 Analysing systems strand (n=8)

Item (label)	Item-to-total correlation	Alpha if item deleted
47. There has been major investment in customer information systems in our organisation	.47	.81
49. We are establishing criteria for identifying profitable customers over a period of time	.44	.80
50. We can segment our customers into readily targetable groups	.53	.80
51. We are able to identify customers who may be on the point of defection	.65	.77
52. We have made radical changes to our information systems in order to build relationships with customers	.71	.77
53. We can identify customers who have the potential to be profitable	.57	.79
55. Our systems can track the lifetime value of our customers	.55	.80
58. What we would like to achieve in terms of customer retention is thwarted by the limitations of the information system.	.39	.82
Alpha coefficient		.82

These responses indicate that change has occurred and continues to occur in customer information systems. There is some indication on the item on the limitations of the information systems that as yet the systems are not performing quite as hoped. This item is important and its low item-to-total correlation is lower than expected, and may, in part, be attributable to it being a reverse scoring item.

7.4.5 Staff

The final proposed strand is concerned with the role of staff in retaining customers. There are suggestions in some of the literature (e.g. Reichheld and Kenny 1990) and during the course of the interviews (see Chapter 6) that much of the burden for retaining customers falls upon front-line staff. This final strand was reduced, in a similar fashion, as the preceding aspects of CR in preparation for the employees' survey.

Items 65, 66 and 67 all sought information on staff and information systems and they had attracted a relatively high proportion of responses in the neither accurate nor inaccurate category, and so were deleted. Item 71 had an unusual pattern of responses and as information systems were emerging as still an area of difficulty for FSRs, this question was abandoned as well.

65. Staff are aware of and understand the development of the customer information system
66. Staff are being trained to link in with the customer information system development
70. Information gathered by staff at point of contact is entered on the customer information system.

Items 67 and 68 were jettisoned as again this type of information could be obtained by other items in the strand.

67. Staff can add value by taking action on individual customer needs.
68. Front-line staff are empowered to make decisions about meeting customer needs.

The original 12 items in this strand have been reduced to 7 using a combination of processes. The remaining items and the results of the analysis using Cronbach's alpha are presented in Table 7.11.

Table 7.11 Analysing staff strand (n=8)

Item (label)	Item-to-total correlation	Alpha if item deleted
61.We develop retention skills at customer points of contact	.59	.78
62.Providing reassurance to customer is part of our relationship training	.44	.81
63.We know we respond satisfactorily to customer needs	.51	.80
64.Our staff have the necessary skills for relationship-building	.70	.76
69.Staff know they need to inspire trust and commitment in customers	.57	.79
70.Staff are responding positively to the requirements of the customer information systems	.40	.81
72.Staff are encouraged to 'recover' situation where customers are dissatisfied	.72	.76
Alpha coefficient		.81

7.5 Conclusion

This chapter has used quantitative data generated by means of a questionnaire assessing the perceptions of expert practitioners of customer retention in the retailing of financial services. Their responses were gathered by using a Likert-style response format, anchored at five points, ranging from inaccurate to accurate. Because the construct of customer retention in financial services is not clearly defined, a large number of items (n=72) were used to explore the strands that had been developed from the literature in Chapters 3 and 4. A number of questions were reverse-scored and multiple measures were used to minimise bias. Although the sample is small at 26 responses, the data has yielded a wealth of information about how FSRs are retaining customers and is summarised below.

- The responses have shown that the respondents share some views in e.g. item 10 on predicting customer behaviour. There are other areas they differ quite significantly, for example item 18 on working together to create customer satisfaction. These differences could arise from differences in size and corporate goals in the sample see Chapter 3, as well as management style. Given the disparity in size in the institutions in the sample, there is perhaps greater harmony in the responses that might have been expected. As Table 7.1 shows the size and type of the FSRs that participated in this survey are varied and include banks with 8 million or 55,000 customers and building societies with similar variation in size. However, all these FSRs face similar challenges, as they provide largely undifferentiated products, for example mortgages, to increasingly sophisticated customers.

- In spite of the emphasis in the banking literature on improving cost/income ratio, there is limited evidence in this survey (item 2) to suggest that this sample of FSRs are concerned with this goal.
- The responses to items 4, on organisational growth, and 5, on bulk of activities, suggest two simultaneous strategies of seeking new customers and retaining existing ones. There is little mention in the literature about organisations conducting these two activities or whether they are compatible. FSRs have attracted opprobrium by offering new customers more attractive packages than existing customers. They have recently been forced to recompense customers who have been unfairly treated and this may be as a result of trying to implement conflicting strategies.
- The continual challenge for FSRs is service quality (see Chapter 4) and the results to a number of items, for example, items 6 and 38, suggest that it continues to be an area of concern. Customer satisfaction and the provision of service quality are pre-requisites to the retention of customers.
- Another element to successful retention is a long-term perspective and a low median score of 3 to item 5 may be a hint that these FSRs are not adopting the lengthy horizon for this goal to be achieved.
- The respondents to the survey consider that their brand is important in retaining customers and they are quite right in this belief (Stone et al 1996). However, successful brands are usually built around quality, which is the service sector translates into service quality. Attempts at branding could be undermined unless service quality and customer needs are better understood.

- Trust plays a role in branding as well as relationship building and this issue of trust building may not be fully addressed according to the responses to this survey (see items 21 and 69). It is not enough to leave trust building to staff, as it is something that needs to be central to the thinking of the organisation as a whole.
- Underpinning these points lies the question of the culture of these institutions and the way that they are organised. There is some evidence in this survey to suggest that a marketing culture is not uppermost and that the structure is not supportive of the cross-functional approach needed to support CR.

The next chapter reports the findings of the employees' survey.

CHAPTER 8

SURVEYING THE EMPLOYEES

8.1 Introduction

The third perspective on how financial service retailers (FSRs) retain their customers was gained through conducting a survey on a random sample of all staff in two of the institutions of the sample (see Appendix A). This survey was designed using the responses from the experts' survey as a guide as explained in Chapter 7. The number of questions had been reduced to 40 from the original 72, using statistical procedures, piloting and guidance from staff working in the industry. The research design in Chapter 5 sets out the steps followed in the design of the instrument and this chapter reports the analyses of the responses to the survey on customer retention (CR). This chapter begins with an overview of the samples and their representativeness of the staff in the FSRs surveyed. The responses of the samples are then compared and an overall view of responses conducted using descriptive techniques as described in Chapter 7. Remenyi et al (1998 p207) suggest that:

> statistical analysis should be used to ensure that the patterns observed are not simply there by chance, but really do reflect the underlying processes that the researcher is attempting to understand.

To this end, the analysis relies on descriptive statistics and the data are presented as in Chapter 7, using percentages, pie charts and providing the median score. The samples are compared using Mann Whitney U test, a procedure suitable for non-parametric data, so that similarities and differences between the samples can be detected.

8.2 Preparation

The detail in preparing the survey was described in Chapter 5, so only a very brief recapitulation will be made here. Forty items remained after the procedures described in the previous chapter, which were subsequently amended and reduced through further scrutiny of an employee panel and the pilot. The items were removed from the instrument, across all the strands, accordingly and are listed below (numbers refer to original expert survey).

4. The bulk of our activities is direct towards keeping existing customers
8. Measuring lifetime value of a customer is consistent with the strategic objectives of the organisation.
14. Senior management fully acknowledges the role of front-line staff in CR.
21. We actively address the need for inspiring trust in our customers.
22. Our institution has a single manager responsible for CR across all product lines
40. We can tailor products to meet individual customer needs.
47. There has been a major investment in customer information systems in our organisation.
61. We develop retention skills at the customer points of contact.

An extra item was created at this point to measure the employee perceptions of the importance of retaining customers and so 34 items assessed the perceptions of staff towards retaining customers.

8.3 Distribution details and sample screening

At a very early stage in the research, a number of FSRs that appeared on the list in Appendix A, had been contacted to find out whether they would be prepared to assist in the research. Ten FSRs replied, but when the request to conduct a survey was made, this number dropped. From the remaining FSRs two were chosen to be as different as possible, particularly in terms of size and type, details of which are given in Table 8.1. The names of the participating institutions have been withheld as they were assured of anonymity, and they have been given fictitious names.

Table 8.1 Overview of the FSRs participating in employee survey

Fictitious name	Allegiant	Consolidated
Description of organisation	Mutual	Converting
No. of employees (app.)	3,103	1,864
No. of customers (app.)	2 million	1 million
No. of branches	187	66
Asset size (£)	13.3bn	10m

As can be seen from this table, Allegiant is nearly twice the size of Consolidated in terms of staff and number of customers. It has also three times as many branches and much greater assets.

The response rates to the mailings are presented in Table 8.2 and are about 40% for both samples. This figure may possibly have been enlarged by a second mailing or reminders, but this had not been done owing to the large numbers in the samples and cost involved. Instead, a request was made to the FSRs to publish a reminder in the in-house journal of each FSR. Allegiant was able to respond in an acceptable time scale, but Consolidated was unable to publish this request in time. The response rate for this survey was compared with other examples of industrial surveys whose rates varied from 14% (Morgan and Hunt 1994) to 89% (Kohli et al. 1998). An industrial study using similar sample sizes obtained a response rate of 41.5% (Singh and Rhoads 1991). The response rate (see Table 8.2) for this survey has generated samples sizes as follows - Allegiant=216, Consolidated=221.

Table 8.2 Distribution and response details of returned questionnaires

	Number of questionnaires despatched	Useable replies received	Response rate %
Allegiant	511	216	42.27
Consolidated	541	221	40.85

Probability sampling does not necessarily mean that the sample is representative of the population and, in order to reduce sampling error, the characteristics of the sample were compared with the characteristics of the FSRs (Saunders et al. 2000). Data about the staff had been collected as explained in Chapter 5, for example, information about gender and age. Respondents had also been asked on the questionnaire to indicate whether they were customer contact or non-contact staff. Contact staff included branch staff as well as staff who manned call centres, as well as any other contact point that customers may have. Non-contact staff ranged from senior management to staff in reprographics and document storage, according to the job descriptions supplied by the FSRs as mailing lists. Categories were created for recording non-response for these classification questions, as well as the category of FSR, as these data formed the basis for grouping data at later stages of the analysis. The rate of item non-response was higher for the classification questions than in the main part of the survey in spite of reassurances about anonymity and confidentiality. Tables 8.3 and 8.4 give details about the samples and the populations from which they were drawn. The percentages do not add up to 100% in all cases, owing to slight discrepancies in the information received from the participating institutions.

Table 8.3 Comparing the demographic characteristics of sample with the Allegiant's population

	Sample		Population	
	No.	%	No.	%
Gender				
Male	57	26.3	541	29.2
Female	159	73.61	1323	70.9
missing	2	1		
total	216		1864	
Age				
Under 30	56	25.9	703	37.7
31-40	87	40.3	592	31.8
Over 41	64	29.7	569	30.5
missing	9	4.2		
Customer contact details				
Contact	95	43.9	1103	52.3
Non-contact	114	52.7	98	48.7
missing	7	3.4	-	-

The sample differs slightly in its composition from the population of Allegiant. The responses from the sample contain a higher proportion of female staff at 73.6% than are in the population (70.9%) in the population. A higher proportion of non-contact staff (52.7%) responded to the survey than are found in the population (48.7%). The age range of staff who responded is also not quite representative of the population as a greater percentage of employees in the 31-40 age group responded (40.3%) than exist in the population (31.8%).

Table 8.4 Comparing the demographic characteristics of sample with Consolidated's population

	Sample		Population	
	no	%	no	%
Gender				
Male	90	40.7	1442	46.4
Female	126	57.0	1660	53.5
missing	5	2.3		
total	221		3103	
Age				
Under 30	66	29.7	1095	35.3
31-40	84	37.9	1244	40.1
Over 41	68	30.8	763	24.6
missing	3	1.4		
Customer contact details				
Contact	85	38.5	1647	53.1
Non-contact	130	58.8	1456	48.3
missing	6	2.7	-	-

The proportion of Consolidated staff who responded to the survey again differ slightly from the population as the response classifications show a higher proportion of female and non-contact staff respondents than are in the population. A higher proportion of staff in the over 41 age band responded to the survey (30.8%) than exist within the population (24.6%). The responses from both samples, therefore, are not entirely representative of the populations from which they are drawn, but the figures do tend suggest that the sample figures fall within an acceptable approximation of the population. The two institutions participating the employee survey differ quite markedly in terms of size and corporate status, so that the results of the research do permit some modest comments on the traditional financial services sector as a whole.

When entering the data onto the data matrix, a very small number of missing values (<10), was noted among the responses to the scale items. Deleting items either on a listwise or pairwise basis (Oppenheim 1992) would have resulted in loss of data, therefore, missing values were entered using the trend of the responses for that particular case as a guide. For example, if the respondent's answer fell into the partially accurate category, then a value of 4 representing this category was entered.

8.4 Survey findings

The findings are presented on a strand-by-strand basis and the responses will be evaluated firstly on how the two samples differ and, secondly, on the implication of the responses on retaining customers as a whole. To compare the samples, the Mann Whitney test was performed for non-parametric data (see Chapter 5). Two comparison tests are conducted, firstly to compare the two FSRs – Allegiant and Consolidated, and then a second test which compares the responses of contact and non-contact staff in each FSR. This second comparison test, as explained in Chapter 5, rests on the notion that much of the responsibility for retention appears to fall on contact staff. The views of non-contact staff, therefore, may shed an alternative perspective on CR, although CR theory strongly suggests that it is a holistic organisational endeavour (see Chapter 4).

The data are presented in table using percentages to describe the response rates for each of the five categories of response. Pie charts are used to convey findings of particular interest graphically.

In other words, the higher the score, the more highly accurate the respondents perceive the statement in relation to their institution.

8.4.1 Corporate

This strand now consists of five statements suggested by the reliability analysis and staff evaluation. As before, these statements are concerned with the overt connections between corporate thinking and the retaining of customers.

Table 8.5 Corporate strand

Item	Reponse	Allegiant (%)	Consolidated (%)
1. Senior management makes it clear that they fully understand and support CR	inaccurate	0.5	3.2
	partially inaccurate	4.5	8.8
	neither accurate nor inaccurate	8.2	12.4
	partially accurate	37.7	35.5
	accurate	49.1	40.1
2. The organisation as a whole takes a long-term view on CR.	inaccurate	.5	3.2
	partially inaccurate	5.9	7.4
	neither accurate nor inaccurate	6.8	11.1
	partially accurate	30.0	31.8
	accurate	56.8	46.5
3. We can provide high levels of service quality because the resources are there in support	inaccurate	5.5	8.3
	partially inaccurate	24.7	25.3
	neither accurate nor inaccurate	9.6	13.8
	partially accurate	46.1	41.9
	accurate	14.2	10.6
4. We pride ourselves on offering a dependable service to our customers	inaccurate	1.8	4.1
	partially inaccurate	8.2	5.5
	neither accurate nor inaccurate	6.8	8.8
	partially accurate	39.1	34.1
	accurate	44.1	47.5
5. Senior management regards CR as being the most effective way to improve long-term profitability.	inaccurate	.9	3.7
	partially inaccurate	9.5	10.1
	neither accurate nor inaccurate	11.4	6.0
	partially accurate	49.1	39.2
	accurate	29.1	41.0

The median scores for the statements in this strand are for both FSRs are 4, except in one case, 5 for Allegiant's responses to long term view. These responses suggest quite strongly that the respondents perceive that senior management support customer retention through the provision of resources, by adopting a long-term perspective and that they link CR to long-term profitability. The median scores do not provide a complete picture of the response rates and as shown in the pie charts, there are some differences in percentage results. For example, the final item in this strand on long term profitability attracts a response rate of 40.5% in the accurate category from Allegiant, whereas Consolidated have 28.1% in this category. To inspect the differences in responses more closely, the results of the Mann Whitney test are presented in Table 8.6a. The figures in brackets represent the number of the item in this chapter.

Table 8.6a Comparing Allegiant and Consolidated (Corporate)

	senior management (1)	long-term view (2)	service quality (3)	dependable service (4)	effective way (5)
z score	-2.73	-2.53	-1.7	-.37	-3.02**

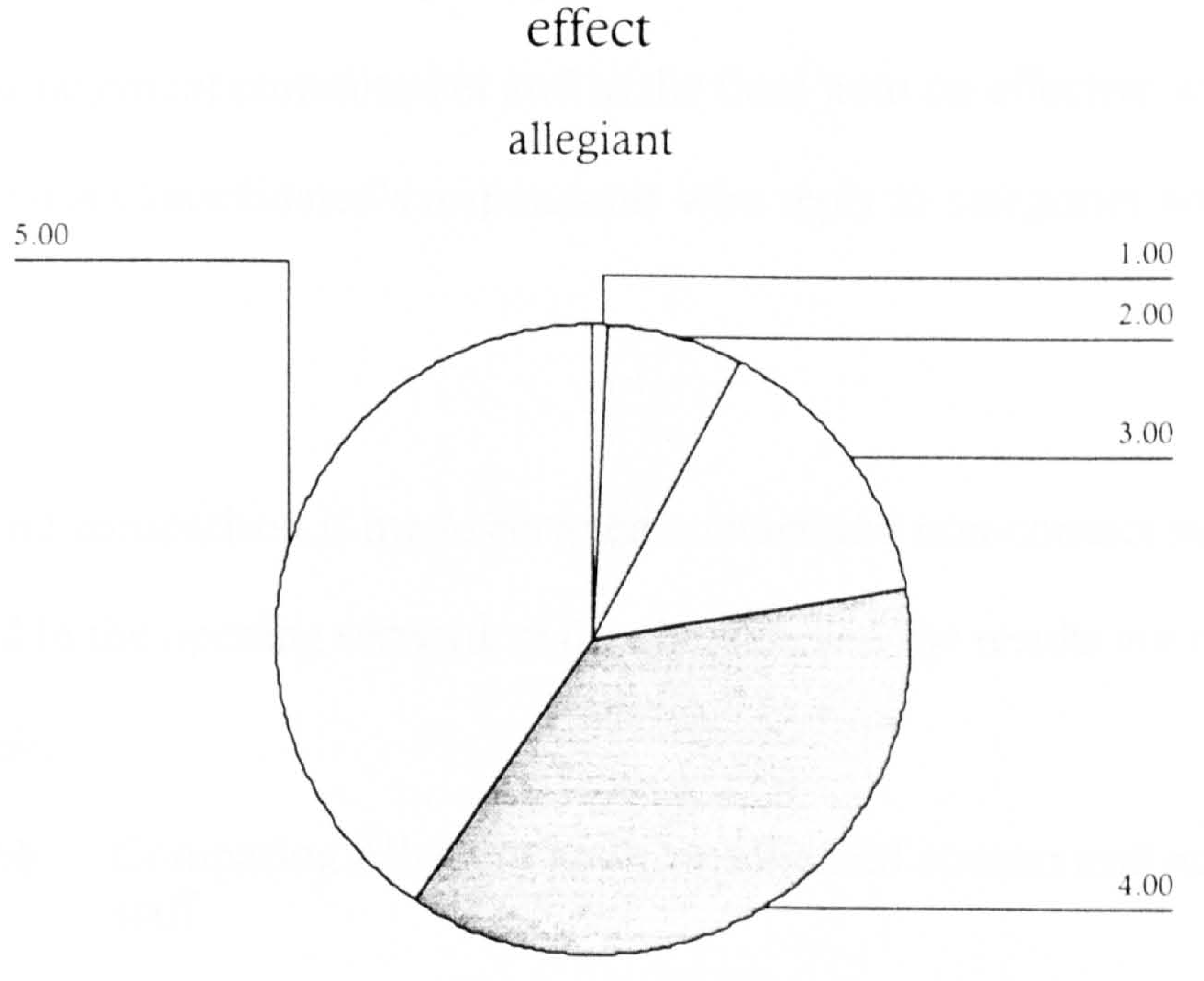
***significant at p< .01*

As stated previously, item 1, on senior management commitment, attracts a median score of 4 from both samples, but the comparison test in the table above indicates that the difference between the two sample FSRs is significant. Although different median scores occur between the samples for the second item on long-term view, the *z* score of –2.53 is not significant. The percentage of responses for both samples that fall into the partially accurate and accurate categories exceed three quarters with Allegiant at 86.8% and Consolidated at 78.3%. Staff perceive that management adopt a long-term view and this is an important view to adopt if retention is an organisational objective. The recurring difficulties with service quality would appear to continue into this survey as well as the experts' survey reported in the previous chapter. The partially accurate category in the response to this statement attracts the bulk of the responses as can be seen in the pie charts for both samples (46.4% for Allegiant and 41.5% for Consolidated). Staff do not appear to believe that adequate service quality is provided for customers. Item 4 is concerned with providing a dependable service, which is a component of service quality (Parasuraman et al. 1988). In the Allegiant sample 44.1% of respondents and 47.5 % of the Consolidated sample reply in the accurate category showing a similar response rate for this item from both samples. The final item on customer retention and long-term profitability attracts a markedly different response from each sample. Allegiant's sample regard this statement as being accurate (40.5%) whereas Consolidated only have 28.1% responding in this category. The z score of –3.02 denotes that this difference is significant. It would appear from this last response that the Consolidated sample do not perceive that long term profitability and customer retention are linked in their organisation. It is very unlikely that any organisation would succeed in retaining customers with a short term horizon without resorting to lock-in tactics (see Chapter 4). Figure 8.1 presents a graphic illustration of the difference between the two FSRs on this item. The numbers on the chart relate to the response code and is as follows:

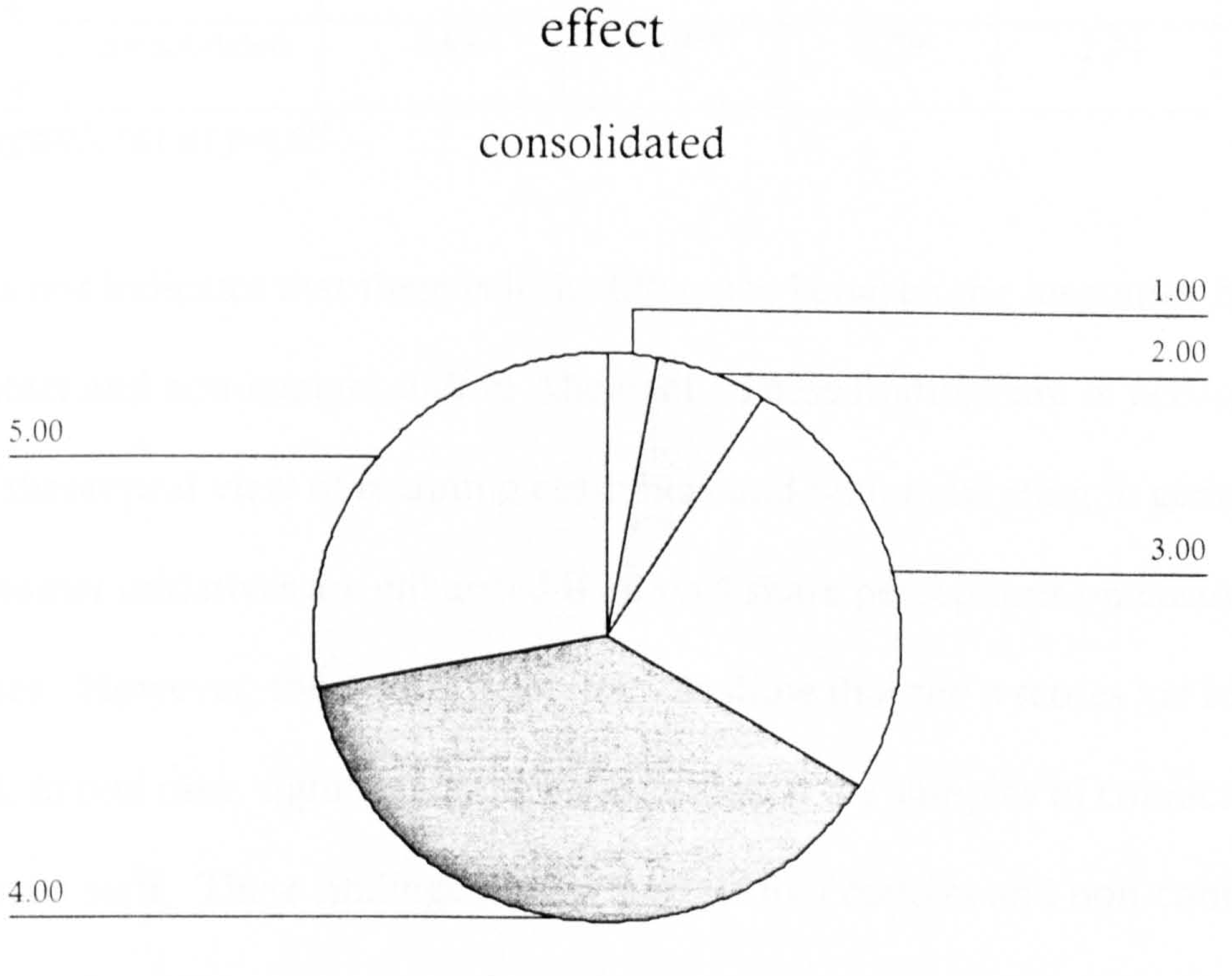
5 accurate, 4 partially accurate, 3 neither inaccurate nor inaccurate, 2 partially inaccurate, 1 inaccurate.

Figure 8.1 Long-term profitability

5. "Senior management regards customer retention as being the most effective way to improve long-term profitability."



median=4



median=4

The results of this survey to this strand suggest that there is a qualified perception that management are committed to retention, provide resources and adopt a long-term view. The principal differences occur in the first item on senior management commitment and in the final item on effective way. In each case it is Consolidated's respondents who reply in categories with lower scores.

The second comparison is made between contact and non-contact staff, as explained in the opening sections of the chapter, and the results are displayed in Table 8.6b.

Table 8.6b Comparing Allegiant and Consolidated contact and non-contact staff

		senior management (1)	long-term view (2)	service quality (3)	dependable service (4)	effective way (5)
Z score	allegiant	-1.9	-.096	-.66	-.054	-1.12
Z score	consolidated	-1.98	-4.19**	-2.79	-2.34	-2.05

***significant at p<.01*

This test indicates that there is little difference between the responses from the contact and non-contact staff in Allegiant. These findings are in accord with the theoretical view of retaining customers and with marketing in general. All customer initiatives are enhanced if all staff share perceptions on customer issues. However, the results from this test show that the z scores are higher and, in one case, significantly different between the samples of contact and non-contact staff. These findings tend to suggest that contact and non-contact staff do not share the same perceptions about retaining customers. This result would indicate that there are internal marketing issues that Consolidated need to address.

8.4.2 Culture/structure

This strand consists of five items on the structural and cultural aspects of retaining customers.

Table 8.7 Culture/structure strand

Item	Response	Allegiant (%)	Consolidated (%)
6. There are all sorts of barriers which obstruct CR within the organisation	inaccurate	11.8	6.5
	partially inaccurate	37.7	22.1
	neither accurate nor inaccurate	24.5	25.8
	partially accurate	19.1	32.3
	accurate	6.8	13.4
7. The structure of the organisation helps us to meet the needs of our chosen customer groups	inaccurate	2.7	4.1
	partially inaccurate	10.0	16.6
	neither accurate nor inaccurate	20.0	29.5
	partially accurate	59.5	41.0
	accurate	7.7	8.8
8. All Staff co-operate closely to retain customers	inaccurate	2.7	4.6
	partially inaccurate	16.8	22.6
	neither accurate nor inaccurate	11.4	8.3
	partially accurate	48.6	35.5
	accurate	20.5	29.0
9. Management respond to staff views on CR	inaccurate	4.5	6.9
	partially inaccurate	12.7	19.4
	neither accurate nor inaccurate	21.8	14.3
	partially accurate	50.5	42.9
	accurate	10.5	16.6
10. Staff understand customer view point	inaccurate	.9	3.7
	partially inaccurate	9.5	10.1
	neither accurate nor inaccurate	11.4	6.0
	partially accurate	49.1	39.2
	accurate	29.1	41.0

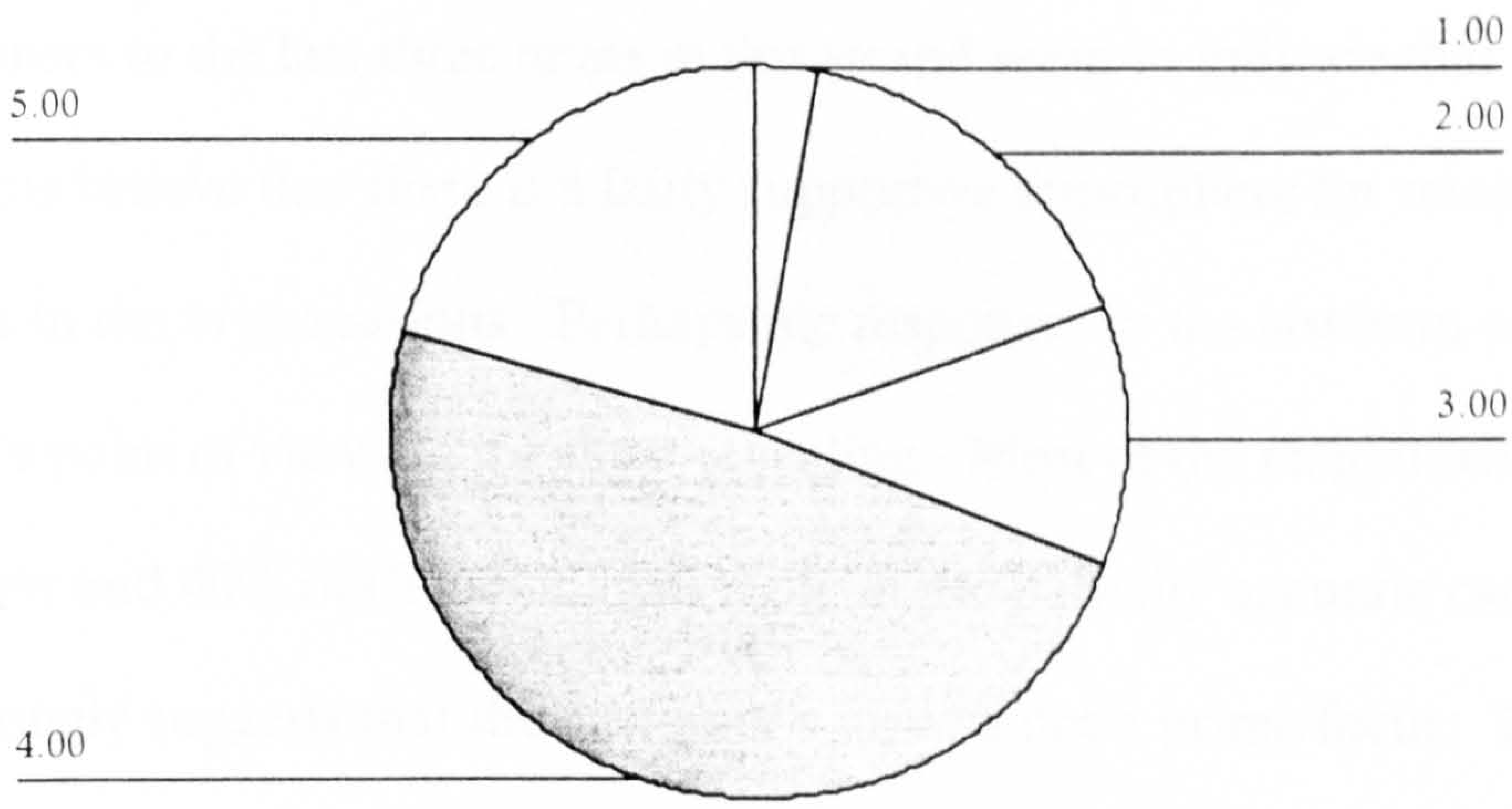
For the first item in this strand the response from the Allegiant sample has a median score of 2, which suggests that the respondents consider this item on organisational barriers largely inaccurate. Consolidated's responses have a median score of 3, which is not in line with expectations, as according the CR theory, clearly, there should be few barriers that obstruct customer retention. The responses of the Allegiant sample to this item and to item 7 (on structure) are somewhat contradictory, as the respondents seem to perceive some barriers to CR but then, indicate that the structure of the organisation is helpful in meeting needs of customer groups. There is no obvious explanation for this inconsistency of response. A clearer picture emerges from the remaining three items. Staff do appear to co-operate in retaining customers (item 8), although a modest percentage (17% and 22%) of both samples seem indicate that co-operation is not universal (see Figure 8.2). Staff consider that their views are respected, with 50.5% of Allegiant and 43.9% of Consolidated replying in the partially accurate category. Since retention is reliant on staff delivering customer satisfaction, management should seek staff opinions.

Figure 8.2 Co-operation

8. "All staff co-operate closely to retain customers"

coop

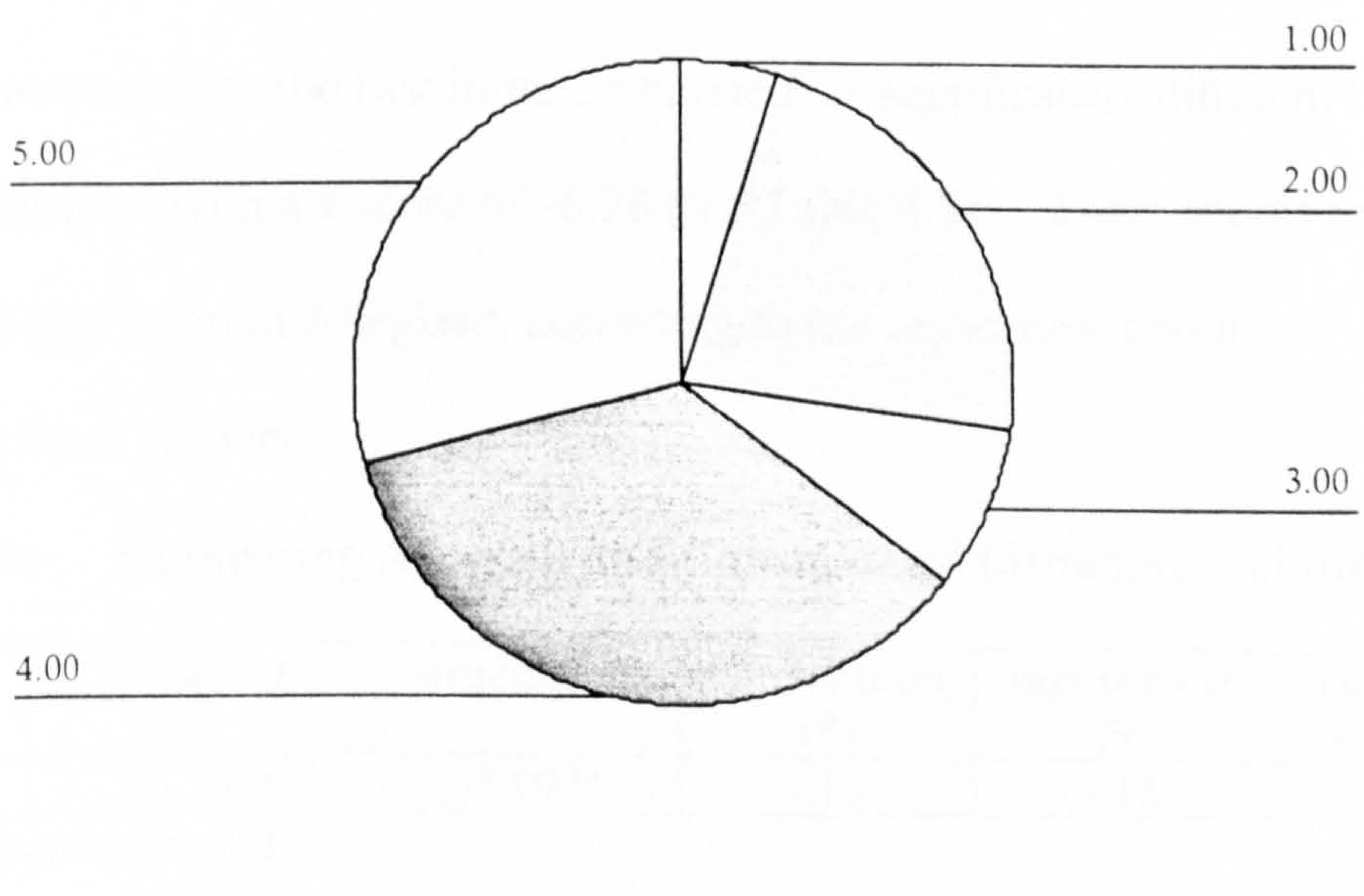
allegiant



median=4

coop

consolidated



median=4

As far as understanding the customer's view, there is some distinction between the pattern of the two samples. Allegiant respondents mainly reply in the partially accurate category (49.1%), but 41% of Consolidated's replies fall in the accurate category. The responses from Allegiant hint at some underlying tension in this strand with inconsistencies and reservations in their responses. The responses to the last three items in this strand seem to indicate that the respondents believe that there is a fairly supportive atmosphere for retaining customers in the organisations. Perhaps the responses to the last item on the customer's point of view are the most revealing. Most of the respondents (50% of Allegiant and 40% of Consolidated) reply in the partially accurate category, which strongly suggests that the customer's view is not a prime focus. The responses to the items in this strand do convey the view that the structure and culture of the participating FSRs may not be entirely supportive of retaining customers. The responses to the final item seem to suggest equally that customer focus may be weak.

When comparing the responses of each sample more closely, it emerges that only the responses to the first item, on barriers, is significantly different between the two samples with a z score of –6.28 (see Table 8.8a). There seems to be a degree of confusion in Allegiant, according to the responses, about organisational barriers.

Table 8.8a Comparing Allegiant and Consolidated (Structure/culture)

	barriers (6)	structure (7)	cooperation (8)	mgt respect (9)	customers view (10)
z score	-4.85**	-3.09**	-.13	-.16	-1.95

***significant at p<.01*

There is little difference in the responses of the contact and non-contact staff for this strand in either of the sample institutions as shown by the low z scores. These results again support the view that there is little difference amongst staff on customer retention.

Table 8.8b Comparing Allegiant and Consolidated contact and non-contact staff

		barriers (6)	structure (7)	cooperation (8)	mgt respect (9)	customers view (10)
Z score	allegiant	-.24	-.43	-.11	-.22	-.78
Z score	consolidated	-1.63	-.20	-1.88	-1.46	-1.82

***significant at p<.01*

8.4.3 Strategy

This strand has more items than the others and includes classical marketing items on segmentation, new product development as well as relational issues such as individual customer requirements.

Table 8.9 Strategy strand

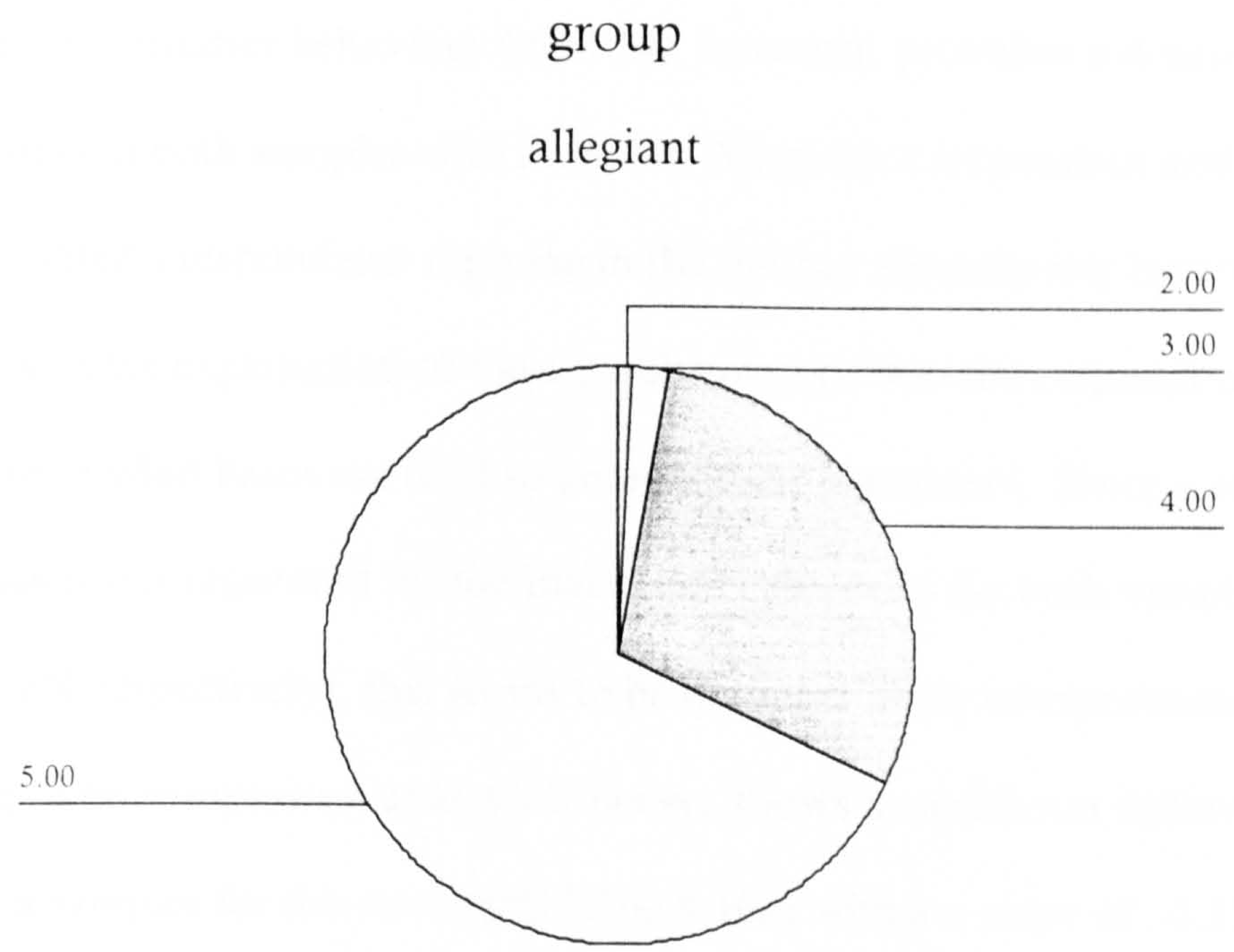
Item	Response	Allegiant (%)	Consolidated (%)
11. We aim to build long-lasting relationships with chosen customers.	inaccurate	2.7	3.2
	partially inaccurate	3.6	3.7
	neither accurate nor inaccurate	3.2	4.6
	partially accurate	31.4	34.1
	accurate	59.1	54.4
12. Learning how to manage our share of the customer's wallet is of key importance.	inaccurate	.9	.9
	partially inaccurate	5.5	5.1
	neither accurate nor inaccurate	24.1	28.1
	partially accurate	30.9	32.3
	accurate	38.6	33.6
13. We recognise that different customer groups require different products.	inaccurate	0	.9
	partially inaccurate	.9	1.8
	neither accurate nor inaccurate	1.8	6.5
	partially accurate	29.5	28.6
	accurate	67.7	62.2
14. One way we divide up our customer base is according to an analysis of customer behaviour	inaccurate	.9	8.3
	partially inaccurate	5.5	5.5
	neither accurate nor inaccurate	33.2	43.3
	partially accurate	34.1	27.2
	accurate	26.4	15.7
15. We view the development of new products as vital in retaining customers.	inaccurate	.5	1.8
	partially inaccurate	1.8	4.1
	neither accurate nor inaccurate	2.7	6.9
	partially accurate	31.8	23.0
	accurate	63.2	64.1
16. Selling more products to selected customers is a prime objective of the organisation.	inaccurate	2.3	4.1
	partially inaccurate	4.5	6.5
	neither accurate nor inaccurate	10.0	12.9
	partially accurate	37.7	32.3
	accurate	45.5	44.2
17. We already reward or plan to reward loyal customers	inaccurate	1.4	8.8
	partially inaccurate	1.4	18.9
	neither accurate nor inaccurate	2.3	33.2
	partially accurate	5.9	28.1
	accurate	89.1	11.1
18. We assess the loyalty of a customer on the number of products held over time.	inaccurate	5.0	13.4
	partially inaccurate	6.4	15.2
	neither accurate nor inaccurate	4.1	33.2
	partially accurate	24.5	27.2
	accurate	60.0	11.1

19. Our retention plans include recognising individual customer requirements.	inaccurate	1.4	6.5
	partially inaccurate	5.0	9.7
	neither accurate nor inaccurate	13.6	15.2
	partially accurate	42.7	33.2
	accurate	37.3	35.5
20. We collect information on customer attitudes for CR	inaccurate	1.4	5.5
	partially inaccurate	4.1	8.8
	neither accurate nor inaccurate	30.9	27.2
	partially accurate	36.8	29.0
	accurate	26.8	29.5

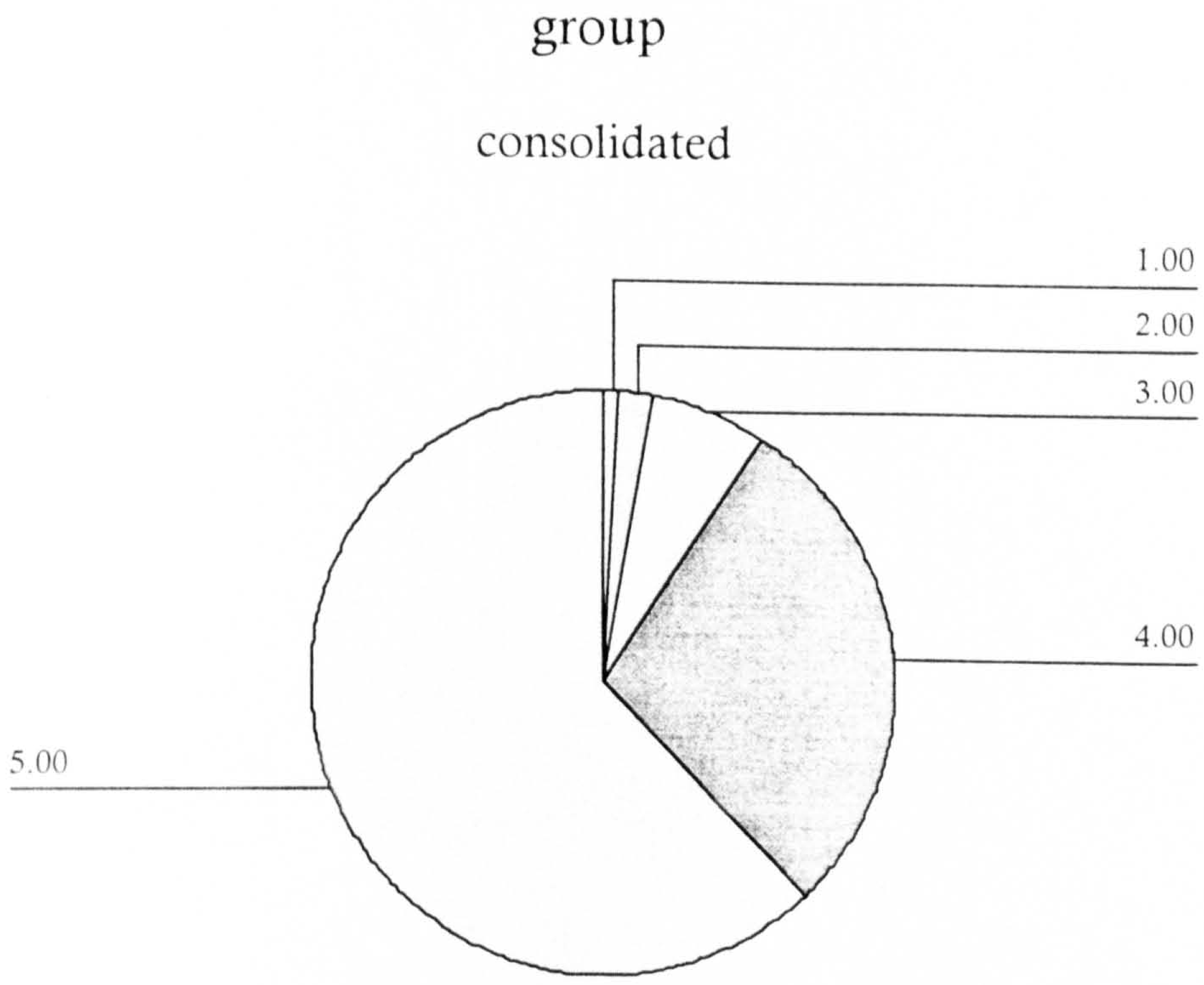
This strand opens with an item on long-lasting relationships as relationship-building forms a major activity in retaining customers (see Chapter 4). Both samples share a high median of 5, apparently indicating that this message has been broadcast and received within the FSRs. Item 12 is concerned with managing the share of the customer's wallet and refers to the proportion of business that an FSR has of an individual customer. As mentioned in Chapter 3, financial services customers are 'multi-banked', and the objective of any FSR is to maximise the number of their products held by any customer and this is achieved through cross-selling. Both sets of respondents share a median score of 4, suggesting that this activity may be quite important. The results of this item can be compared to item 16 on selling, which has a similar median score of 4, and indicates consistency in the FSRs' strategy. Item 13 is concerned with segmentation (see Figure 8.3).

Figure 8.3 Customer groupings

13. "We recognise that different customer groupings may require different products.



median=5



median=5

The responses from both samples have high median scores of 5, which strongly suggest that segmentation is, at the very least, understood.

Analysing consumer behaviour (item 14), however, provokes a degree of unsureness in both samples with 33.3% of Allegiant's respondent and 43.3% of Consolidated's respondents replying in the neither accurate nor inaccurate category. One explanation of these results may be that the respondents are unaware of what bases are used to analyse their customers. Since a relatively low response is registered for the inaccurate categories for both samples (6.4% and 13.8% respectively), this seems to be the most likely interpretation of this finding. The comparison analysis however shows a significant difference between samples for this item (see Table 8.10a) with a z score of –4.12.

Table 8.10a Comparing Allegiant and Consolidated (Strategy)

	lasting relations (11)	share of customer (12)	customer groups (13)	consumer behaviour (14)	new products (15)	selling more products (16)	reward customers (18)	customer loyalty (170	individual requirement (19)	customer attitudes (20)
z score	-1.03	-1.02	-1.61	-4.12**	-.45	-.95	-15.56**	-10.77**	-1.91	-.96

***significant at p<01*

Table 8.10b Comparing Allegiant and Consolidated contact and non-contact staff

		lasting relations (11)	share of customer (12)	customer groups (13)	consumer behaviour (14)	new products (15)	selling more products (16)	reward customers (18)	customer loyalty (17)	individual requirement (19)	customer attitudes (20)
Z score	allegiant	-1.39	-.19	-.11	-1.09	-.79	-.72	--.45	-2.21	-2.56	-.89
Z score	consolidated	-1.81	-1.87	-1.39	-.30	-98	-.05	-.77	-.17	-1.55	-2.03

***significant at p<.01.*

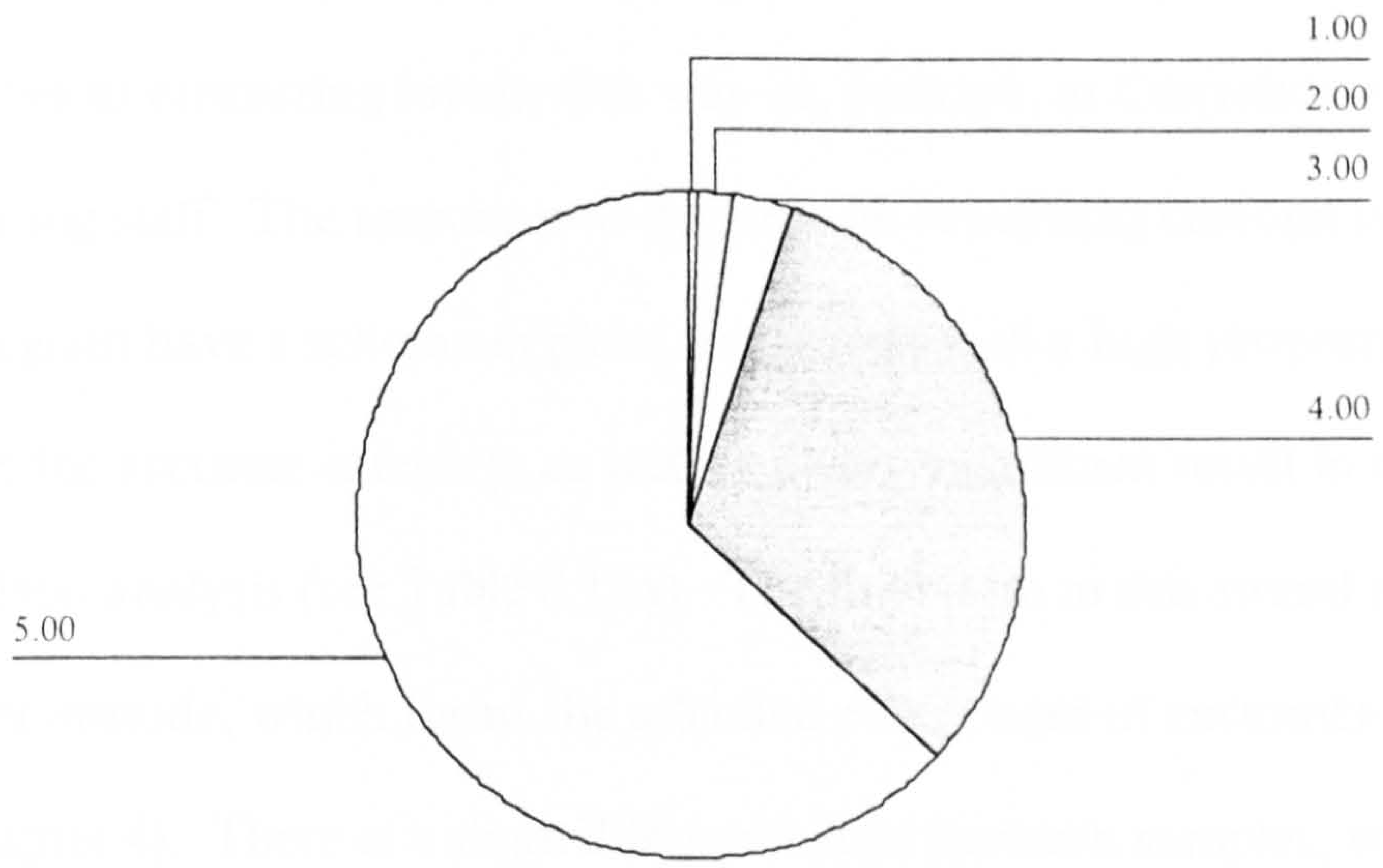
The pattern of the earlier items in this strand is re-established with the responses to item 15 on new product development (NPD). Both samples reply to within 1% of each other, with over 60% in the partially accurate/accurate category. This finding is in line with both the literature and the findings from the experts' survey where NPD is given great importance in FSR marketing (see Figure 8.4).

Figure 8.4 New products

15. "We view the development of new products as vital in retaining customers."

npd

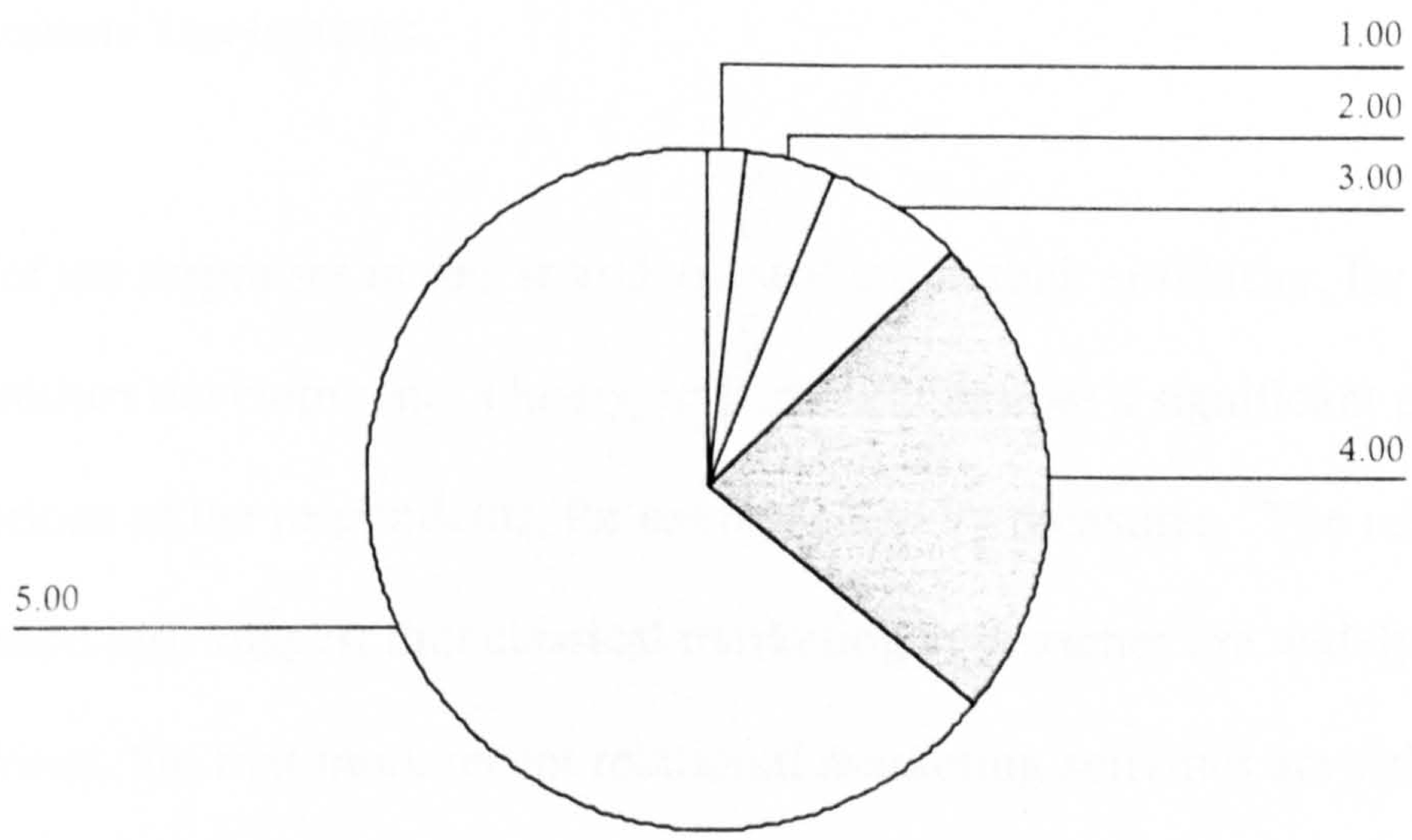
allegiant



median=5

npd

consolidated



median=5

The responses of each sample to item 18 on measuring loyalty are far apart. The pattern of responses from Consolidated suggests that the respondents are unsure (33.2% in the neither accurate nor inaccurate category). For Allegiant, however, 60% reply in the accurate category with very few being unsure (4.1%). This finding would suggest that these two FSRs have quite different approaches here, either in measuring loyalty this way or, perhaps, in Consolidated's case, not advising staff. The responses to the item on rewarding customers, suggest that Allegiant have a scheme in place, as there is such a high proportion of scores in the accurate category, as well as a very significant result in the comparison analysis (see Table 8.10a). The final item in this strand is about customer attitude, which forms the affective component of customer loyalty (see Chapter 4). There is a slight difference here between samples, with Allegiant's responses falling mainly in the partially accurate category (36.8%) and Consolidated's being fairly evenly spread in neither accurate not inaccurate, partially accurate and accurate categories. It is unlikely that if the respondents are unaware of loyalty measures, that they are on surer ground with attitude assessments.

Some of the responses in this strand are striking in their similarity, for example new product development. Others, in particular denote a significant gap in the perceptions of the respondents, for example loyalty measures. The responses to this strand also suggest that classical marketing approaches are widely recognised, but that more recent relational marketing activities are either not recognised or perhaps not carried out e.g. item 20. The responses to selling are interesting in that staff do not see it as an overwhelming priority, this is a view that is not shared by the experts (see 7.3.3, item 39).

8.4.4 Systems

The seven items in this strand represent systems and information in the CR framework and incorporates detail on segmentation and defection spotting.

Table 8.11 Systems strand

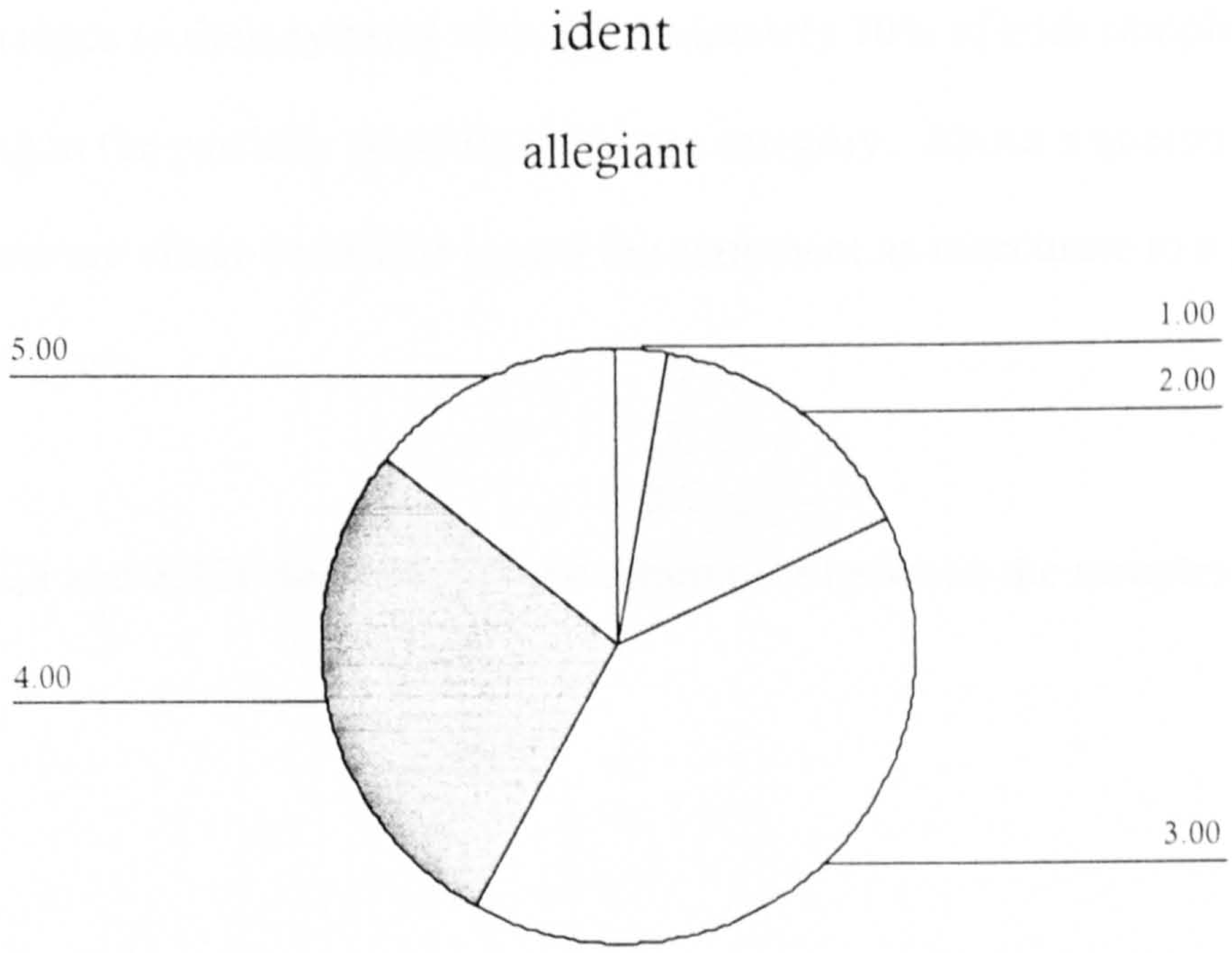
Item	Response	Allegiant (%)	Consolidated (%)
21. We are establishing a basis for identifying profitable customers	inaccurate	.9	1.8
	partially inaccurate	3.6	5.5
	neither accurate nor inaccurate	32.3	42.9
	partially accurate	28.6	29.5
	accurate	34.5	20.3
22. We can divide up our customer base into targetable groups	inaccurate	.9	.9
	partially inaccurate	4.5	14.3
	neither accurate nor inaccurate	27.3	24.4
	partially accurate	31.8	43.8
	accurate	35.5	16.6
23. We are able to identify customers on the point of leaving	inaccurate	2.7	6.0
	partially inaccurate	15.5	11.1
	neither accurate nor inaccurate	40.0	30.9
	partially accurate	27.7	35.9
	accurate	14.1	16.1
24. We have made radical changes to our information systems for CR	inaccurate	.9	2.8
	partially inaccurate	7.7	5.1
	neither accurate nor inaccurate	15.5	17.1
	partially accurate	32.3	37.8
	accurate	43.6	37.3
25. We can identify customers who have the potential to be profitable.	inaccurate	1.8	2.8
	partially inaccurate	4.5	6.0
	neither accurate nor inaccurate	22.7	30.9
	partially accurate	32.3	36.4
	accurate	38.6	24.0
26. Our systems can track the lifetime value of our customers	inaccurate	2.3	6.0
	partially inaccurate	6.8	11.5
	neither accurate nor inaccurate	36.4	46.5
	partially accurate	25.0	21.7
	accurate	29.5	14.3
27. What we would like to achieve in CR is limited by our information systems	inaccurate	9.6	12.0
	partially inaccurate	19.3	26.3
	neither accurate nor inaccurate	33.9	33.6
	partially accurate	25.7	23.5
	accurate	11.5	4.6

This strand begins with an item on establishing a basis for identifying profitable customers, which immediately reveals a difference between the two samples with median scores of 4 for Allegiant and 3 for Consolidated. Allegiant's responses are evenly spread with approximately 30% in neither accurate nor inaccurate, partially accurate and accurate categories. Consolidated's responses peak in the neither accurate nor inaccurate category with 42.9%. In spite of the spread of responses for both samples, it is clear that nearly 35% of Allegiant's sample firmly believe that they have established as basis for spotting profitable customers, but this is not the case for Consolidated. Item 22 is concerned with the operational as opposed to the strategic aspect of segmentation (see section 8.4.3), which is the targeting of specific customer groups. Although the median scores are the same for each sample, the pattern of responses is quite different. Allegiant's responses are fairly evenly spread in the neither accurate nor inaccurate, partially accurate and accurate categories once more. The responses from Consolidated peak with 43.8% in the partially accurate category. Both these items tend to suggest that knowledge about the capability of the information systems is not widespread within the organisations.

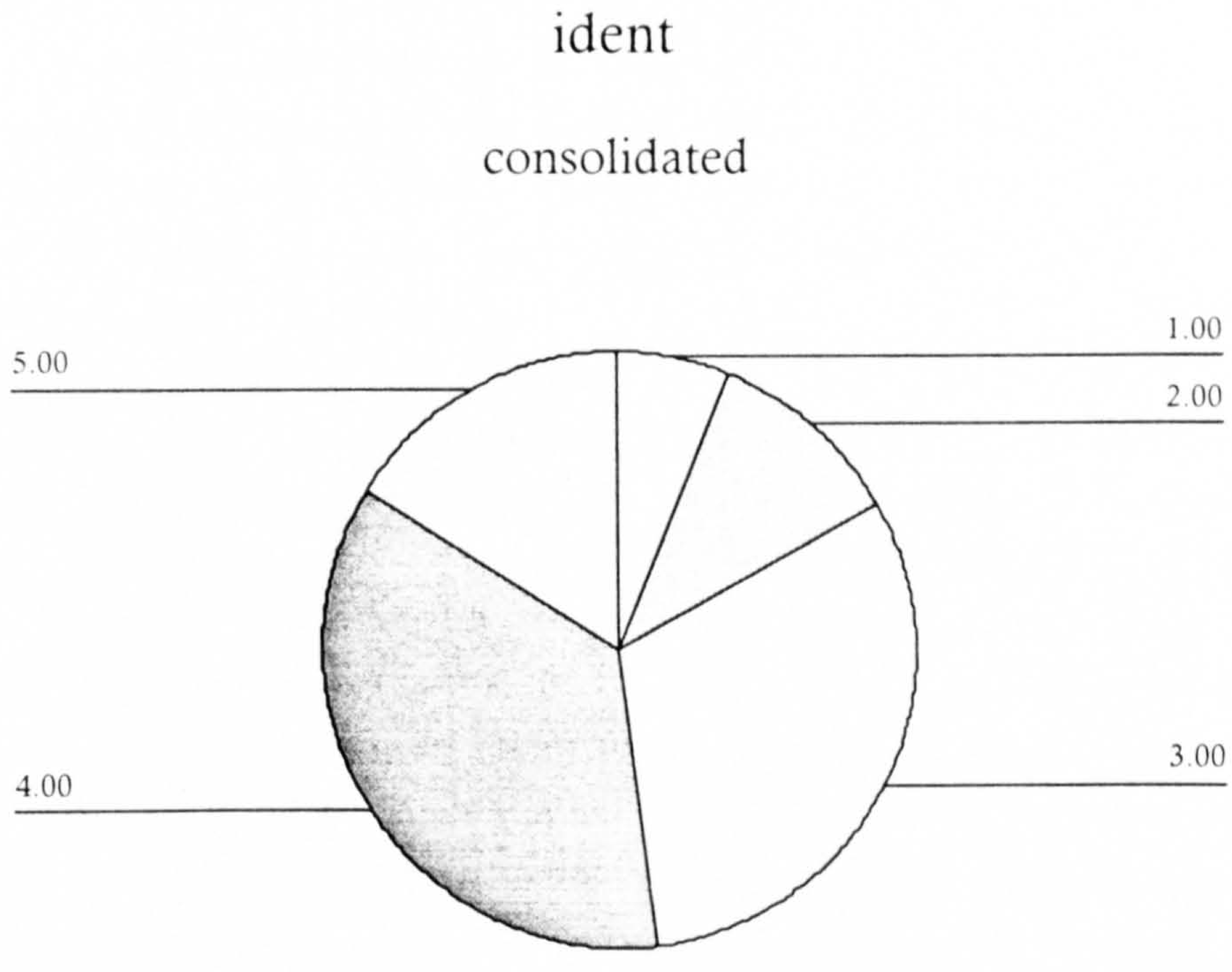
The identification of potential defectors is evidently something that an information system supporting retention should be able to do, but the responses to item 23 give a mixed picture. Allegiant's responses fall mainly in the neither accurate nor inaccurate category (40%) and Consolidated's peak in the partially accurate category with 35.9% but nearly 31% of the respondents respond in the neither accurate nor inaccurate category. This pattern of responses suggests, once more, that there are staff who either do not understand or are unaware of the key role of information systems in retaining customers or its ability (see Figure 8.5).

Figure 8.5 Point of leaving

23. "We are able to identify customers who may be on the point of leaving."



median=3



median=4

To identify and track individual customers by name across a number of products has involved significant attitudinal as well as technical change for FSRs. The responses to item 24 indicate that the respondents are aware of radical changes to their systems with approximately 70% of both samples responding in the partially accurate/accurate category. About a quarter of the respondents are either unsure or regard the statement as inaccurate to a greater or lesser degree.

Table 8.12a and 8.12b demonstrate the differences between the samples for this strand.

Table 8.12a Comparing Allegiant and Consolidated (Systems)

	establish basis (21)	targetable groups (22)	identify customers (23)	radical change (24)	profit potential (25)	lifetime value (26)	limit of system (27)
z score	-3.47**	-3.55**	-1.48	-.99	-3.21	-4.51**	-2.54

***significant at p.<.01*

Table 8.12b Comparing Allegiant and Consolidated contact and non-contact staff

		establish basis (21)	targetable groups (22)	identify customers (23)	radical change (24)	profit potential (25)	lifetime value (26)	limit of system (27)
Z score	Allegiant	-1.05	-.07	-.49	-.07	-.46	-1.01	-.79
Z score	Consolidated	-2.12	-.07	-1.89	-2.5	-2.75	-1.87	-.08

***significant at p<.01*

Spotting potentially profitable customers is the other end of the retention scale from preventing defection and can prove challenging for FSRs who run accounts at little or no profit to maintain a relationship. The *Allegiant* respondents (about 70%) believe this statement to be partially accurate/accurate with nearly 40% in the accurate category. Almost 31% of Consolidated's respondents reply in the neither accurate nor inaccurate category and 36.4% in the partially accurate category and would appear to be unsure about the potential of their information system. Calculating the lifetime value of a customer (item 26) is connected with the previous item, since profitability can be assessed across a number of product holdings. Both samples here show a similar pattern of response with the majority of the replies falling in the neither accurate nor inaccurate category. Allegiant's responses are skewed negatively i.e. more respondents reply in the higher categories than Consolidated's. The final item (27) on limitations of the information system is reverse-scored but Allegiant's responses are almost normally distributed. The respondents here may be feeling a degree of frustration with the system, which is congruent with the findings of the interviews and experts' survey. A higher proportion of Consolidated's responses fall into the inaccurate categories, but a third do not appear to know.

Although only two tests for comparisons show significant results (items 22 and 27), several of the other items (21, 25 and 27) have quite high Z scores and are very close to being significantly different. The results of comparing the two institutions in this strand suggest quite strongly that the information systems may be at different stages of sophistication or capability. The picture that does emerge from these responses is that a significant number of staff does not seem to know very much about the capabilities of the information systems. Even if they are not technologically oriented, an understanding of what kind of customer information is available should engage them more closely with building relationships and satisfying customers.

8.4.5 Staff

This strand consists of seven items, which have been built around service quality e.g. 28, and relationship building e.g. 33. Again the objective has been to look at all staff rather than just those directly in contact with customers.

Table 8.13 Staff strand

Item	Response	Allegiant (%)	Consolidated (%)
28. We know how important it is to provide reassurance to customers	inaccurate	1.4	1.8
	partially inaccurate	5.9	5.1
	neither accurate nor inaccurate	4.1	4.1
	partially accurate	32.7	33.6
	accurate	55.9	55.3
29. We know how important it is to retain customers	inaccurate	.9	2.8
	partially inaccurate	6.4	6.9
	neither accurate nor inaccurate	6.4	1.8
	partially accurate	27.3	32.7
	accurate	59.1	55.8
30. We provide such good service quality that our customers stay.	inaccurate	2.7	7.9
	partially inaccurate	23.2	23.6
	neither accurate nor inaccurate	15.5	10.6
	partially accurate	44.5	44.0
	accurate	14.1	13.9
31. We know it is important to have the skills for building relationships with customers	inaccurate	.9	1.8
	partially inaccurate	4.5	3.2
	neither accurate nor inaccurate	7.3	3.7
	partially accurate	39.1	36.9
	accurate	48.2	54.4
32. Staff make decisions about meeting customer needs	inaccurate	4.1	8.3
	partially inaccurate	22.3	17.1
	neither accurate nor inaccurate	17.3	17.1
	partially accurate	36.8	34.1
	accurate	19.5	23.5
33. We know we need to inspire trust and commitment in customers	inaccurate	.5	2.3
	partially inaccurate	6.4	2.3
	neither accurate nor inaccurate	7.3	5.5
	partially accurate	39.5	35.0
	accurate	46.4	54.8
34. We are encouraged to recover customer dissatisfaction	inaccurate	2.3	3.2
	partially inaccurate	5.9	3.7
	neither accurate nor inaccurate	9.5	5.5
	partially accurate	35.5	32.7
	accurate	46.8	54.8

This strand consists of items assessing aspects of service quality e.g. item 28, relationship building e.g. 33 and marketing orientation i.e. item 32. For item 28 on providing assurance to customers, the frequency of the responses is very similar with over 55% of both samples responding on the accurate category.

The complexity of financial products as well as the level of investment requires high levels of involvement from the consumer and receiving reassurance, even from an impartial source, can affect judgements of service quality and satisfaction, and over half the respondents appear to understand this. The responses to item 29 on staff awareness of customer retention are similar from both samples, but Consolidated's responses fall into a slightly different pattern with 32.7% replying in the partially accurate category compared with Allegiant's 27.3%. This difference is, however, too small to affect the median value of 5 which is the same for both organisations. In spite of this slight difference, this pattern of responses indicates that staff, in this sample, have grasped the importance of retaining customers.

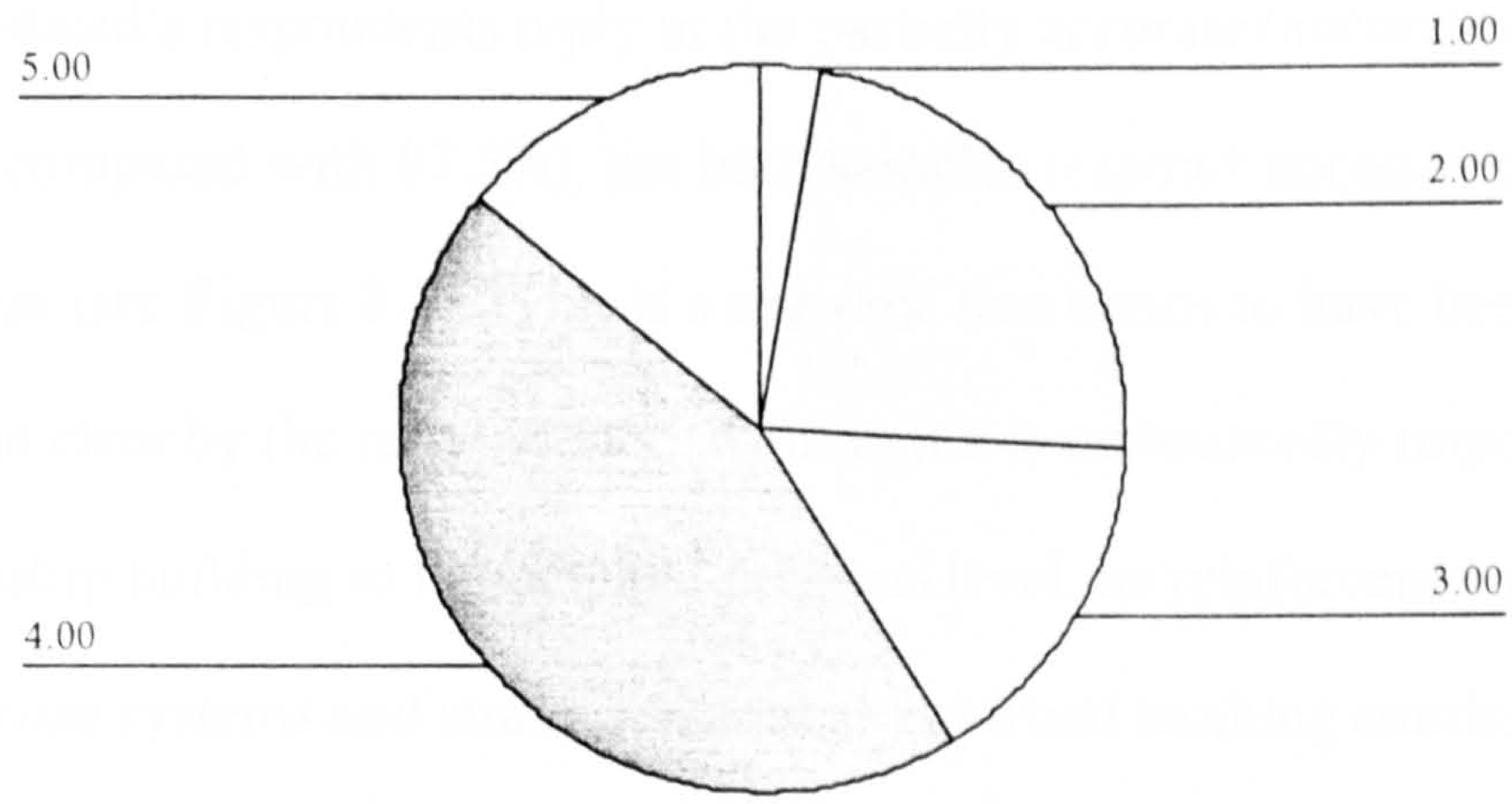
Item 30 is a statement on service quality encouraging customers to stay with the organisation and, once more, the responses between the two samples are similar (see Figure 8.6). A 5% difference in the neither accurate nor inaccurate and inaccurate categories, is noted, and a higher proportion of Consolidated's respondents respond in the inaccurate category. Although the provision of service quality is almost a 'given' in retailing, there have been indications in this research (e.g. interviews with practitioners) that the connection between service quality and retaining customers is unclear.

Figure 8.6 Service quality

30. "We provide such good service quality that our customers stay with us."

stay

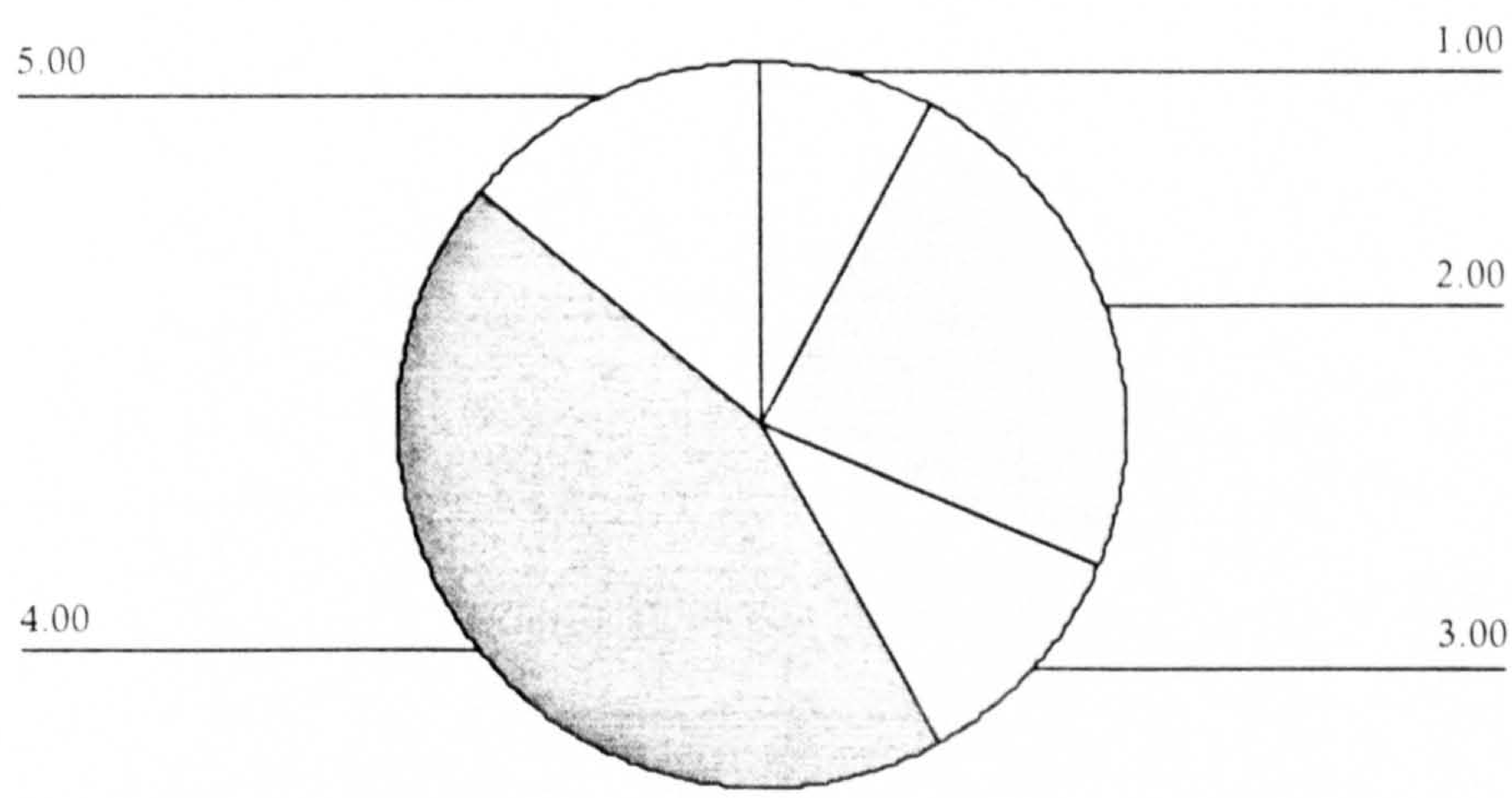
allegiant



median=4

stay

consolidated

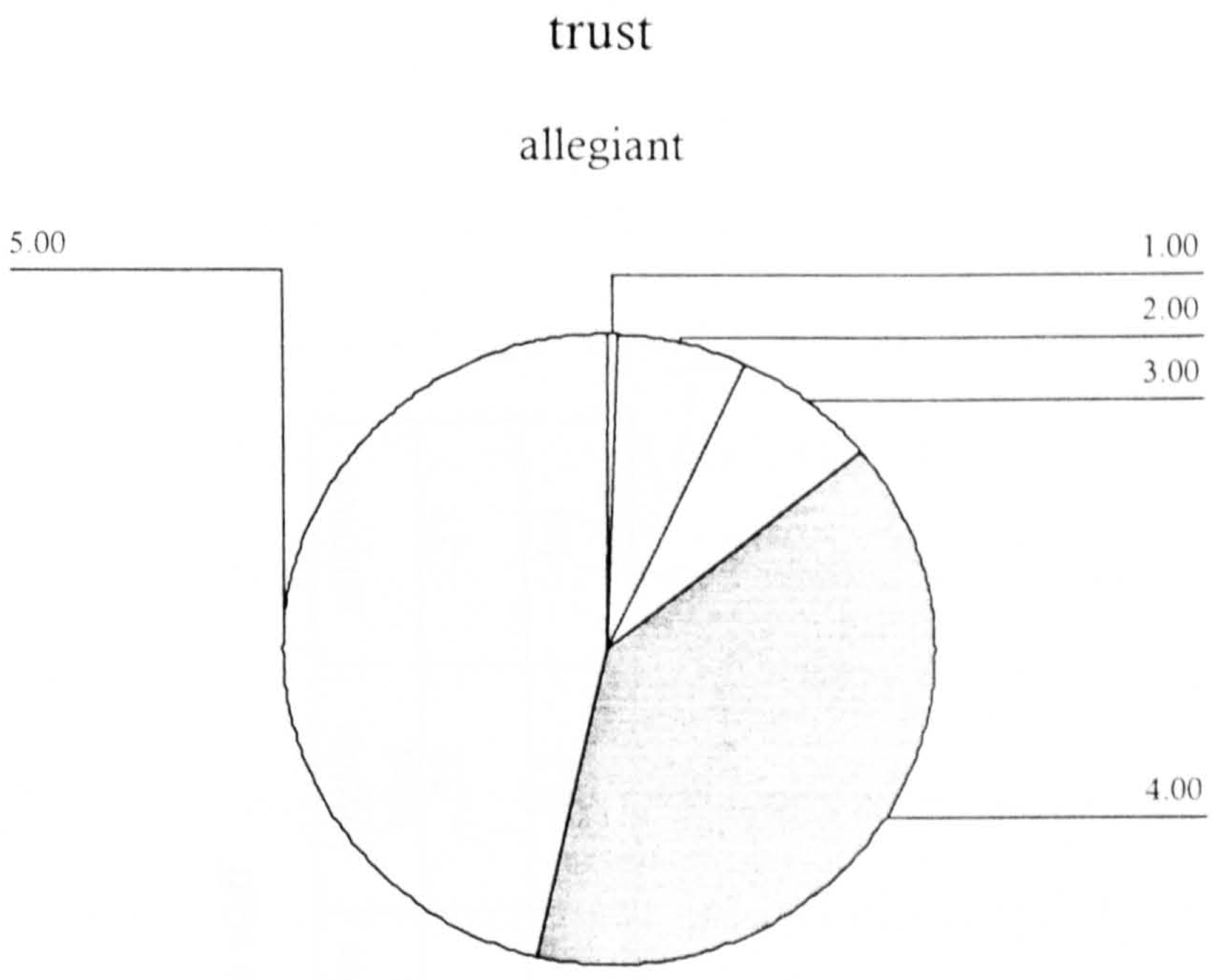


median=4

Since satisfied customers defect, and dissatisfied customers stay, especially in banking, the role of service quality may by misinterpreted in retaining customers, however it has been argued (see Chapter 4) that well satisfied customers are less likely to defect. The sample was then asked about the importance of relationship building skills. A slightly higher proportion of Consolidated's respondents reply in the partially accurate/accurate categories (91.3% compared with 87.3%), but both samples respond unequivocally to this statement (see Figure 8.7). This is a message that seems to have been received loud and clear by the respondents. Although it is undoubtedly important for relationship building to happen at a personal level, its reinforcement through appropriate systems and strategy is critical as virtual banking continues to evolve in the UK.

Figure 8.7 Trust and commitment

33.“We know we need to inspire trust and commitment in customers.”



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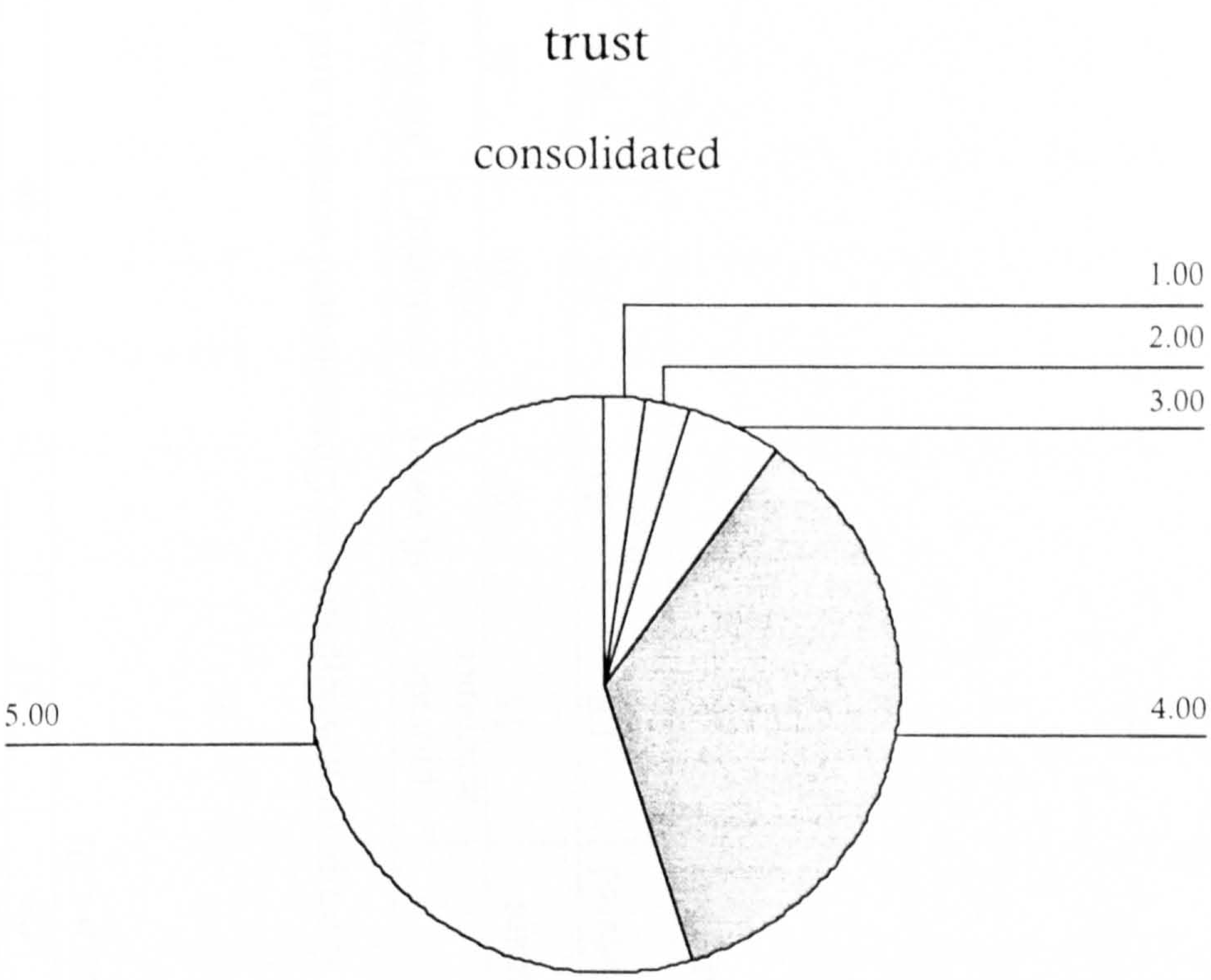


median=5

Table 8.14a Comparing Allegiant and Consolidated (Staff)

	provide assurance	all aware	customer stay	rm skills	customer needs	inspire trust	recover
z score	-.08	-.53	-.75	-1.46	-.41	-1.86	-1.81

***significant at p<.01*

Table 8.14b Comparing Allegiant and Consolidated contact and non-contact staff

		provide assurance	all aware	customer stay	rm skills	customer needs	inspire trust	recover
Z score	allegiant	-.16	-.57	-.30	-.16	-1.19	-.59	-.57
Z score	consolidated	-1.9	-.53	-2.5	-2.2	-2.0	-2.2	-1.4

***significant at p<.01*

Item 32 is concerned with staff empowerment in meeting customer needs and was inspired by the suggested changes to organisational structure in the marketing literature (Day and Montgomery 1999) so that staff can respond more effectively to customer requirements. There is a slightly different pattern in the samples' responses in the inaccurate/partially inaccurate categories. The median value of 4 for each sample indicates that decision-making may not be devolved to all levels of staff. The traditional hierarchies of banks and building societies is unlikely to be supportive of empowerment, but customer expectations of instant recovery and responses mean that FSRs will need to review their flexibility and levels of decision-making. The notion of trust in relationship building is a constant theme in this investigation and is operationalised in item 33 (see Figure 8.7). The responses from Consolidated seem to show that staff know that inspiring trust is part of their role with a median value of 5. Allegiant's responses are less wholehearted (46.4% in the accurate category) and the median value is 4 for this sample. This difference is intriguing and there is no indication in the research findings to explain this distinction between samples. The final item is about recovering service failure, and a similar pattern of responses occurs as in the previous item, with Allegiant's median value being 4 and Consolidated's 5.

This last item gained some high marks in the accurate categories, and these are consistent with earlier stages in the investigation, where the responsibility for retention seemed to fall on the staff. There is quite a difference between the two samples. The median values for Allegiant's responses are mainly 4 compared with Consolidated's, mainly 5. Allegiant's responses show indicate a lower accuracy rating for items 30-34, and these items are more directed at assessing the training, support and autonomy provided by the organisation. Indeed, where staff action alone is key (items 28 and 29), the median value is 5. In Consolidated sample, median values of 4 occurred in items 30 and 32, concerned with service quality and customer needs. These responses tend to suggest that where support from the organisation and customer focus is required, there are some shortcomings. The responses from the Allegiant sample hint at difficulties perceived by staff in inspiring trust, providing the right levels of service quality and taking responsibility for putting things right. The tests for comparison between the organisations show that there are no significant differences. Again the Mann Whitney test shows that there are no significant differences between contact and non-contact staff (see Table 8.9b). On closer inspection, Consolidated's results have quite high Z scores (>2.0), which may be an indication that staff issues in CR are perceived somewhat less importantly by these samples. Non-contact staff may have an imperfect understanding of their role in CR.

8.5 Discussion and conclusion

This final section views the findings from two perspectives. Firstly, the differences between the samples will be reviewed: the two FSRs and the further subdivision of contact and non-contact staff. The second part of the discussion reviews the instrument findings as a whole.

8.5.1 The samples

For the corporate strand, the Consolidated sample generally reports lower scores then Allegiant, which is possibly an indication that the respondents perceive that management endorses CR less fervently. Two of the z scores calculated in the comparison test are significant, for the items on senior management and effective way (see Table 8.6a) and the z score for long term view, although not significant is quite high at -2.53. These results suggest that staff see Consolidated management support for customer retention as less than whole-hearted. There are also differences between the contact and non-contact staff in Consolidated, although only one score is significant (see Table 8.6b). These results support the view that there is a slight difference between the perceptions of the contact and non-contact staff towards management and CR. The Allegiant responses show that there is little difference between the contact and non-contact staff in the perceptions in this strand. These results are also an indication that that the research instrument is able to distinguish between samples.

For the second strand of structure/culture, there are two variables which have significantly different z scores (see Table 8.8a) between the two FSR samples. These results suggest that Consolidated staff do note barriers to CR and that they think that their structure is not particularly helpful in retaining customers. It is possible that during conversion, the organisation is experiencing structural adjustment which the staff see as obstructive in their efforts to retain customers.

The responses from the Consolidated sample, for these first two strands of CR, seem to be indicating that the organisation is experiencing underlying difficulties with retaining customers. This situation is understandable, although undesirable, and it is interesting to note that management seem to be pre-occupied possibly with conversion issues rather than customer retention. There are no differences between contact and non-contact staff responses to the items in this strand, which indicates that the respondents, no matter what their role, are more or less in agreement.

The third strand is concerned with strategy and there are some quite distinctive departures between the samples. The item asking about consumer behaviour (14) shows a significant difference (see Table 8.10a), and it would appear that nearly half of Consolidated staff appear unsure whether this example of post hoc segmentation is used. If Consolidated is not segmenting along these lines, then the organisation can neither track customers effectively nor develop appropriate loyalty strategies. This belief is borne out by Consolidated's responses to the item on customer loyalty, where the median score is 3, compared with Allegiant's of 5, suggesting that the two samples are far apart here. One method of assessing loyalty is by tracking customer behaviour, which Consolidated do not appear to do, hence they have no means of identifying loyal customers and, therefore, little means of encouraging loyalty or developing strategies to foster it. The very large difference between the samples on the item on rewarding customers (item 17) is, in all likelihood, attributable to Allegiant having a reward scheme. The wide spread of responses in Consolidated's sample to this item is rather hard to explain. This response pattern suggests that Consolidated respondents quite simply do not know whether they reward their customers or not, and it is hard to understand why staff would not know about this kind of scheme. Allegiant's responses suggest that the staff are better informed about the strategy of the organisation and which is much more in line with the prescriptions of internal marketing (see 4.4.4).

The fourth strand of systems has three items with significant differences between FSR samples out of a possible seven. From the analysis earlier in the chapter (see section 8.4.4), it would appear that neither sample displays much knowledge about the systems in their respective institutions. However, once more, Consolidated staff seem to know slightly less than Allegiant. There is a significant difference for the item on lifetime value (26), with the bulk of Consolidated responses falling in the neither accurate nor inaccurate category. The ability to track customers is a fundamental requirement of customer retention (Reichheld 1996) and companies which do not have this capability will find retention hard to achieve and are at a considerable disadvantage competitively. The response rates in this strand tend to suggest that the systems up and running at the time of the survey generally do not provide the level of support that staff seek. This is not really surprising, as the development of systems generally lags behind the needs of the staff using them. Research in the sector of retail financial services has shown that in spite of investment (Murphy 1996)), levels of system provision continue to fall short.

The final strand of staff differs from the other strands in that there is little difference between any of the responses. This finding suggests that staff see themselves as being prime movers in retaining customers. Item 28, for example, is an item, a number of which aim to measure service quality, and the responses from the two samples here are very similar (z score -.08).

8.5.2 Instrument and analyses

The second part of this chapter is dedicated to evaluating the instrument and the findings as a whole. The purpose of this survey was to measure staff perceptions to generate a picture of CR within their respective organisations.

As far as the corporate strand is concerned, the responses convey that the respondents find three out of five of the items largely accurate. A sizeable proportion of the respondents in each sample (approximately 40%), however, indicate that there may problems with service quality. However, the following item on dependable service, a dimension of the SERVQUAL scale (Parasuraman et al. 1988), attracts a different pattern of responses. A later item, which checks for another strand of service quality – assurance - attracts different responses from the item on dependability. Consumers regard dependability as well as assurance as aspects of service quality and these inconsistencies hint at some confusion about the nature of service quality in these FSRs. Item 30, which links service quality to whether customer stay with the organisation, follows the same pattern as these three other items. These results show that the instrument is consistent across these items, but that it has picked up inconsistencies. The respondents believe that management have 'bought into' CR, but management do not provide the resources for ensuring service quality.

The second strand did not present a very clear picture of the structure/culture issues within these FSRs and that in itself, may be an indication that structural problems exist. The responses from the Allegiant sample seemed confused as discussed earlier in the chapter. These difficulties seem to be in part addressed by co-operation across the organisation as suggested by the responses item 8.

In the strategy strand, there is an acknowledgement by the respondents that customers are 'multi-banked', in other words they have accounts with different providers. The responses also show that the participating FSRs do use segmentation (items 12 and 13) but they are not sure how that segmentation is effected (item 14). There is a strong message that new product development (NPD) is part of strategy but NPD has proved problematic for financial services owing to easy replication by competitors (Ennew 1995) and has yielded very little competitive advantage. The item on selling attracted a lower median (4) that might have been expected and suggests that selling may now be seen as less of a priority. Cross-selling was poorly received by branch staff (Chaston 1993) and it is possible that management has responded by downgrading selling as part of staff duties. Cross-selling has been a key element in relationship banking as discussed in Chapter 4. It does not sit easily with a relationship marketing strategy or with postmodern conditions. If indeed selling has been demoted in terms of marketing priorities, then this is a sign that FSRs are finally adopting a more sophisticated approach to customer satisfaction.

The item on reward indicates that Allegiant have a reward scheme, most probably as a means of encouraging customer loyalty. This is a new departure for FSRs who have traditionally relied on customer inertia. They are in one way to be congratulated for recognising that customers will defect if they not perceive value in the relationship, but in the light of the discussion on loyalty schemes in Chapter 4, is an explicit reward an appropriate response? One of the key facets of RM is tracking customers, and the responses show that Allegiant and, to a lesser extent, Consolidated see this happening. When this finding is taken in conjunction with the item on attitude, it shows that both components of loyalty are being addressed. Although the samples recognise that identifying customer groups is essential in CR, the operationalisation of this desire is lacking as demonstrated by the responses to item 22, where there is less clarity. It is interesting to note that spotting potential profitability of customers was thought to be problematic for FSRs but the responses to this survey indicate that the respondents believe this is in hand (item 25).

Not only does the staff strand show very little difference across the samples, it also reports higher median scores than the other strands. It is noticeable that the items involving staff actions gain higher scores than other items. There is some justification for believing that staff actions do provide a major input to retaining customers. Two items have lower median scores, and they are the items on service quality and empowerment. Empowering staff as part of internal marketing is an important aspect of delivering service quality and unless staff feel that they can take appropriate actions, service quality and ultimately customer satisfaction, will languish. Again the pattern of responses appears to be consistent as the service quality items attract a similar pattern of responses as the item on customer view (item 10) and meeting customer needs (item 32).

The findings from the employee survey generate distinctive insight on customer retention from those involved in its execution. Since the rationale of customer retention is that customers are company assets, it follows that staff are as well, in that they provide the service that the customers seek. The staff have views and knowledge which management should value and harness in a number of areas, not least, their experience in retaining customers. Their responses to the first strand indicate mixed perceptions of CR in their FSRs. Furthermore the results from the tests of comparison show that the instrument is capable of distinguishing between the two samples.

CHAPTER 9

DISCUSSION

9.1 Introduction

This exploratory investigation into customer retention (CR) in the retailing of financial services is drawing to a close and this final chapter evaluates the empirical findings of the study against the conceptual frameworks developed in the opening chapters. The data were generated from three samples using a pluralistic methodology so that both qualitative data, derived through induction, and quantitative data based on deduction, together provide a description of how financial service retailers (FSRs) are retaining customers. The chapter opens with a commentary on the findings of the investigation into retaining customers, commenting on where the data converge and depart. This chapter then moves onto an evaluation of the approach used by FSRs in retaining customers and presents practical proposals for retaining customers in the contemporary retailing environment. In conclusion, the limitations of the research and some possible areas for future investigations are proposed.

As related in Chapter 6, the interviews generated six possible themes concerning retaining customers: change and evolution, sales and products, relationships, staff, delivery and information. These themes can be compared with the strands suggested, from a more deductive stance, from the literature and supported by the surveys: corporate, structure and culture, strategy, systems and staff which are detailed in Chapters 7 and 8. Mixing methodologies has produced a revealing picture of how a number of FSRs are getting to grips with the objective of customer retention and which appears to involve them in a profound rethink of how they approach marketing.

9.2 Financial services retailing and retaining customers

A pluralistic methodology for research has the advantage of revealing convergence and divergence between data sources, and here there are many areas where the data, here, reveal quite similar patterns. Overall, the style of marketing practised by the sample members resembles classical marketing, or one based on the four 'p's' of marketing (see 2.3). For example, one of the interview participants described the way that pricing was used in his organisation (see 6.5.2) and his description fitted transactional marketing practices rather than relational. The same informant then went on to talk about branding in his organisation and there seemed to be little consistency between branding and pricing in his description (see 6.5.2). Branding attracts a great deal of interest from the experts (see 7.3.3, item 41) where it appears that it forms an important aspect of retaining customers.

There is, throughout the data, considerable emphasis on product, for example, the interviews described product-driven structures (6.5.2) and the employee survey showed high levels of accuracy for the role of new products in CR (8.4.3, item 15). Developing products with the needs of consumers in mind is axiomatic to marketing and, increasingly, products must offer distinctive value to consumers. FSRs need to ensure that product development enhances their relational strategies, by meeting genuine customer need rather than as the result of a response to competitor action. This emphasis on NPD is, all the more, surprising because service products can be easily replicated by competitors. Genuine product innovation is elusive in the sector.

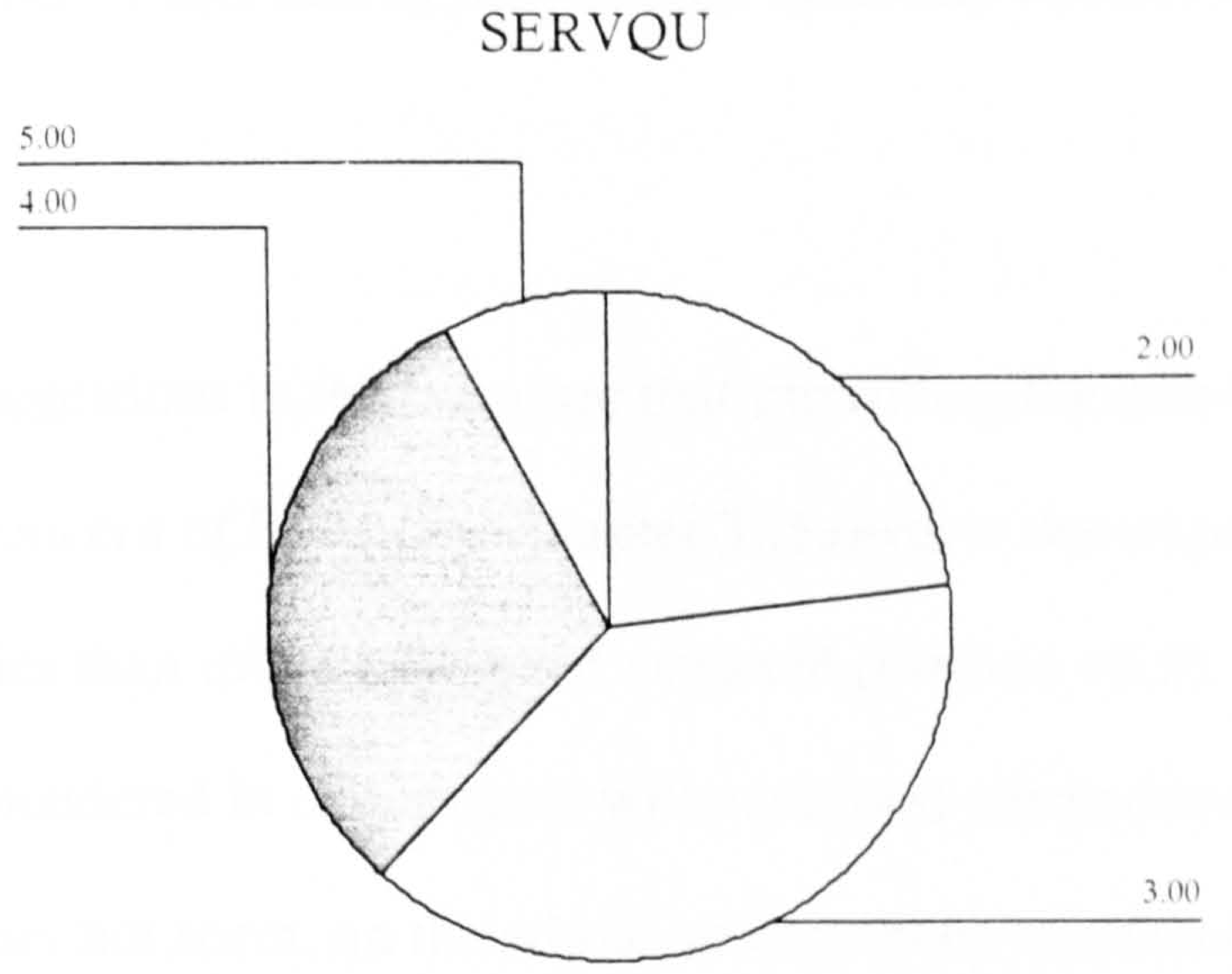
The investigation has discovered that retaining customers is viewed as being largely the responsibility of the customer interface staff (e.g. 6.5.4, 7.3.5, items 64 and 72). The service that is provided at the organisation/customer interface is, undoubtedly, critical if customers are to be retained but, it has been argued, throughout the thesis, that CR consists of a number of strands, such as information systems and corporate direction. An over-reliance on staff, therefore, is likely to cause an excessive workload for them and, in turn, could contribute to weaker relationships with both customers. Not only would this workload erode relationships between staff and customers but also between staff and the organisation that they represent, resulting perhaps in poor motivation. Additional staff issues emerged during the course of the interviews, for example the turnover of senior and managerial staff. It was also mentioned during the course of the interviews that management appointments were often made from within the industry (see 6.5.1). This practice tends to confirm rather than question established patterns of behaviour, and reinforces 'group think'; a situation where there is little diversity of opinion. The similarity between the two samples in the employees' survey tends to reinforce this view, where in spite of the difference in institutions (see Table 8.1), the responses were often very similar.

Rapid staff turnover, reductions in staff numbers and inappropriate reward systems all undermine attempts to retain profitable customers. If staff are to be a principal factor in retaining customers, then they need to be empowered to make appropriate decisions. The data from the expert and employee surveys (7.3.5, item 68 and 8.4.5, item 32) suggest that empowering staff to respond to customer needs has yet to be fully achieved.

The ongoing difficulty with the provision of service quality in FSRs emerges throughout the data. Without ensuring high levels of service quality, which should then lead onto complete customer satisfaction, attempts to retain customers are premature as well as unrealistic. The responses to item 6, in the experts' survey, one of several designed to seek information on service quality- is rather telling, as nearly half of the respondents reply in the category of neither accurate nor inaccurate (see Figure 9.1). The pie chart values are as follows: 5- accurate, 4 partially accurate, 3 – neither accurate nor inaccurate, 2 – partially inaccurate, 1 – inaccurate.

Figure 9.1 Expert responses on service quality

"Our resources are optimised to provide high levels of service quality."



median=3

As the above pie chart shows, only a very small proportion of the experts reply in the accurate category of 5 and the majority reply in the unsure category of 3. This pattern is repeated, to a slightly lesser extent, in the employees' survey (see section 8.4.1, item 3). Service quality is usually considered a hygiene factor or 'dissatisfier' (Johnston 1995), which means that, alone, it does not provide customer satisfaction, however without adequate levels of service quality, customers are unlikely to be satisfied. Repeated instances of poor service quality could result in customer defection, but owing to inertia in the sector, this is far from being the norm.

One of the canons of relationship marketing is the establishment of trust between the partners in the exchange. The data indicate that trust is seen neither by the interview participants nor the expert survey respondent as being addressed (see 6.5.3, 7.3.2, item 21). Long lasting relationships (7.3.3, item 31 and 8.4.3, item 11) can only be achieved if trust exists between the organisation and the customer. FSRs cannot rely on their customer contact staff alone to create trust.

There were suggestions in the literature that improving the cost/income ratio was a prime concern of FSRs (see Chapter 3), however the responses fell into lower categories than might have been expected (median =3.5). This finding can be also considered in conjunction with temporal perspectives. A long-term perspective does not seem, on the whole, to have been embraced by the samples (e.g. 7.3.1, item 5), and this possible short-termism could undermine customer retention, which requires some time for the benefits to be realised. This apparent tension hints at conflicting objectives, for example, the desire to maintain long-lasting relationships with customers but, at the same time, the need to increase the number of products sold (7.3.3, item 7). This point has been discussed earlier in the study (see 4.4) and it would appear that, for FSRs, cross-selling provides the opportunity to overcome the problem of fee-free cheque accounts. However, selling financial services has been fraught with difficulty, and examples range from mis-selling pensions, excessive direct mailing, and the unwillingness of branch staff to engage in selling during routine transactions. The data show that the employees perceive a difference in emphasis from the experts (see 8.4.3 item 16 and 7.3.3, item 39). This may just be a difference between FSRs but it also may show that employees feel pressure on them to sell.

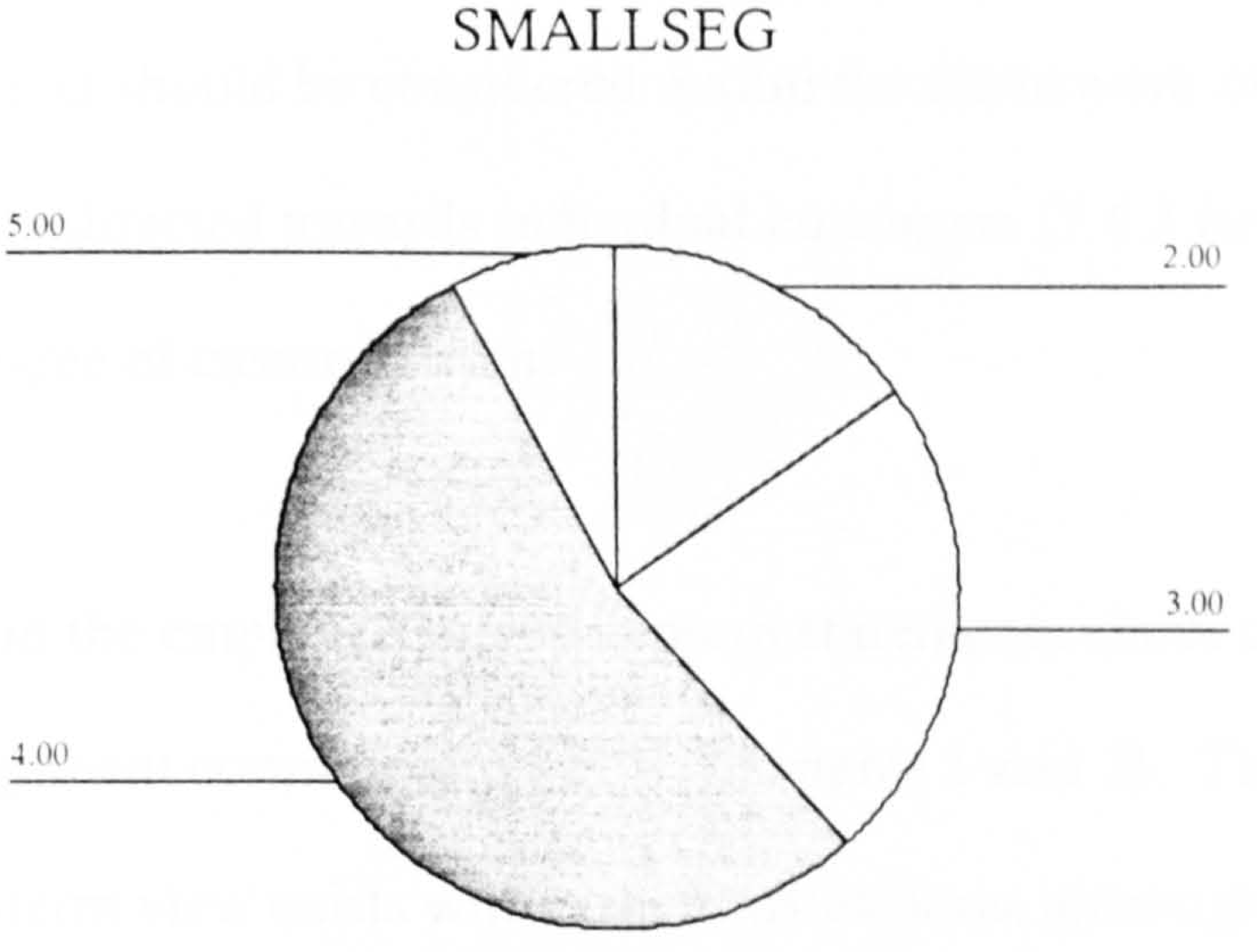
The literature on information systems in financial services refers to the failure of systems to provide adequate support for marketing initiatives and CR (see 4.5.2). The findings from this study show that the information systems in the organisations surveyed can track individual customers and identify micro-segments (e.g. Figure 9.2). The interviews, however, seem to suggest quite profound levels of dissatisfaction from managers with their information systems (see 6.5.6). There is often a time lag between what is required of any information technology and what it can, currently, deliver, so constant upgrading seems to be the only solution. Fast and accurate information systems could also fall into the category of hygiene factors, so that without the bedrock of good customer information, relationships would be hard to build and, hence, customer retention threatened. The interviews and experts' survey reveal possible tension between customer acquisition and retention (see 6.5.1 and 7.3.1, items 3 and 4) as well as uncertainty and marks an interesting point of departure in the data. Differences between the views of the interview participants and the experts and the responses of the employees on senior management commitment to CR were apparent. A much higher proportion of employees replies in the accurate categories than the experts. The two objectives of acquisition and retention are not incompatible, indeed, acquiring and retaining customers are according to Drucker (1963) the very essence of marketing. These objectives, however, do need to be managed by FSRs so that, existing customers are not deprived of benefits offered to attract new customers.

9.3 Successful aspects of retaining customers

The data demonstrate that retaining customers is at a developmental stage in the FSRs in the sample, for example, the interview participants spoke of change (see 6.5.1) and the ability of their organisations to respond to change. FSRs, as many other organisations, have had to respond to profound transformations in their operating environment and their capacity for managing change is going to be one of the most important aspects of their long-term ability to compete in the markets of personal finance. There are indications in all data sets that attempts to gain customer loyalty are being made by tracking customer behaviour and by gathering attitudinal data (e.g. 8.4.3, item 20). This customer-based information forms an essential basis for the building of relationships. There is evidence from all data in the study that relationship marketing strategies have been created, for example through the identification of smaller segments as described in the experts' survey as shown in Figure 9.2.

Figure 9.2 Experts' responses to segments

"Our strategies identify and target increasingly small segments."



median=4

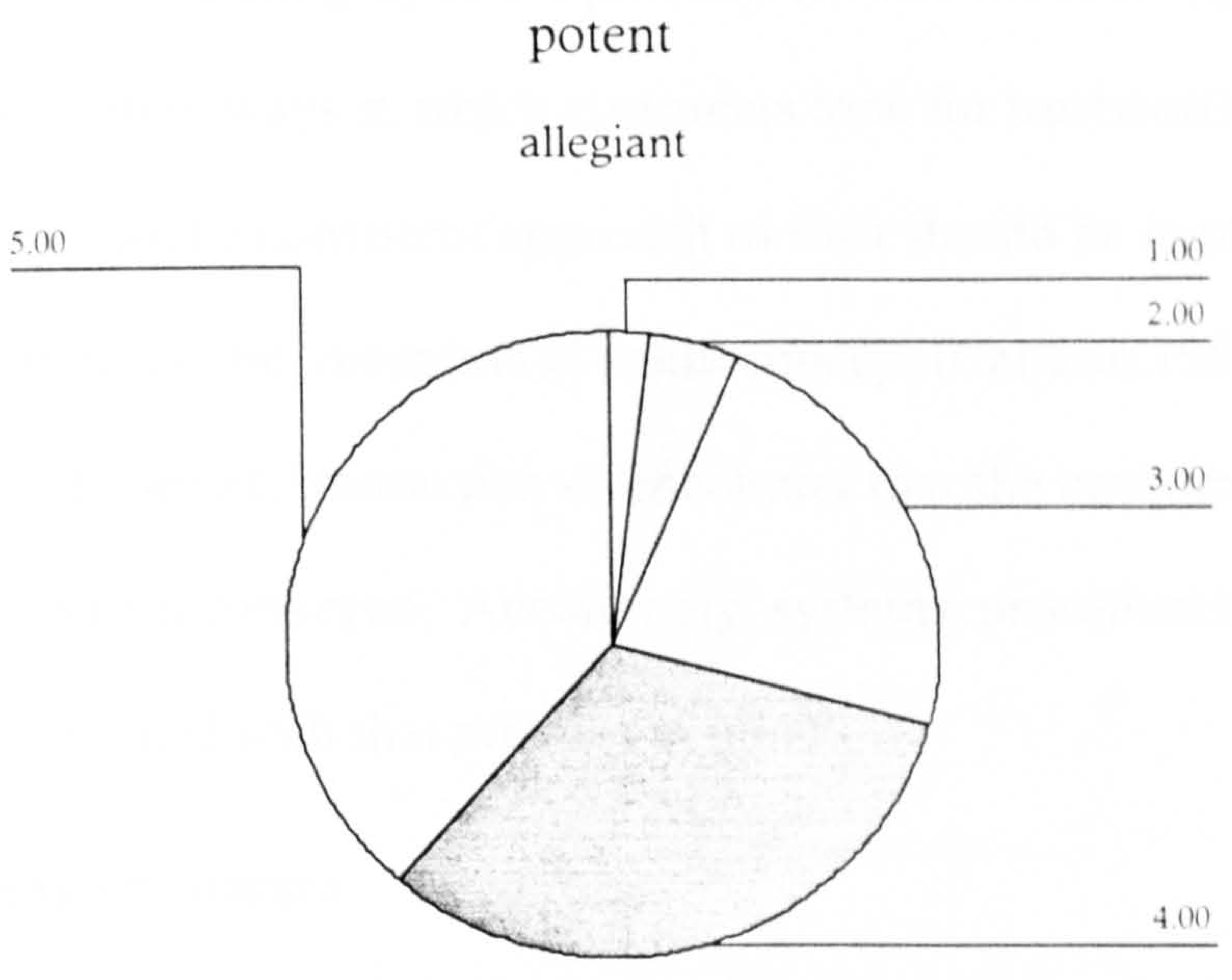
This pie chart demonstrates that well over half of the experts recognise that large segments are fragmenting (sections labelled 4 and 5) and that they are responding to this fragmentation through the identification of smaller segments. Accurate segmentation lies at the heart of relationship marketing as well as relationship banking as through the identification of smaller segments, companies, generally and FSRs in particular, are in a better position to respond to consumer needs. The success of branding their institutions has been recognised by the expert sample (e.g. 7.3.5, item 41), which shows progress in this area, as attempts to develop strong brands, in the past, have been criticised (Devlin et al. 1995). The value of a strong brand does not merely manifest itself in its appeal to customers and external markets, it also can form a plank of internal marketing, by reinforcing organisational values within the company.

Although mass customisation does not appear to be something that these FSRs are considering (7.3.3, item 10) there is considerable support for new product development (see 8.4.3, item 15). As discussed earlier in the chapter, new product development should be considered within the framework of relational exchange. Activity directed towards individual customers (7.4.3 item 40 and 46) indicates a degree of customisation.

The respondents in the employee survey support statements about cooperation and senior management commitment (see 8.4.1, items 1 and 2). They also think that a long-term view exists within their institutions, although this view is not supported by data from the interviews and the experts (see 6.5.1 and 7.3.1, item 5). A further point that provoked varied responses from the data sources is the whether the FSRs are customer-centric, or in other words, have a strong customer focus. The employees' survey indicates that the respondents take the customer view very seriously, but the experts' survey does not convey the same message (see 7.3.2, item 29). Senior management would seem to need to convey support of customer retention to all levels of the organisation and reinforce this message, perhaps, through allocation of appropriate resources. Information systems would be a worthy recipient of resources. The data suggest that the systems are able to supply some of information in support of customer retention, for example, findings in the employee survey reveal that potentially profitable customers can be identified (see Figure 9.3) to some extent.

Figure 9.3 Allegiant employees' response to identifying profitability

"We can identify customers who have the potential to be profitable"



median=4

Nearly two thirds of the respondents reply in the partially accurate (4) or accurate (5) categories to this statement. As customers become increasingly multi-banked, holding on to those customers who are likely to generate revenue is a necessary objective. Cross-selling appears to be a pre-occupation of the experts (see 7.3.1. item 7), but will only be successful if linked to good information within a relational marketing framework.

The existence of trust and commitment between partners in a relationship is thought to be essential (e.g. Garbarino and Johnson 1999). According to the findings, staff appear to be well aware of the importance of inspiring trust in their dealings with customers (8.4.5, item 33). Trust becomes even more important in the provision of some financial services, which, in the case of pensions and insurance, could fall into the category of credence offerings. These offerings are consumed because of a belief and trust in the professionalism and integrity of the provider (Gabbott and Hogg 1998). There are, however, other ways in which customers look for trustworthy behaviours from providers and a consistent approach to trust should be in place. FSRs could bear in mind the 'moments of truth' concept (Carlzon 1987) so that, at every point of contact, transaction or encounter that the consumer has with the institution, trust is conveyed. Accordingly, systems, procedures and products have to be designed with that premise in mind.

9.4 Areas for concern

Although there is sufficient evidence to suggest that FSRs are adopting a number of appropriate measures for retaining customers, there are, equally, in the findings, instances of behaviours that might undermine CR. Figure 3.2 illustrated that offering current products to existing customers, or to cross-sell, is a sensible choice in current market conditions. In order to achieve this goal however, customers need to be in a situation to be offered these products, and this is usually when they are in a relationship of some sort with the provider. However, this strategic option needs to be considered within the framework of relationship building that FSRs are keen to achieve. Relationship marketing requires a number of additional measures as discussed in Chapter 4, not least the adoption of a long-term perspective. Firstly, the provision of service quality and the satisfaction of customers, repeatedly, contribute significantly to long lasting relationships. There is in the data indications of an over-reliance on staff in retaining customers and FSRs must reconsider the role of staff here. This research has identified four other strands of CR that should be developed by management so that staff are not over-burdened.

The data reveal some possible weaknesses in FSR structure and culture for successful retention of customers (e.g. 8.4.2), where the responses from the staff appear somewhat contradictory. Although both samples indicate that levels of cooperation are high (median=4), this might be an indication that personal interaction is compensating for structural weaknesses. Ultimately the structure of an organisation should support its objectives and strategy. Large traditional providers of financial services, and both these providers have at least one million customers and an extensive branch network, may be rather 'slow in the water', a metaphor to suggest that they are not well equipped to deal with rapid environmental change, which includes postmodern consumer (see Table 3.1, p55).

FSRs may feel complacent about retaining customers, as customers are not yet leaving in sufficient droves, but as stated in Chapter 3, customer mobility is a growing feature of the financial services marketplace (see 3.5). Bankers, themselves, have been warned that customer inertia is disintegrating (Sweeney 1999). To counter fragmenting markets, there is a need for marketing strategies, which focus on micro-segmentation (e.g. Storbacka 1997) and innovative measures of satisfaction and dissatisfaction. Strategies require fertile ground if they are to be implemented successfully end there are indications in the data that FSRs lack a sharp customer focus (e.g. 7.3.2, item 29). This has been an ongoing problem within the sector that has been highlighted in the literature (e.g. Meadows and Dibb 1997). Senior management commitment to CR is essential (Reichheld and Kenny 1990) and, as discussed in the previous section, the data reveal some discrepancies, with managers expressing some doubt about the commitment of their superiors to CR. One of the interview informants spoke of management 'lip-service' to CR (6.5.1).

Growing consumer ease with financial services and the ready availability of advice from the press and web sites undermine the dependency of consumers on 'their' bank. They are free to hunt for products that offer the best value from a growing number of competing providers. There is a danger that traditional providers may lose the kind of business that generates profit, so that they are left with either offering low profit products, such as cheque accounts, or serving unprofitable customers, or in a worst case scenario, both.

The reported problems with information systems that occur, repeatedly, in the data (e.g. 6.5.3 and 7.3.4, items 55 and 57) may, in part, be attributable to the systems being configured inappropriately for retaining customers. Many information systems were initially designed from a traditional banking perspective with accounts being organised by number rather than by customer and severely inhibited attempts at relationship marketing (Dawes and Worthington 1996). Although considerable investment has clearly been made, in the interim period, in information systems, they may have been configured with customer acquisition in mind rather than retention. There may be a period of adjustment and investment during which information systems need to catch up with changing objectives.

Although, trust was mentioned earlier in the chapter as an area that FSRs appear to have addressed, the data suggest that it may equally be a subject for reflection. If staff are to be relied upon to build relationships that are based on trust and commitment, then they, in turn, should feel that they can trust management. Job losses and restructuring continue to be a feature of financial services, for example, Royal Sun Alliance has very recently shed over 1000 employees, and employees may find that displaying trustworthy behaviours to customers difficult, when their own jobs may be insecure. Furthermore, rapid staff turnover impairs organisational memory so that staff who have recollections of good practice, procedures and customers are no longer on the payroll.

9.5 Extending the scope of the research

The preceding discussion suggests that there are challenges that the FSRs in the samples face in furthering their plans to retain customers. This section provides some areas drawn from the findings of this study that may have application or relevance to a wider number of FSRs. The use of Ansoff's matrix (Figure 3.2) has provided an illustration of possible responses to current conditions for the moment and demonstrated that CR had some legitimacy as a business goal. It is, however, a classical marketing model, designed over 40 years ago, probably with the marketing goods rather than services in mind, and when market conditions were, perhaps, more stable than they are today.

The traditional FSRs that took part in the experts' survey have diverse portfolios with quite distinct customer groups (see Table.7.1). A question for FSRs to ask themselves in this position, again it is not a new one (Levitt 1965), is what business are they in? Instead of pursuing the sales-driven approach, which emerged during the interviews (see section 6.5.2), FSRs might reconsider within a creative context the offerings that they provide and the groups that they serve. The results from the experts' survey are suggestive of a product-oriented structure with an emphasis on sales. There would appear to be doubt among the experts, that their strategies are appropriate for the 'new' consumer (7.3.1, item 10). Strategies could then accordingly then be based around the customer's viewpoint, which might include stronger and more effective brands to support the role of branding in retention (7.3.2. item 41). This customer-based approach to strategy might mean that pricing decisions, in turn, were in-line with branding. The pricing and branding strategies described by one of the interview informants seemed to be inconsistent (6.5.2). FSRs pursuing a similar path, could then avoid using price as a means of gaining business (see 6.5.2). Customer-driven strategies will allow them to shift away from the product-driven outlook that was exhibited in the interviews and the experts' survey.

The issue of trust perhaps needs to be addressed in a more forthright and transparent manner (see 6.5.3, 7.3.2 item 21). Building societies, for example, could reflect upon how successfully they have translated the concept of mutuality into benefits for customers of financial services. The theme of consumer behaviour has been constant in this investigation (e.g. 7.3.1), which suggests that the dynamics of customer loyalty could be examined more closely. There would appear to be linkages in the literature between retention, loyalty and branding which have yet to be fully absorbed by the FSRs participating in this study.

Continuous investment in information systems is required so that synergy between staff and information/delivery can be maximised in order for customers to receive dependable service. In spite of the enthusiasm for alternative channels displayed by the experts (7.3.2, item 28), consumers should choose the channel that they prefer. Virtual banking may not suit all the segments that FSRs want to target. In spite of its low costs, no advantage can be gained if customers prefer to bank through other channels. In promoting virtual banking, FSRs need to ensure that it is an attractive, reliable and offers significant benefits for customers to switch to it.

The findings suggest that FSR management could also begin to think about how their culture and structure support their marketing strategies as their traditional hierarchies and outlooks may not be changing to meet their objectives (7.3.3, item 24). Similarly, reflection on the degree to which customer centricity figures in the strategic development may also be advisable (7.3.3, item 29). Structure also needs to be configured to address market changes, rather than traditional models developed when corporate objectives differed and markets were less fragmented. Questions of culture should then lead onto the nature of the relationships with customers, in particular, whether power in the relationship is equally distributed. The nature of financial products can mean that customers do not fully grasp all the detail and rely on the provider to offer a full explanation. Complete transparency and long-term fulfilment of promises have not always been evident from FSRs and may have had an impact on product design.

During a period of change, which FSRs are clearly experiencing according to the interview data, it is understandable that there may be some uncertainty. The role of senior management, in these circumstances, is to convey clear messages to all staff about their direction. Drucker's (1963) assertion that marketing's goal is to attract and retain customers is a reminder to FSRs to attempt to find some equilibrium in their efforts. Offering enhanced rates for a limited time on savings accounts could convey the message that a customer, once acquired, is less highly regarded after the enhancement period. Internal marketing can assist in managing change, so that all staff can be made aware of the power of the postmodern consumer in the marketing exchange and so address any gap in understanding. Furthermore some benefit may be gained by appraising the activities of other retailers, for example it may be advantageous to appoint managers from other areas of retailing. Since there appears to be some doubt over the levels of commitment of senior managers to CR, appointments to senior levels could be made so that marketing had a higher level of exposure than it currently has. The turnover of managers could be reviewed to try and achieve some reduction. To lower customer churn it may be necessary to lessen managerial turnover, as organisational stability may be one way of responding to instability in the marketplace.

9.6 Limitations and further research

The nature of this study has been exploratory and, therefore, a number of questions have arisen. This exploratory research, through its pluralistic approach, suggests that retaining customers is multi-faceted and incorporates a number of inter-related organisational strands. The survey data suggest that these are: clear corporate support, relationship-building strategies, accurate and sophisticated information systems, a customer-driven culture and structure and staff. Future investigations using a qualitative approach would provide deeper insight into any of the stands of customer retention identified in this study. Narrative style research that recorded perceptions of staff and senior management would provide a rich picture of reflections and feelings. On the other hand, a quantitatively driven survey-based investigation involving more FSRs may reveal wider differences between FSRs or, indeed, confirm the strands of CR supported by this study.

There are a number of related areas that would shed light on the retaining customers in financial services such as customer loyalty. Dick and Basu's (1994) conceptual study requires supplementing and updating, and research to discover whether it has application to financial services. Although there has been extensive research into relationship marketing, the nature of relational exchanges within financial services requires sustained investigation. The prime question, which has already been raised, is the relevance of relational exchange in to all consumer situations (see 4.4). Research into this area should provide some insight into whether the pursuit of relationship building by FSRs is worthwhile from the consumer's perspective. The phenomenon of customer inertia (Knights et al.1994) in financial services could be revisited to explore the current states of inertia or, indeed, customer mobility in the sector. Since successful retention is likely to be dependent on a thorough understanding of consumer behaviour, the study by Beckett et al. (1999) can be built on.

Achieving an appropriate balance between customer retention and customer acquisition has emerged as being of considerable relevance to this research. It should be possible to acquire new customers and retain existing ones, but there are a number of strategic issues that need to be addressed, for example allocation of resources, which would need to be based on accurate customer information. The experts responded affirmatively to the growth of IT at the customer interface (Table 7.3) but at the same time indicated that the branch has a role of some sort to play for the time being, the potential for virtual banking remains unclear. More work on studies of consumption and consumer behaviour in a virtual environment is needed to discover whether on-line consumption is distinct from more traditional consumption, usually based on personal interaction.

These data were generated by samples drawn from financial services, however, there is a basis for believing that many other retailers face similar conditions, for example severe competition and 'mercurial' consumers (Venkatesh 1992). The research into retaining customers can be extended firstly into other areas of financial services such as insurance companies as well as other retailers such food and clothing. Department stores, for example, share some characteristics with banks such as a diverse product range and a well-established presence on the high street. This research indicated that retention was being developed and further work may show that progress has been made and that there are fewer areas of concern for FSRs.

There is evidence in the study to suggest that FSRs may require a sharper customer focus or be more customer-centric. The broader question of exactly how customers consume financial services would yield information that would allow FSRs to get closer to their customers. Allied to this point is the issue of service quality which so benights the delivery of financial services. Traditional views of service quality concentrate on staff training and empowerment, often within a personal service encounter. Again the postmodern scenario (Table 3.1) prompts a rethink, which could involve research into how consumers consumer financial services. ATM's brought about a major change in branch based banking, telephones and the internet have engendered call centres which many customers have willingly embraced. Service quality may consist of new dimensions, which should form the basis for research and one obvious starting point would be call queues and loading times for home pages. Retaining customers, in all likelihood, does involve retaining staff but it also involves identifying those staff who are vital in achieving this goal, which might be IT staff with a good understanding of consumer behaviour.

9.7 Conclusion

As argued this study was based on traditional financial service retailers that serve a heterogeneous marketplace with a variety of offerings in a highly competitive industry. This study has shown that there are a number of measures that FSRs are adopting to minimise customer defection. The use of differing samples and data generation has revealed some discrepancies in the picture. One of the more noticeable is the ambivalence of senior management towards the retention of customers. As McKenna (1988) pointed out some time ago pursuit of market share and the appearance of new customers on the balance sheet look immediately attractive and are a measure of short-term success. Retaining customers requires a longer-term perspective that can be difficult to sustain in turbulent times. A clear indication of the kind of conflict that exists is the problem with service quality that recurs throughout the data. In making efforts to retain customers, there seems to be some tension between retention and acquisition. Furthermore, many of the systems, structures and even thinking may be geared to customer acquisition and that some adjustment (7.3.2. items 20 and 24) is being undertaken. The importance of being customer centric, or, in other words, having a clear customer focus throughout the organisation, which is regularly reinforced through well articulated internal marketing, is indispensable.

APPENDIX A FINANCIAL SERVICE RETAILERS

Drawn from Council of Mortgage Lenders (Directory of Members, March, 1996) and Key Note Retail Branch Banking 1997 All organisations have a national or significant regional presence with branches on high streets

Abbey National plc
01908 349170 Rosemary Haddon, Customer Relationships
MILTON KEYNES, Bucks

Alliance and Leicester Personal Finance Limited
0116 272 3441 Jackie Quilter
Heritage House, 61 Southgate, LEICESTER LE1 5RR

Bank of Scotland
0131 317 6617 David Elder, Director of Operations
Centre Bank, Cheviot House, Guyle Cres, EDINBURGH EH12 9DR

Barclays Bank
01203 534082 Andy James
PO Box 120, Longwood Close, Westwood Business Park
COVENTRY CV4 8JN

Birmingham Midshires Building Society
01902 710710 Tim Crowley
PO Box 81, Pendeford Business Park, Wobaston Road, WOLVERHAMPTON
WV9 5HZ

Bradford and Bingley Building Society
555687 Jason Gaunt
PO Box 88, Crossflats, BINGLEY BD16 2UA
01274 555373

Bristol and West Building Society
0117 943 7117 Martin Palmer, Business Planning Development
PO Box 1046, Corn St, BRISTOL BS99 1UG

Britannia Building Society
01538 399399 David Crawshaw
Britannia House, LEEK ST13 5RG

Chelsea Building Society
01242 521 391 R Bestall, Research and Product Development
Thirlestaine Hall, Thirlestaine Way, CHELTENHAM, GL53 7AL

Cheltenham and Gloucester Building Society
01452 373653 Tim Wood, Investment Marketing Officer
Barnett Way, GLOUCESTER GL4.
Clydesdale Bank

0141 248 7070 Jim Sharp, Marketing Manager
150 Buchanan St, GLASGOW G1 2HL

Co-operative Bank plc
1 Balloon St, MANCHESTER M60 4EP
0161 832 3456 Nick Bowyer
fax 0161 834 6018

Co-operative Insurance Society
0161 837 4093 Gideon Ingham, Marketing Research Manager
Miller St, MANCHESTER M60 0AL

Coventry Building Society
01203 643545 Louise Hollings
Economic House, PO Box 9, High St, COVENTRY CV1 5QN

Derbyshire Building Society
01332 841 000 Juliet Oakley, Marketing Communications
PO Box 1 Duffield Hall, Duffield, DERBY DE56 1AG

Halifax Building Society
01422 333 333 Jonathan Marsh, Manager Customer Targeting
Trinity Rd, HALIFAX HX1 2RG

HFC Bank plc
01344 890 000 Liam Henry
North St, Winkfield, WINDSOR SL4 4TD

Leeds & Holbeck Building Society
0113 245 9511 David Pickering, Marketing Manager
105 Albion St, LEEDS LS1 5AS

Lloyds Bank
01179 433962 Adrian Presland, Assistant Manager, Customer Development
PO Box 112 Canons Way, BRISTOL BS99 7LB

Midland Bank plc
0171 260 8000 Steve Britain, Senior Product Manager,
10 Lower Thames St, LONDON EC3 6AE

National Westminster Bank plc
0171 374 3524 David Palmer & Ian McNamara, Manager Marketing Modelling & Analysis
1st Floor, Fenchurch Exchange, 8, Fenchurch Place, LONDON EC3 4PB

Nationwide Building Society
01604 495353 David Hole, Snr Mgr Customer Retention
Nationwide House, Pipers Way, SWINDON SN38 1NW

Northern Rock Building Society

0191 285 7191 Andy Kuypers, Asst General Manager Marketing
Northern Rock House, Gosforth, NEWCASTLE NE3 4PL

Northern Bank
01232 245277 Kieron McCollough, Customer Services
PO Box 183, Donegal Sq West, BELFAST BT1 6JS

Portman Building Society
01202 292 444 Helen Bath,
Aylesbury Court, MARLBOROUGH SN8 1AA

Royal Bank of Scotland
0131 556 8555 Ian Wilson, Manager Operational Research
Retail Banking, Fourth Floor, 31 St Andrews Sq, EDINBURGH EH2 2YE

Skipton Building Society
01756 700 500 Sarah Strickland, Customer Services
The Bailey, SKIPTON BD23 1DN

TSB Bank plc
0121 600 6020 Geoff Booth, Snr Manager Customer Care [*]
PO Box 6000, Victoria House, Victoria Square, BIRMINGHAM B1 1BZ

Woolwich Building Society
0181 298 5000 Toby Beddoe, Direct Marketing Manager
Corporate Headquarters, Watling St, BEXLEY DA6 7RR

Yorkshire Bank plc
0113 231 5370 Paul Robbins, Distribution and Planning
Brunswick St, LEEDS LS 2 8NG

Yorkshire Building Society
01274 740 740 Mark Stanistreet, Direct Marketing Manager
PO Box 66, BRADFORD BD5 8YQ

APPENDIX B INTERVIEWS

1 Interview plan

Background information about organisation and respondent

- interpretation of customer retention (contract/client)
    - stopping customer defection
    - offering price incentives
    - cross selling
    - building relationships

- exploration of loyal and profitable customers

- how are trust and commitment inspired?

- cultural and orientation
    - traditional
    - formal
    - customer-driven or product-driven

- structure of organisation and responsibilities of retention mgr/staff

- staff issues connected with retention strategy e.g. incentives and redundancies

- distribution channels

- branding

- overriding occupations of senior management

- organisational learning with reference to marketing

- staff development and responsibilities

- information system capabilities

2. Initial interview themes

1. Change
   - Evolving
   - Genuine desire
   - Reactive

Defection spotting

2. Marketing efforts
   - Retention
   - Acquisition
   - Branding

3. Product-led
   - new product development
   - product managers

4. Sales
   - selling
   - incentives
   - branch staff

5. Targeting
   - socio-demographic
   - mailings
   - system deficiencies

6. Lowering costs
   - staff reductions
   - branch closures
   - telephone banking – other channels

7. Staff
   - service quality
   - training emphasis
   - reliance

8. Information systems
   - databases
   - integration

APPENDIX C

Would you please read the following statements and circle a number which most closely reflects the situation in your organisation according to the following descriptions

5 -completely accurate
4 - accurate
3 - neither accurate nor inaccurate
2 - inaccurate
1 - completely inaccurate

Complete confidentiality is assured

Section 1 Corporate Concerns

Senior management fully understands and supports customer retention	5	4	3	2	1
Improving cost/income ratio is the most important business objective for us at present	5	4	3	2	1
We consider ourselves to be flexible and responsive to change	5	4	3	2	1
There are organisational barriers to plans for customer retention in this institution	5	4	3	2	1
We see the role of IT at the customer interface as increasing	5	4	3	2	1
There has been major investment in customer information systems in our organisation	5	4	3	2	1
We can best achieve growth by acquiring new customers	5	4	3	2	1
The bulk of our activities is directed towards keeping existing customers	5	4	3	2	1
We adopt a long-term perspective on investment eg retention programmes	5	4	3	2	1
We all work towards creating satisfied customers	5	4	3	2	1
We are largely organised along product lines	5	4	3	2	1
Our resources are optimised to provide high levels of service quality	5	4	3	2	1

The development of the customer information system is bringing about some structural readjustment in the organisation	5	4	3	2	1
We actively address the need for inspiring trust in our customers	5	4	3	2	1
Our institution has a single manager responsible for customer retention/loyalty across all product lines	5	4	3	2	1
Our aim is to increase the number of products sold to selected customers	5	4	3	2	1
Measuring lifetime value of a customer is consistent with the strategic objectives of the organisation	5	4	3	2	1
Senior management recognises that customers have diverse and individualised needs	5	4	3	2	1
Our strategies reflect that that it is becoming increasingly difficult to predict customer behaviour	5	4	3	2	1
Senior management regards customer retention as being the most effective way to improve profitability in the long term	5	4	3	2	1

Section 2 Marketing Strategies

We seek to build long lasting relationships with selected customers	5	4	3	2	1
Learning how to manage our share of the customer's wallet is of key importance	5	4	3	2	1
The branch will continue to be a key channel for reaching our customers	5	4	3	2	1
Our strategies identify and target increasingly smaller segments	5	4	3	2	1
Our organisational/marketing structure is aligned to the needs of our chosen market segments	5	4	3	2	1
Our aim is to increase the number of products sold to selected customers	5	4	3	2	1
Direct mailing offers us a more effective method of communicating with our customers than press or television advertising	5	4	3	2	1
We may wish to let unprofitable customers go	5	4	3	2	1

We recognise that different market segments may require specific offerings	5	4	'3	2	1
There are steps in place to arrest defection of desirable customers	5	4	3	2	1
Our segmentation strategies are based on an analysis of consumer behaviour	5	4	3	2	1
We view new product development as vital in retaining customers	5	4	3	2	1
We offer or plan to offer financial inducements to customers to stay in the relationship	5	4	3	2	1
We develop retention skills at customer points of contact	5	4	3	2	1
Selling more products to selected customers is a prime objective	5	4	3	2	1
We can tailor products to meet individual customer needs	5	4	3	2	1
Providing reassurance to customers is part of our relationship training	5	4	3	2	1
We consider our brand is an important element in customer retention	5	4	3	2	1
Our levels of service quality ensure that our customers stay with us	5	4	3	2	1
We are establishing criteria for identifying profitable customers over a period of time	5	4	3	2	1
We generally receive co-operation from colleagues elsewhere in the institution in implementing retention plans	5	4	3	2	1
We reward or plan to reward loyal and profitable customers	5	4	3	2	1
Each product line has its own retention/loyalty manager	5	4	3	2	1

Section 3 Tactical Matters

We can segment our customers into readily targetable groups	5	4	3	2	1
We offer price inducements to attract new customers	5	4	3	2	1
Our resources ensure that we provide a dependable service for our customers	5	4	3	2	1

We incorporate "attitude" as a segmentation variable	5	4	3	2	1
We are able to identify customers who may be on the point of defection	5	4	3	2	1
We have made radical changes to our information systems in order to build relationships with customers	5	4	3	2	1
We know we respond satisfactorily to customer needs	5	4	3	2	1
We can identify customers who have the **potential** to be profitable	5	4	3	2	1
Our information systems are seen principally as improving cross-selling opportunities	5	4	3	2	1
Our staff have the necessary skills for building relationships	5	4	3	2	1
Our systems can track the lifetime value of our customers	5	4	3	2	1
We assess the loyalty of a customer on the number of products held continuously	5	4	3	2	1
Our customer information place our customers into standard segments eg geo-demographic	5	4	3	2	1
The development of our customer information system lacks status in the organisation	5	4	3	2	1
What we would like to achieve in terms of customer retention is thwarted by the limitations of the information systems	5	4	3	2	1
Our customer information systems will expand in line with providing an increased array of automated services	5	4	3	2	1
Alternative channels will gradually replace branch business in this institution eg the telephone	5	4	3	2	1
There are plans to encourage customers to use IT driven channels	5	4	3	2	1
Our retention plans include recognising and address **individual** customer requirements	5	4	3	2	1
Staff are aware of and understand the development of the customer information system	5	4	3	2	1

Staff are being trained to link in with the customer information system development	5	4	3	2	1
We connsider that we understand the customer's point of view	5	4	3	2	1
Staff can add value by taking action on individual customer needs	5	4	3	2	1
Senior management fully acknowledges the role of front-line staff in customer retention	5	4	3	2	1
We can lower costs by developing our customer information systems	5	4	3	2	1
Front-line staff are empowered to make decisions about meeting customer needs	5	4	3	2	1
Staff know they need to inspire trust and commitment in customers	5	4	3	2	1
Staff are responding positively to the requirements of the customer information systems	5	4	3	2	1
Information collected by staff at point of contact is collected and entered on the customer information system	5	4	3	2	1
We offer incentives to our front-line staff for meeting sales targets	5	4	3	2	1
Staff are encouraged to act to 'recover' situations where customers are dissatisfied	5	4	3	2	1

APPENDIX D EMPLOYEE, LETTER, SURVEY AND PRIZE DRAW FORM

Dear (*name*)

Retaining Customers

I am currently studying for a postgraduate degree and the theme of my research is how financial service retailers are attempting to retain customers. I need to ask a range of employees, whatever their job, in banks and building societies about how they see their organisation managing the retention of customers. In order to do this, I have prepared this questionnaire which takes about 10 minutes to complete.

I would be extremely grateful if you would read the statements in the questionnaire and circle the number that most closely reflects the accuracy of each statement at your place of work. There are two further questions at the end asking which type of financial service retailer you work for and whether you deal with customers directly. Please try to complete the whole questionnaire, but if you do not want to give any details about yourself just leave the last section out. Your responses are all very important even if you may not be familiar with some of the statements.

As you are undoubtedly very busy, I am offering a prize of a bottle of "bubbly" to one lucky respondent who completes and returns the questionnaire. If you wish to be entered for the prize draw, please fill in your details on the enclosed prize draw form and return it with your completed questionnaire in the reply-paid envelope. I will separate questionnaires and forms before analysing the results so that the completed questionnaires cannot be linked in any way with any particular person. One name will be drawn and the lucky winner will be contacted in September so that he or she can be given the "bubbly".

All returned questionnaires will be treated with the greatest confidentiality. Remember that I will have no way of identifying that you have responded, unless you have chosen to give me your name. I want to know your honest opinion. Rest assured that your employer will not have access to any completed questionnaires or have any idea about who has said what.

I am most grateful for your time and effort.

Jillian Dawes
Northampton Business School

The following statements all represent some aspect of customer retention in financial services retailing. As a staff member, your understanding of customer retention is very important whether you have direct contact with customers or not. Would you please read each statement and then circle the number that most closely describes the situation in your bank or building society. The following descriptions apply to each number:

1 - wholly inaccurate
2 - partially inaccurate
3 - not certain
4 - partially accurate
5 - wholly accurate

For example if you think that Question 1 is wholly accurate, please circle 5 or if you do not know, circle 3.

"We", as used in the statements, refers to the organisation as a whole.

DIALOGUE

This section is about the linkages between the organisation and its customers

1. We seek to build long-lasting relationships with selected customers	1	2	3	4	5
2. Learning how to manage our "share of the customer's wallet" is of key importance	1	2	3	4	5
3. We recognise that different customer groupings may require different products	1	2	3	4	5
4. One way we divide up our customer base is according to an analysis of consumer behaviour	1	2	3	4	5
5. We view the development of new products as vital in retaining customers	1	2	3	4	5
6. Selling more products to selected customers is a prime objective of the organisation	1	2	3	4	5
7. We already reward or plan to reward loyal and profitable customers	1	2	3	4	5
8. We assess the loyalty of a customer on the number of products that he or she holds over a period of time	1	2	3	4	5
9. Our customer retention plans include recognising and addressing individual customer requirements	1	2	3	4	5
10. We collect information on customer "attitudes" for relationship building	1	2	3	4	5

INTERNAL

These statements refer to organisational aspects of customer retention

11. There are all sorts of barriers which obstruct customer retention within the organisation	1	2	3	4	5
12. The structure of the organisation helps us meet the needs of our chosen customer groups	1	2	3	4	5
13. All staff co-operate closely to retain customers	1	2	3	4	5
14. Management respect and respond to staff views on customer retention	1	2	3	4	5
15. Understanding the customer's point of view is taken very seriously by all staff	1	2	3	4	5

DIRECTION

This section is concerned with the overall approach to customer retention in your organisation.

16. Senior management make it clear that they fully understand and support customer retention	1	2	3	4	5
17. The organisation as a whole takes a long-term view on customer retention	1	2	3	4	5
18. We can provide high levels of service quality because the resources are there in support	1	2	3	4	5
19. Senior management regards customer retention as being the most effective way to improve long term profitability	1	2	3	4	5
20. We pride ourselves on offering a dependable service to our customers	1	2	3	4	5

SYSTEMS

This section refers to information systems support for customer retention

21. We are establishing a basis for identifying profitable customers	1	2	3	4	5
22. We can divide up our customer base into easily targetable groups	1	2	3	4	5
23. We are able to identify customers who may be on the point of defection					
24. We have made radical changes to our information systems so that we can build relationships with customers	1	2	3	4	5
25. We can identify customers who have the potential to be profitable	1	2	3	4	5
26. Our systems can track the lifetime value of our customers	1	2	3	4	5
27. What we would like to achieve in terms of customer retention is limited by our information systems	1	2	3	4	5

STAFF

These statements refer to the role of all staff in retaining customers, not necessarily just those who have regular customer contact.

28.We are all aware how important it is to retain customers	1	2	3	4	5
29.We know how important it is to provide reassurance to customers	1	2	3	4	5
30.We provide such good service quality at all times that customers stay with us	1	2	3	4	5
31.We know it is important to have the skills for building relationships with customers	1	2	3	4	5
32.We can all make decisions about meeting customer needs	1	2	3	4	5
33.We know we need to inspire trust and commitment in customers	1	2	3	4	5
34.We are encouraged to act to "recover" situations where customers are dissatisfied	1	2	3	4	5

Thank you for responding to these statements.

If you do not want to answer these questions, just return the questionnaire as it is, the information is still valuable

- Please circle which type of organisation you work for
  - clearing bank
  - building society
  - organisation which has converted, is in the process of conversion, merger or take-over.
- Do you have regular contact with personal banking customers? Yes/No
- Are you male or female? M/F
- Which age category best describes you?
  - Under 30
  - Between 31 and 40
  - 41 or over

Thank you so much for your valuable time and co-operation

If you want to enter the draw, make sure that you complete the prize draw form and return it with the questionnaire in the reply-paid envelope.

PRIZE DRAW FORM

Name

....

Home address

....

....

....

....

Contact phone number

....

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