Guest Editorial

Customer relationship management in banking: An introduction and strategic implications

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Deregulation of financial services and advances in technology have combined to produce a level of competition and disintermediation that few in the banking industry foresaw a decade ago. Traditional banking services (eg, mortgages) are increasingly offered by discount providers while many highly profitable, fee-generating products (eg, investments) are obtained by customers through self-service mechanisms that did not exist at that time. The recent proliferation of CRM efforts by banks reflects their ultimate realisation that they must adapt to this changing landscape. At the core of banks' CRM initiatives is the belief that by identifying customers who have the potential to be profitable over the long term and addressing their specific needs, banks can deliver greater value to these customers, enhance their competitive position and generate higher returns to stakeholders. By recognising that not all customers are equally attractive, banks can allocate limited resources more effectively. Customers who are potentially more appealing must be given special attention, offered customised solutions and provided enhanced services. Banks ought to identify who the potentially profitable customers are, understand their particular needs and offer the customised services needed to attract, retain and grow their relationships with them.

While the conceptual appeal of CRM is evident, implementation can be quite

complex. Industry trade publications are replete with anecdotal evidence of success as well as monumental failures. Software vendors have been promoting the potential benefits while academics and consultants have raised an array of valid concerns. While CRM issues have been studied in many industries, the state of implementation in banking has not received much attention in the academic literature. To help bridge this gap and advance the state of academic knowledge on CRM in banking, a call for special issue of the *JFSM* was made. The best and most diverse papers submitted are published in this issue. The six papers published here cover a wide range of important CRM topics. They include strategic as well as implementation issues, empirical and theoretical approaches, and employ different qualitative and quantitative methods in their investigations. The contributors to this special edition reflect the global interest in CRM in banking and the international scope of the *JFSM*. Authors of the accepted papers come from Australia, Canada, France, New Zealand, Taiwan, UK and USA.

The first paper by Coltman (Australia) is entitled 'Can Superior CRM Capabilities Improve Performance in Banking?'. The paper is built on the recognition of the underperformance of many expensive CRM initiatives. While software promoters advocate the use of sophisticated IT systems, many nay-saying academics and business consultants

raise very legitimate concerns. How can these differences be reconciled? What can or should be done to make the investment more worthwhile? To address these issues, the paper explores what the true drivers of superior CRM implementation are. Drawing on field interviews and a survey of senior bank executives, the paper identifies some of these critical drivers. The paper demonstrates empirically and quantitatively that CRM programmes require a combination of technical, human and business capabilities in order to be successful. Excelling at one of these capabilities and ignoring some of the others is not likely to lead to great success. From a practical viewpoint, this paper makes an important point reminding managers of the importance of addressing all aspects of CRM implementation. Superior software by itself is insufficient to achieve success. While there are many possible sequences and emphases in CRM implementation, a balanced approach recognising all aspects is much more likely to succeed.

Among the key foundations of a successful CRM programme are the collection, management and manipulation of customer data. The ability to use the data effectively requires that organisations have the knowledge to analyse the data correctly and determine the optimal time for offering and promoting specific products and services to selected customers. By identifying which customers are most likely to need and be receptive to particular products for specific reasons (eg, lifecycle changes), effectiveness and efficiency are likely to improve. The second paper by Salazar, Harrison and Ansell (UK) explores these important technological and customer interface issues. The paper is entitled 'An approach for the Identification of Cross-sell and Up-sell Opportunities using a Financial Services Customer Database'. While many technical approaches could be used, the methodological approach recommended in the paper is relatively straightforward and could be employed by many financial institutions. Using actual customer data,

the paper illustrates the application of segmentation analysis, purchase acquisition trees and survival analysis to help banks identify opportunities to cross-sell and up-sell products to existing customers. The successful application of this approach demonstrates the great potential of using data-mining and statistical techniques to reach the right targets at a right time, with the right products. Such efforts are likely to help banks improve sales and contribute to profitability.

While the appropriate technical data may help banks identify opportunities for cross-sell and up-sell, successful implementation isn't assured. Customers' willingness to respond positively to such efforts may depend on a number of factors. Banks' ability to understand what customers are looking for and what attributes may affect their decision to respond is crucial. The third paper by Liu and Wu (Taiwan) explores the consumer decision-making perspective. The paper is entitled 'Customer Retention and Cross-buying in the Banking Industry: An Integration of Service Attributes, Satisfaction and Trust'. The paper makes an important distinction between the factors that affect retention and those affecting decisions to buy additional or upgraded products and services. The authors suggest that customer retention seems to be based on a more repetitive behaviour while buying additional products and services involves a more complicated process. The attributes that affect these decisions may be quite different. Additionally, even similar attributes may be given different weights in the retention vs cross-selling situations. The reported study examines the effects of locational convenience, one-stop shopping convenience, firm reputation, firm expertise and direct mail on both cross-selling and cross-buying. The mediating roles of satisfaction and trust in the relationships between service attributes, customer retention and cross-selling are explored. The results indicate that banks can use different service attributes to influence customer retention and cross-selling. Trust and satisfaction play

different mediating roles in the relationships between services attributes, customer retention and cross-selling. The paper ought to remind all banks involved in CRM programmes of the importance of identifying the key attributes affecting the decisions of their customers to stay with this bank and to buy additional products. These decisions may be based on different criteria.

Efforts to retain desirable customers are not always successful. The problem of losing such important customers is real and costly. The fourth paper by Lees, Garland and Wright (New Zealand) explores the reasons why customers switch banks. The authors apply a categorisation of switching behaviour observed in repertoire markets to the banking industry and test their predictions with a large commercial data set. Their study indicates that switching antecedents pertaining to utility maximisation ('moving for a better offer') and expectation disconfirmation (usually service failures) confirm previous research findings. The authors, however, also demonstrate that stochastic reasons (those beyond the banks' control) account for a considerable amount of switching and lead to greater post-switch consideration. The important implication is that while the previous main bank brand may have been forsaken, it is not necessarily forgotten. In many instances, enough goodwill for the previous main bank brand resides in these results to warrant bank executives reconsidering their customer recapture strategies. Thus, banks ought to examine switching causes carefully and consider different strategies to regain some of the desirable past customers.

The role of employees in implementing successful CRM programmes is explored in the fifth paper by Menon (Canada) and O'Connor (France). The paper is entitled 'Building Customers' affective Commitment towards Retail Banks: The Role of CRM in each "Moment of Truth"'. The paper suggests that banks' ability to generate customer affective commitment is at the centre of

developing successful long-term customer relationships. The paper explains that affective commitment is developed over time during multiple 'moments of truth' or episodes of interpersonal interactions between customers and bank personnel. Based on social psychology constructs, the authors argue that effective interactions are a function of the assertiveness and affiliation demonstrated by employees during these interactions. Testable research propositions are developed regarding how affective commitment might evolve during a customer's tenure with a bank. Additional hypotheses are advanced regarding when employees should focus on assertiveness and/or affiliation in their interactions with customers of differing longevity and profitability. The paper also explores how these strategies are likely to impact retention, share development and advocacy for the bank. The paper makes an important contribution by reminding managers of the importance of the human contact in the successful implementation of CRM programmes. While databases and sophisticated analytics are essential, true affective commitment requires employees to interact effectively with customers. Recent efforts by banks to deliver the preponderance of service through technological means and encourage customers to rely mainly upon nonhuman channels (ATMs, internet, automated phone systems and alike) have reduced the opportunities for personal interactions. The authors recommend that banks re-examine the trade-offs between cost-efficiencies and the importance of developing long-term affective commitment to the bank by its customers.

The final paper by McNally (USA) further explores the interface between technology and employee behaviour and performance. The paper is entitled 'An Exploration of Call Center Agents' CRM Software Use, Customer Orientation, and Job Performance in the Customer Relationship Maintenance Phase'. The research explores call centre agents' characteristics that support superior

customer service delivery: agents' *customer orientation* (the tendency to meet customer needs) and *CRM software use*. These constructs are examined in three different banks varying in their customer service strategies, organisational structures and agent metric emphases. The analysis concludes that call centre agents require both *customer orientation* and *CRM software use*. The research finds these to be separate and independent constructs. Furthermore, two disparate views of *CRM software use* seem to be relevant in delivering customer service: *functionality*, or the ability to know about and use appropriately all the software functions; as well as *adeptness*, or the ability to access the information efficiently. Managerial and research implications are discussed.

The papers published in this issue address a wide spectrum of CRM implementation topics. Taken together, however, the overall message is quite clear: no one aspect of the CRM implementation process by itself is sufficient to ensure success. In the early days of implementation, some believed that heavy investments in superior software were necessary and sufficient for achieving meaningful results. Experience has shown, however, that such investments are often insufficient. Without undertaking the necessary steps to ensure that all other capabilities are in place to support such efforts, these initiatives are not likely to succeed. The human resource aspects of the CRM programmes, in particular, require special attention. Issues relating to hiring the right employees for the job, providing the necessary training to learn the new tasks, redefining jobs' responsibilities, monitoring progress and evaluation methods, and incentives schemes are all prerequisites for success. The empirical evidence reported in these papers tends to suggest that there are many ways to move forward in implementation of CRM programmes. Banks ought to identify the particular avenues that fit their structure, capabilities

and culture. These avenues should be consistent with the specific strategies pursued by those banks.

In the concluding paragraphs, we would like to elaborate on some of the key strategic issues that banks ought to consider. As many of the papers suggest, CRM may mean different things to different financial institutions. While all are interested in developing long-term relationships with customers, some are emphasising improved customer service, some are focussing on cross-selling and up-selling, and others are attempting to find a delicate balance between the two. Conceptually, as the papers suggest, at the core of a successful CRM programme should be the recognition that not all customers are of equal long-term value to the bank. By attempting to identify the potential lifetime value of various customers and allocating scarce resources in a customised way, banks are more likely to succeed. While this customised orientation based on lifetime value makes sense, the obstacles for successful implementation are real and substantial. Successful implementation requires technical capabilities to measure lifetime value and likelihood of response to customised offers, organisational capabilities to capture and nurture this potential and the corporate will to pursue the long-term goals. While each of these areas presents many challenges that need to be addressed, we believe that banks ought to first examine their commitment to the long-term goal. Are they really willing to forego some short-term revenues in the pursuit of achieving their long-term goals? We examine this issue next.

The notion that not all customers are equally attractive is well recognised in the banking industry. A recent trade publication quoted a senior US banker saying:

'The top 10% of our customers were generating about 130% of the bank's profits. The bottom 40% had a negative impact on profitability.'

This is consistent with our own experience as consultants to retail banks. Discussions with executives in many banks confirm that this isn't an isolated view. Most share the same opinion and report similar conclusions. They recognise the differential impact of various customers on their bottom line. In theory, this recognition should bode well for CRM initiatives. It supports the need to put effort into identifying the profitable customers and dispensing resources differentially to develop and enhance the bank's relationship with the more-profitable customers. At the same time, banks that are supposedly embracing 'lifetime value' principles, many common actions taken by US banks are pulling in the opposite direction. For example, many US banks have recently been offering all customers free checking. A typical statement by a senior bank executive in the same trade publication mentioned above is illustrative:

'I'm a great believer in free checking. I want every single customer who walks in the door — the more, the better.'

Is this implied strategy consistent with the lifetime value principles that are at the foundation of modern CRM initiatives? While opinions may vary about the wisdom of 'free checking to all', we believe this is symptomatic of the ongoing dilemma with which banks struggle in terms of how to deal with short- vs long-term revenue and profit goals. While true CRM principles call for differential treatment of customers, short-term pressures push many banks to pursue all actions that produce short-term results. Free checking often falls into this category. Similarly, while banks talk about personalised customer focus, many still pursue a product focus. In other words, many are focussed on figuring out how to sell more products, not

necessarily on developing long-term relationships. The shift from managing products to managing customers is critical for a true commitment for CRM orientation. Yet, evaluation and reward methods are often still not aligned with long-term relationship building. Employees are encouraged to cross-sell and up-sell with little regard to CRM principles. Emphasis on meeting short-term quotas is the norm; getting to truly understand the individual customer's needs is the exception.

While more advanced software might help personalise offers to specific customers, a real commitment to CRM's long-term principles is necessary. Without such commitment, these efforts are simply more advanced selling tactics rather than relationship building. These efforts are neither directed towards allocating resources on the basis of future profitability goals nor are they attempting to build one-on-one relationships with individual customers. Thus, it is our belief that the most critical first step is to re-examine the real strategic goals and organisational commitment. Is the focus on the short term rather than long term? Are banks willing to truly move from managing products to managing long-term relationship with customers? Are banks willing and able to invest the necessary resources to develop real CRM programmes? We believe that commitment to these basic principles is a necessary condition to a successful implementation. Alternatively, if banks are not ready to commit fully to these principles, they can still benefit somewhat from taking gradual steps in the desired direction.

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