



## **CUSTOMER RETENTION: A STUDY ON INDIAN BANKS**

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### **Abstract**

The main purpose of this study is to examine how customer retention is affected by the factors of customer retention. A structured questionnaire was distributed to banking customers based on demographics (gender, age, marital status, education, occupation and, income level) in National Capital Territory. Data was successfully collected from 500 respondents who have either saving account or current account or both. Respondents' opinion on 20 items related to customer retention was obtained. Factors of customer retention were categorised into four main groups i.e. tangible, reliability, responsiveness and assurance & empathy Factors. Further multiple-regression analysis was used to measure the factors of customer retention and their impact on customers' retention decision. After multiple-regression it was found that 'Within Timeframe Service Delivery', 'Sincere Efforts in Solving Customer Problems' and 'Accepting & Resolving Faults' are the most important factors which affect customers' retention intention.

**Keywords:** Customer Retention; Banking Customers; Service Delivery; Customer Problems.

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### **1. Introduction**

India is second most populated country with seventh place in land holding in the world. Social, economic and geographic characteristics of India are different from that of other Asian countries which makes Indian banking sector unique as compared to its Asian counterparts. Customers are in better position to compare the services offered by different banks, if they get better services from competitor bank; they are prone to switch to other bank. Globalisation of banking sector has also added some fuel to this completion because with globalisation Indian banking sector is more open and exposed to the international competition. Now Indian banks are facing a great challenge to attain operational efficiency to sustain in the global competition. To face and counter the challenges caused by international and domestic banks and compete with international players Indian banks have to adopt a customer centric approach which should be

mainly focused on building and deepening the relationship with their customers (Roy and Shekhar, 2010). The inevitable evolution of larger markets forced by competition has made the customer ultimate beneficiary and at the same time it has made it for banks to retain their customers in the process of market development (Vinita Kaura, 2013). Therefore, a significant improvement in profitability can be witnessed with a small reduction in the rate of customer defection. Firms gain not only financial benefits by retaining the customers, but they also get some non-financial benefits because satisfied and loyal customers will spread positive word-of-mouth publicity which further helps in attracting new customers.

To retain customers in service industry the organisations must be customer focus, which will improve service quality and consequently will be successful in retaining their customers. Establishing successful relationships plays a great role in improving organisation's performance by contributing considerably towards loyalty, and retention with customer satisfaction (Reichheld and Sasser, 1990; Rust and Zahorik, 1993). Behaviour and the level of motivation of staff also have some importance in respect to retention because satisfied employees tend to deliver better quality services. Effective internal marketing enhances the perception of employees regarding their role and responsibilities which in return assists in creating and maintaining a customer oriented service culture within the organisation.

## 2. Literature Review

Various studies have been conducted to know and explain the repurchase intentions of the customers. Customer retention has been described as customer's intention to stay with the particular service provider in future (Ranaweera et al, 2003). Some researchers argued that customer retention is the outcome of relational marketing efforts (Sheth and Parvatiyar, 2002; Manoj and Sunil, 2011; Jeng and Bailey, 2012). Payne and Frow (1999) suggested that existing and potential customer value should be considered as one of the criteria for market segmentation. It has been always argued that it cost more in acquiring a customer than retaining the existing ones (Reichheld and Kenny, 1990; Reichheld and Sasser, 1990).

Hennig (2000) developed a linear model to analyze customer retention and propounded that relationship quality is an important factor for retaining customers which lies between customer satisfaction and retention. Tamuliene et al. (2014) claimed that there is statistically proven significant positive relationship between customer satisfaction, relationship quality, switching costs and customer retention. Customer centric culture based on coordinated and integrated organisational structure is essential for successful customer retention. Lewington et al. (1996) considered information system as an essential support for customer retention efforts. It helps in maintaining the customers' purchase records, calculating the customer value and then focusing on likely defectors. Conventionally customer satisfaction has been considered as one of the essential determinant for long term customer relation. It is said that higher the number of satisfied customers, greater will be the retention (Anderson and Sullivan, 1993). Satisfied customers generate positive word of mouth (Reichheld and Sasser, 1990). Whereas Hart and Johnson, (1999) argued that trust is much important factor than satisfaction in retaining customers. Switching barrier is another factor in customer retention (Gremler and Brown, 1996; Bansal and Taylor, 1999). Higher switching barriers lead to higher rate of customer retention. Some other researchers established that service excellence forces customers to buy from again

same service provider, make customers less price sensitive and spread positive word of mouth (Zeithaml et al., 1996; Bolton et al., 2000). Mahapatra and Kumar, (2017) provided that poor service quality and lack of commitment is one of the reason of customer dissolution.

### 3. Research Objective

Review of existing literature in the field of customer retention discloses that in past various studies have been conducted on customer retention and these studies given some factor affecting customer retention like service quality, reliability, Assurance, customer satisfaction, Relationship Quality, relationship trust, switching barrier, integrated organisational structure and customer centric culture etc. The main objective of this study to examine the various factors constituting customer retention and find out the most important factors affecting customer retention in Indian banking industry.

### 4. Material and Methods

To fulfill the research objective, descriptive research design was adopted as it was found suitable for the study. A questionnaire was designed to collect the data and find out the most important aspect of customer retention in banking industry. Questionnaire contains 20 items related to customer retention which are broadly divided into four groups i.e. Tangible, Reliability, Responsiveness and Assurance & empathy Factors. The data was collected from 500 banking customers in National Capital Region. Customers were requested to give their opinion regarding the factors affecting customer retention on Likert's 5 point scale. Opinions were recorded from 'Strongly Disagree' to 'Strongly Agree' and weight 1 assigned to 'Strongly Disagree' and 5 to 'Strongly Agree'. Questionnaires were distributed at the bank premises and were Face-to-Face administered in order to maximize the response rate and solve the queries of the respondents.

Table 1: Demographic profile of the Respondents (N=500)

Gender	Marital Status	Age	Qualification	Occupation	Monthly Income
<b>Male:</b> 60.40%	<b>Single:</b> 30.20%	<b>20-30 Years:</b> 8.00%	<b>Upto Graduation:</b> 57.20%	<b>Self Employed:</b> 24.80%	<b>&lt; Rs. 30000:</b> 23.80%
<b>Female:</b> 39.60%	<b>Married:</b> 68.40%	<b>30-40 Years:</b> 40.20%	<b>Above Graduation:</b> 42.80%	<b>Government Job:</b> 29.00%	<b>Rs. 30000- Rs.80000:</b> 60.20%
	<b>Separated:</b> 1.40%	<b>40-50 Years:</b> 18.40%		<b>Private Job:</b> 32.80%	<b>&gt; Rs.80000:</b> 16.00
		<b>50-60 Years:</b> 10.60%		<b>Professionals:</b> 7.80%	
		<b>&gt;60 Years:</b> 2.80%		<b>Unemployed:</b> 5.60%	

Table 1 shows out of 500 customer surveyed male customers (60.40%) are more than female customers (39.60%). Most of the customers surveyed are married (68.40%), followed by Single (30.20%) and Separated (1.40%). 57.20% customers are having education qualification upto graduations and remaining 42.80% are above graduation. 24.80% are self-employed. Most of the

customers are employed as 29.00% doing government jobs and 32.80% doing private job. Only 7.80% are professionals and remaining 5.60% are unemployed. Maximum respondents earn between Rs. 30000-Rs. 80000.

## 5. Results and Discussion

Customer retention data was collected on 20 items related to customer retention which are broadly divided into four groups i.e. Tangible, Reliability, Responsiveness and Assurance & empathy Factors. Overall Cronbach's Alpha is 0.897 which proves the reliability of the data collected. The interpretation of mean score and standard deviation (see table 3) suggests that 'Modern Equipment/Software' used by banks is most important tangible factor having mean value 3.87; Out of 5 reliability related factors 'Secrecy and Accuracy' (Mean: 4.22) is most important factor; 'Efficiency Service Delivery' (Mean: 4.09) is highest rated among responsiveness factors; and 'Feeling of Safety while Transacting' (Mean: 4.11) is an important assurance and empathy factor.

Table 2: Descriptive Statistics Regarding Customer Retention

Factors	Percentage					Mean	S. E.M	S. D	Skewness	Cronbach's Alpha
	SD	D	U	A	SA					
Tangible Factors										
Modern Equipments/Software	4.00	6.80	13.20	50.00	26.00	3.87	0.04	1.00	-1.09	0.89
Visually appealing physical facility	2.00	15.20	26.40	42.80	13.60	3.51	0.04	0.97	-0.40	0.89
Dressing Sense and Appearance of Staff	5.80	14.80	32.40	38.80	8.20	3.29	0.04	1.00	-0.46	0.90
Visually Appealing Material	3.20	12.20	15.60	46.20	22.80	3.73	0.04	1.04	-0.77	0.89
Reliability Factors										
Within Timeframe Service Delivery	2.60	8.60	8.20	44.80	35.80	4.03	0.04	1.01	-1.16	0.89
Sincere efforts in Solving Problems	2.60	5.80	12.80	43.60	35.20	4.03	0.04	0.97	-1.12	0.89
Operational Accuracy	2.20	3.20	13.00	46.40	35.20	4.09	0.04	0.89	-1.19	0.89
Secrecy and Accuracy	1.40	5.40	7.60	41.00	44.60	4.22	0.04	0.90	-1.34	0.88
Help in Financial Planning	1.00	5.00	17.60	48.80	27.60	3.97	0.03	0.86	-0.79	0.89
Responsiveness Factors										
Prompt services delivery and error correction	1.60	7.60	11.00	53.40	26.40	3.95	0.04	0.90	-1.04	0.88
Responding customer requests	0.40	7.40	12.20	46.20	33.80	4.06	0.04	0.88	-0.88	0.89
Responding customers' correspondence	1.00	7.60	15.00	44.40	32.00	3.99	0.04	0.93	-0.84	0.88
Efficiency Service Delivery	2.20	3.20	11.20	50.00	33.40	4.09	0.03	0.87	-1.26	0.88
Assurance & empathy Factors										

Knowledge and Competency of Staff	1.20	4.80	15.80	54.60	23.60	3.95	0.03	0.83	-0.90	0.89
Feeling of Safety while Transacting	1.20	4.20	11.40	49.00	34.20	4.11	0.03	0.85	-1.09	0.89
Feedback Guided Behaviour	2.00	6.20	16.00	47.20	28.60	3.94	0.04	0.93	-0.93	0.89
Personal Attention	0.80	12.60	21.40	38.80	26.40	3.77	0.04	1.00	-0.48	0.89
Understanding Specific Needs	1.80	8.20	14.60	47.80	27.60	3.91	0.04	0.95	-0.90	0.89
Accepting and Resolving Faults	4.00	8.40	12.40	47.00	28.20	3.87	0.04	1.04	-1.03	0.89
Extending Banking Hours	3.40	7.60	23.60	41.20	24.20	3.75	0.04	1.01	-0.71	0.89

**SD- Strongly Disagree, D- Disagree, U- Uncertain, A- Agree, SA- Strongly Agree, S.E.M- Standard Error of Mean, S.D- Standard Deviation.**

*N: 500*

*Cronbach's Alpha: 0.897*

Table 3: Multiple Regression Results regarding Consumer Retention

Independent Variable	$\beta$ Coefficients	t-Value	Significance
Modern Equipments/Software	.021	.372	.710
Visually appealing physical facility	-.007	-.123	.902
Dressing Sense and Appearance of Staff	-.020	-.414	.679
Visually Appealing Material	.062	1.239	.216
Within Timeframe Service Delivery	-.291	-4.561	.000
Sincere efforts in Solving Problems	.289	4.602	.000
Operational Accuracy	-.004	-.065	.948
Secrecy and Accuracy	-.084	-1.385	.167
Help in Financial Planning	-.081	-1.442	.150
Prompt services delivery and error correction	.042	.645	.519
Responding customer requests	-.063	-.988	.323
Responding customers' correspondence	-.113	-1.878	.061
Efficiency Service Delivery	.103	1.584	.114
Knowledge and Competency of Staff	.098	1.726	.085
Feeling of Safety while Transacting	-.011	-.182	.856
Feedback Guided Behaviour	.049	.830	.407
Personal Attention	.005	.093	.926
Understanding Specific Needs	.118	2.116	.035
Accepting and Resolving Faults	-.188	-3.036	.003
Extending Banking Hours	-.068	-1.379	.169

*Sample  $R^2 = .115$*

*Adjusted  $R^2 = .078$*

*Overall Degree of Freedom = 499*

*F = 3.104*

*Number of Cases = 500*

In this study multiple-regression analysis was used to measure the factors of customer retention and their impact on customers' retention decision (See table 3). The regression analysis shows that  $R^2=0.115$ ,  $F= 3.104$  and  $p\text{-value}=0.000$ . The value of  $R^2$  shows that there is 11.5 variance. It can be observed from the above table that 'Within Timeframe Service Delivery' ( $p\text{-value}=0.001$ ), 'Sincere Efforts in Solving Customer Problems' ( $p\text{-value}=0.001$ ) and 'Accepting & Resolving Faults' ( $p\text{-value}=0.003$ ) are the most important factors which affect customers retention in Indian banking industry. Previous studies on customer retention disclose various factors responsible for customer retention like customer satisfaction; relationship quality (Hennig); customer participation, relationship, satisfaction and quality (Zeithaml et al. 1996); customer satisfaction, relationship quality, switching costs (Tamulienė et al. 2014); trust (Hart and Johnson 1999); switching barrier (Gremler and Brown, 1996; Bansal and Taylor, 1999); customer participation, relationship, satisfaction and quality (Zeithaml et al. 1996).

## 6. Conclusion and Recommendations

In the era of cut throat competition it has become essential to retain the existing customer to succeed in the market. Customer centric approach is a prerequisite to retain the customers because customer centric organisations will focus on providing quality services and will deliver these services within time. Firms have to build a quality relationship with the customers to make them loyal to the organisation as emotional cost (switching barrier) is attached with it. Service providers must also focus on creating switching barrier to stop or reduce the defection of customer. Customer satisfaction should be given utmost importance as it is one of the most important variables impacting customer retention. It has always been claimed that customer retention efforts cost less to the organisation as compare to customer acquisition efforts. Reichheld & Sasser, (1990) suggested that managers should shift their focus from prospective customers to retaining the existing customers through Customer Relationship management. The real focus remains on reducing defection of the profitable customer (Cao & Gruca, 2005; Reinartz et al. 2005). Most importantly as per this study Indian banks should deliver services to the customers within the prescribed time, they should put sincere efforts in solving customers' problems and if there is any fault from bank side, they should accept it and try to correct the same.

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