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CONTRIBUTING FACTORS ON CUSTOMER RETENTION FOR SUSTAINABILITY OF MALAYSIAN COMMERCIAL BANKS

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ABSTRACT

Bank management has a great responsibility to generate enough revenue to keep the bank running. Due to stiff competition among the banks in Malaysia, it is significantly importance of retaining its customers in order to be sustainable and competitive. Customer retention can reward banks with their continuous support with repeat purchases which directly contribute to a stream of revenues. Additionally, customers can contribute positive word-of-mouth and referral that serve as a “walking advertisement” by providing recommendations that are more workable than the bank spending on advertisement fees. As shown in the banks' yearly financial record for the past decade, their profit was inconsistent. The challenges facing the banking industry seem unimaginable due to the stiff competition among the banks to attract customers. The banking industry is expected to face dramatic in customer retention. With the execution of relationship marketing and pricing, the chances for the bank's success and growth will be secured. Marketing is based on a relationship in understanding customers’ needs by initiating close bonding between bank employees and customers. Therefore, this paper intends to discuss factors that may contribute to customer retention in the banking industry by applying relationship marketing and pricing factors that lead to customers' repeat purchases.

1. Introduction

Economic conditions together with unpredictable customers' needs, and demand have left the bank management scrambling to develop and implement suitable strategies to drive revenue. New technology has changed the way banks conduct their business nowadays. The introduction of technology creates a market where convenience banking is the utmost priority to allow customers to perform their banking transactions wherever and whenever possible. On the other hand, the knowledge and human interaction services by the banks must be well equipped to ensure customers are satisfied every time they walk out from the bank that they will make a repeat purchase which can continuously generate a stream of revenues.

For the past ten years, banks' profits fluctuate (appendix A) and there are circumstances where low-ranking banks performed better than the higher-ranking banks. Merged banks are still unable to perform better. According to Said, Nor, Low, and Rahman (2008) the "primary reason for the synergy is performance improvement after the merger with the enlarged entity". The merger increases the customers base, but the profit of some banks remains the same and there are incidents where it is decreasing. Naturally, the banks' profit is the revenue from customers retention or new customers and on top of how the management manages the operating cost.

Any customer movement affects the revenue of the bank. Customer retention helps banks maintain their performance as well their sustainability. Customer retention through various methods and practices allows repeated transactions from the existing customers (Mecha, Martin, and Ondieki, 2015). However, according to them, repeating transactions only can happen when the firm is to fulfil the expectation of what is needed by the customers and not from the competitors. Thus, a continuity of relationship between customers and bank's employees should be ongoing with a devoted and caring approach. This is to ensure the relationship that has been established from the first contact between the customer and the employee will remain strong.

Hundre, Kumar, and Kumar (2013) postulated that successful customer retention begins with the first contact with the customer and continuously remain with the firm with the intention of continuous close relationship. They define customer retention is about the process where a firm attempts to avoid customers from shifting their future purchases to other banks. Banks need to ensure customers are satisfied with their services and exceed customers expectation to avoid customers from shifting to their competitors. Without customers' shifting, a firm can reduce the cost with customer retention strategies by building good relationships with customers and it has been proven that it is costlier to attract new customers compared to serving an existing customer (Ndubisi, 2007).

Operating cost is the major contributor that affects the profit of the bank. Banks have been managing their operation cost and interest offered to their customers in terms of saving or deposit account and loan and advances. Research by Chiung, Hui, and Wen (2008) found that using price incentives may not be effective to influence customers to remain with the bank but it will only weaken the impact of financial bonding on customer attitude and behaviour. They recommend that financial service providers should allocate some time for social interaction and structural bond with customers rather than offer price incentives.

According to Kaura, Prasad, and Sharma (2015), price is one of the factors in customer's purchases and plays an important role in deciding which bank to deal with. On the other hand, according to Varki and Colgate (2001), price plays a decisive role in the service industry due to the changes and demand-based pricing which regularly happens in the service industry such as hotels and airlines as the performance is not easy to be evaluated. Indounas (2014) has mentioned the effectiveness of price-setting has long been recognised as one of the marketing tools that can have a positive impact on marketing performance specifically and company performance in general. Thus, bank marketing has become a very complicated activity but interesting subject as it requires the understanding of sociology, psychology, economics, banking, and the fundamental of the marketing concept (Rakesh, 2012).

Customers can shift to the bank's branches instead of a different bank anytime as they like especially the tenure relationship with the bank is only recent. However, the longer tenure the customers have with the bank, the more information can be gathered by the bank to introduce customised service products to the customers. There are chances for the firm or the bank to charge a premium price due to the customised products. Retaining customers is important for business due to customers are intelligent enough to gather information before making a purchase decision (Hundre, Kumar, and Kumar, 2013).

2. Literature Review

According to Alnsour (2013), customer retention can be defined as an evaluation on maintaining the relationship from the repetitive behaviour. Marketing researchers have opined that firms should grip the relationship between firm and customer to gain privileged information about customers' needs to serve them better than the competitors. Quality of the relationship ensures the firm has a close relationship with the customers to accurately sense and serve the needs of customers more effectively (Ndubisi, 2007). As such, banks need to have a continuous relationship with customers.

Customer retention is fulfilling what customers expect and the firm tries to exceed customers' expectations so that they remain loyal supporters to the brand (Hundre, Kumar, and Kumar, 2013). The most 'antique' definition of customer retention is from Morgan and Hunt (1994) who defined customer retention as the indication of "customers' intention to repurchase a service from the service provider". The recent definition of customer retention by Hettiarachchy and Samarasinghe (2016) refers to "the longevity of a client's relationship with a product and/or service providing firm". The longer customers remain with the bank, there will be more referrals and an increase of net present value of customers. As such, banks should not treat customer retention as a trivial matter due to its advantages of revenue-generating factor.

Past marketing researchers have opined that businesses should fully utilise the relationship between the customers and the company to gain privileged information about the customer's needs as it will able to serve the customer better (Ndubisi, 2009). Relationship marketing is built by behaviour approach, network approach, and institutional economics approach. Behaviour approaches include trust, commitment, satisfaction, and customer retention. The network approach is the interactive character of the relationship. The institutional economics approach deals with interactive characters involved in business-to-business marketing. The approaches allow banks to gather deeper information about a customer and minimise cost. Treating pricing as a strategic tool can lead to sustainable competitive advantage that competitors cannot easily copy.

According to Lymperopoulos, Chaniotakis, and Soureli (2013), price could be conceptualised as a contributing factor that must be sacrificed to secure certain kinds of products or services. For the banking industry, the price includes not only fees and bank charges but also the interest rates charged and paid out to the customers. Moreover, if the price is too high, it could trigger customer switching and this will affect the bottom line. It is the banks' target to ensure customers are satisfied with the pricing. Research has proven that a bank's profit is contributed by the positive relationship between customer satisfaction and financial performance (Yap, Ramayah, and NUshazelin, 2012). Therefore, ther relationship marketing and pricing has a significant contribution to customer retention as mentioned by previous researchers.

3. Customer Retention

Customer retention is a primary goal for firms that practice relationship marketing (Gronroos, 1991; Ang, and Buttle, 2006). According to Ranaweera and Prabhu (2003) customer retention is about customers' inclination to remain with the existing service provider. Existing customers allow bank employees to introduce more products and at the same time fulfil the customers' needs. To maximise the relationship of existing customers, banks must pay attention to which strategy that is able to retain them. Banks are able to meet their bottom line and sustainability in this stiff business competition is with the help of customers.

According to Bolton (1998) and also follow by Rust and Chung (2006), industry players and academicians paid much attention to customer retention due to the significance of customer retention on customer lifetime value and subsequently on the business profitability. They look into the antecedents and consequences of customer retention. There are numerous studies on customer retention in the financial service industries. Some of the examples are Allred, and Addams (1999); Verhoef 2003; Farquhar (2004); Liu, and Wu (2007). Dawes (2009); Guo, Xiao, and Tang (2009); Nitzan, and Libai (2011); Alnsourl (2013); Jamil et al., (2013); Coussement (2014); Mecha, Martin, and Ondieki (2015). These studies have been ongoing for decades and this proves the momentous contribution to the industry. Customer retention is not only contributing to the service industry but other business types such as manufacturing and retailing.

Previous researches mentioned that there are many benefits of customer retention like improving the company's value that led to the increase of the firm's profit (Alnsour, 2013). Alnsour further elaborates that there is an increase of acknowledgment where customers can be handled in the long run. Customers have a life cycle that begins with the time of acquiring, retaining, and subsequently increases in terms of value. Jamil et al. (2013) stated that it has been proven if businesses are able to retain five percent of their customers, a profit of 25% to 125% will take place due to the willingness of customers to remain with the firm. Retained customers that have been retained will make more repeat purchases compared to non-loyal customers. There is also a high possibility of selling more of banking products to those retained customers.

Previous researches have proven customer retention has an impact on customer value in the long run because of profitability (Mecha, Martin, and Ondieki, 2015). The authors cited the strategies to pursue in helping customer retention include loyalty, substitute the channels of distribution, award sales employees, awarding consistent customers, and designing special activities that are able to attract and hold the most valuable customers. These strategies are needed especially in this competitive environment which seeks to maximise customer retention to sustain the company's protective edge against new entrant. Asnawi, Sukoco, and Fanani (2019) stated that increasing consumer loyalty is a strategy used to increase the company's revenue, reduce costs, increase profits, and to improve the company's performance.

Jumaev and Hanaysha (2012) defined loyalty from the behavioural terms perspective in which customers have the repurchase intention or purchase frequency. This is similar to the definition of customer retention when customers have the intention to repurchase from the same service provider. The terms customer retention and loyalty have been used in past researches which explained the same circumstances by Zeithaml et al., (1996); Reicheld and Sasser (1990).

Likewise, in Ranaweera, and Neely's (2003) study they also did not attempt to differentiate the two definitions.

A qualitative study was conducted by Alnsour (2013) on the long-term strategy used by banks in Jordon to attract and retain their customers. In the research, their respondents are from the bank's management which consist of executive, senior relationship manager, and direct banking manager. In the research, trust, satisfaction, loyalty, commitment, closeness, interaction, transparency, confidentiality, privacy, culture, customer acquisition, and reputation are drivers of the study. The findings revealed that relational strategy can achieve customer retention and it is linked to customer profitability as well. To develops relational strategy banks should improve human recourse skills and abilities to deal with customers. At the same time there is a need to enhance communications technology to keep customers attached to the bank all time. No hindrance in term of communications where it is an essential benefit to the customers and technology is an essential tool to serve those customers. According to Bataineh, Al-Abdallah, Salhab, and Shoter (2015) communication is considered as a notable factor in developing trust between customers and seller relationship. Therefore, customer retention is required in the aspect of relationship marketing. The formulation and execution of relationship marketing is a strategy to retain customers that can provide firms with a strong and long-term competitive advantage.

4. Relationship Marketing

Bataineh et al., (2015) have mentioned many researches concentrated on relationship marketing where the banks build a long-lasting relationship with the customers. As such, to establish a relationship, the essential tool is communication. The banks should serve their present customers' base by establishing and sustaining the relationships compared to attracting new customers. A new customer can be characterised by a high attrition rate (Reichheld and Sasser, 1990). Ndubisi (2004) stated that interaction and networking approach of the industrial marketing and modern service marketing approach have a clearer view of marketing as a social communication activity context where relationship building takes place.

The term relationship marketing was introduced by Berry in 1983 (Gronroos, 2004) during a conference paper on service marketing. The relationship approach is about taking care of the interaction between the service provider and customers. During the industrial revolution, less attention was being paid to the relationship due to the existence of the middleman in the distribution chain. According to Gronroos (2004) before 1980s, there is an inclination of doing business in a long-term relationship where both parties create a relational bonding that leads to reliable repeat purchases. The author further mentioned there is an establishment of a valuable relationship between the supplier and customer other than the exchange of the value of the product or service. The author also stated that the relationship may allow "customers to feel the security, a sense of trust and control, reduce the cost of future purchase and at the end reduce the cost of being a customer".

Relationship marketing starts from the point where the customer as a consumer walks into the bank. To successfully close the sales largely depends not only on the service products since the bank's product is homogeneous, but as well as other factors such as pricing, service quality, and how powerful the sales employees can influence the customer through selling the benefits of the product. Previous researchers have used different drivers to test customer retention, such as customer satisfaction, usage pattern, the length of the relationship, characteristics of the customers, and the social influences (Nitzan and Libai, 2011).

One of the characteristics of relationship marketing is strengthening the relationship of the customers with the bank's employees and this allows the bank to propose premium prices. Besides customers are likely to use price as a determining factor in forming future purchase expectations. On the other hand, the intense rivalry among the banks and increased offer choices to customers by the competitors generate new pressures for a bank to manage its customer's long-term relationship. By offering a competitive price, banks hope that existing customers will remain with them.

The financial matter is confidential, and customers must have the feeling of security when acquiring it especially the cost or price from the customers' point of view. Hence, trust is upmost important in financial services. Banks must provide a trusted environment and with the close relationship only then customers are more willing to review their financial standing. Coussement (2014) stated that many retailers have started the move from product-focus into the customer-focus strategy as this can build trust between the two parties as can be seen in relationship marketing.

From the viewpoint of banks, the advantages of relationship quality result from marketing costs reduction and inflate bank's profitability, since satisfied and committed customers are normally loyal and they are less sensitive to price fluctuation.

5. Price

Banks are having difficulties in deciding on how to price its products in the markets since other banks have the same products offered to customers. Abtin and Pouramiri (2016) mentioned that price competition has lost its meaning and market oriented. At present, companies are more customer-oriented and try to maintain and increase customer loyalty as a new marketing tool rather than competing on price.

Competitive pricing is being used by banks selling homogeneous products that are not differentiated by customers' points of view. Abtin and Pouramiri (2016) also postulate that customer relationships are valuable to companies due to less price-sensitivity by customers. Furthermore, when customers are satisfied, they are willing to use the same product despite the price change, and in the long run, they will become loyal to the company.

Banks offer different prices for their deposit and loan customers. Additionally, there are fees imposed on other banking transactions such as remittance, dormant saving or current account, half-yearly fees, late payment for loan or credit card, and printing of current account statement. What mostly attract customers are the pricing of saving deposits and loans. A small difference on percentage can have a significant impact on the revenue of the bank. Thus, customers are very particular when choosing the right bank which can offer them a reasonable price or interest rate and fees imposed on other financial transactions.

Anders, Michael, and Inger (2005) did a study on communication services and in their preliminary evaluation, price (together with quality) is the latent variable on retention. According to them, when these constructs were tested individually, it has a negative impact on customers moving to competitors. Nevertheless, when satisfaction is included, price and quality become non-significant due to both factors are mediated by satisfaction.

On the other hand, Hundre, Kumar, and Kumar's (2013) study stated that most banks offer similar service products which can be easily duplicated and when banks produce nearly identical products, the bank can only be distinguished based on the price and quality. Distinguishing with other bank's branches in terms of price is laborious enough but the bank also needs to compete with other banks. Furthermore, the price gap between different banks is not far apart and it is not an easy task to retain customers. The right price and deduction are given as one of the underlying strategies which can assist the saleability of the products (Afiqah, Nor Erne, and Noorfa, 2013). They stated that individual has a different economy background and it is how it affects their purchasing behaviour.

6. Conclusion and Recommendation

The aim of this paper is to better understand on how banks can apply relationship marketing and pricing strategies in customer retention as competition among the banks in Malaysia is tense. Given the prevalence of the stiff competition in the banking industry and the perception of how customers look for the best bank, it is crucial for the bank management to come up with the right strategy and right step to retain customers. Bank management from all levels should understand the importance of retaining customers to meet bank's bottom line and not only for the current year but for years to come.

Customer is the 'jewel' for the bank. As mentioned, the cost is one of the factors banks need to look into as cost affects the bottom line. Banks need to build a good relationship with the first-time customers of the bank. The use of relationship marketing is less costly due to retaining existing customers is less expensive compared to acquiring a new customer. Furthermore, it is costless in selling additional products to an existing customer than to sell the same product to two different customers.

A relationship is not built overnight. The relationship needs time to build into bonding and the relationship quality increases between bank and customers over time. The relationship of both parties becomes stronger when customers initiate repeat purchases. Those customers having a close and quality relationship are more confident on the service provider.

In contrast to consumer goods, service sectors like banks rely heavily on the employees' interaction with the customers to purchase the service products. Banks must portray a trusted place for customers to deposits. A lack of knowledge may affect the trust on the purchasing decision of the customer. To the banks, the key factors in the relationship marketing literature are trust, commitment, competence, communication, and handling conflict. Once banks are able to portray a sense of security, customers will come back for more products even if competitors offer better pricing in terms of interest paid for deposit products or loans from the bank. For the pricing, banks need to offer competitive pricing in order for the banks to be sustained. Hence, customer retention will be the gene to remain in the market. Hence, for a bank be irrelevant with other banks, it will begin with the relation-building and thereafter offering competitive pricing.

Although there are customers who appear to perceive there is no differentiation on how close the customers are with the bank since the price between the banks is not much difference. Banks must establish a close relationship to avoid customers from hopping from one bank to another looking for the right pricing to fulfil their financial needs.

For comparison, each bank is having similar pricing offers to customers. The difference of a minimal percentage in the products offered whether deposits or loan products will make a huge impact on the bank's revenue. To withhold customers from moving to competitors, banks can mediate with relationship marketing and price. Therefore, in this increasing competition situation, banks need to have efficient management in terms of selling additional and innovative products and services to existing satisfied customers which represents a significant opportunity to improve their yearly financial performance. The relationship marketing and pricing strategies can be the main contributors of retaining their customers.

As such, relationship marketing is to build, maintain, and enhance relationships and with competitive prices, banks will have a good chance to retain their customers. Furthermore, depositors also need banks to safeguard their extra funds and for investors, they need banks to offer funding to them to expand the business.

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Appendix A

Table1: Banks Profit for the past 10 years – RM'000

No.	Banks	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1	Maybank	**3,051,000**	**2,373,000**	2,457,000	3,553,000	3,358,699	4,305,904	4,885,616	**5,903,015**	**5,834,287**	6,422,644
2	CIMB	**2,793,273**	**1,930,486**	2,786,232	3,500,803	4,030,798	4,344,776	**4,540,403**	**3,106,808**	2,849,509	**3,564,190**
3	HLBB	547,031	**696,530**	**659,678**	767,817	807,493	1,247,280	1,450,454	1,590,939	**1,775,963**	**1,604,594**
4	Affin	180.859	**299,936**	**295,240**	346,705	388,496	450,304	**508,599**	**476,479**	**261,290**	**351,316**
5	Alliance	*	381,194	**237,078**	**183,178**	321,410	387,751	507,179	**511,168**	**483,229**	**452,130**

Note:

- Extracted figures from banks' annual reports.
- *Unable to obtain

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