Relationship marketing: the effect of relationship banking on customer loyalty in the retail business banking industry in South Africa

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ABSTRACT
Relationship banking, as exemplified by retail banks, is a valuable relationship-marketing enabling strategy that promotes competitiveness and provides sustainable success. South Africa has only recently started to optimise relationship marketing. The authors investigated the effect of relationship banking on customer loyalty in one of the four main South African retail banks. The primary data were collected using a questionnaire by means of an electronic mail survey. The sampling frame was drawn from one of the four major banks in South Africa. The research findings indicate that having a relationship-banking offering as part of the relationship-marketing strategy enhances customer loyalty.

Keywords: business customers, market, relationship marketing, relationship banking

INTRODUCTION
Relationship banking is a valuable enabling strategy that promotes competitiveness and provides sustainable success for banks (Abratt & Russell 1999). The utilisation of relationship banking as a business strategy for increasing customer retention, creating customer loyalty and ultimately increasing long-term profits is a relatively new tactic that originated in the 1980s and gathered pace during the 1990s (Levitt 1981, 1983; Rauch 1993; Cheese 1994). The correct application of a relationship-banking offering could impact the bottom line of banks favourably over the long term (Gummesson 1998; Iniesta & Sánchez 2002).

The retail banking industry in South Africa is a complex and very competitive environment, which is dominated by the big four banks: Amalgamated Banks of South Africa (ABSA), First National Bank (FNB), Nedbank and Standard Bank (Metcalf 2003; South African Reserve Bank 2003). Based on the nature of the financial industry, which deals with products and services that are complicated, risky

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and of a long-term nature, customers are in a high involvement relationship with their financial service providers (Howcroft, Hewer & Durkin 2003). Operating in such a dynamic environment requires banks to fully understand all the factors of relationship banking that affect their success and market share. Levitt (1983) deems the most valuable asset of a company to be its relationship with its customers. The focus must be on building mutually beneficial relationships between the bank and its customers (Fournier, Dobscha & Mick 1998).

One of the challenges for banks is how to differentiate themselves from their competitors. Differentiation based on price and cost strategies is generally short-lived, and the only real way to differentiate is through relationships and service propositions (Ghemawat 1999; Fournier et al. 1998). The responsibility of the marketing function includes the notion of making the most of existing customers, which is essential for long-term profitability. “The challenge to the banks is to own the relationship with the client and use this as a competitive advantage over other banks” (Abratt & Russell 1999: 5). To establish and maintain a competitive advantage, banks need to retain customers through strong relationships (Barnes & Howlett 1998).

Feasibility and costs restrict companies from having a one-to-one relationship with each and every customer (Bennett & Durkin 2002). They need to make use of relationship marketing and management at segment or market level to identify the target market they intend pursuing (Stewart 1995). In the past, relationship banking has focused mainly on corporate and commercial banking rather than retail banking (Howcroft et al. 2003). However, the focus has changed, and the value of building closer relationships with retail-banking business customers has increased in recent years.

A good standard for measuring the quality of a relationship is loyalty (Reichheld 1996, 2001). True loyalty is based on a partnership that is founded on mutual interest and shared goals. Loyalty ensures that the relationship is retained during the best of times as well as the worst. “For loyalty, it is not only how satisfied you keep your customers, but how many satisfied customers you keep” (Reichheld 2001: 127). One of the objectives of the relationship-banking strategy has been to establish a high level of customer loyalty. Customer loyalty results in numerous benefits, which include increased profits and customer retention (Abratt & Russell 1999; Iniesta & Sánchez 2002; Bennett & Durkin 2002).

Cognisance should also be taken of the perception of some customers that all banks are the same, and that one is as good or bad as the next (Cheese 1994). Defection is low, but this may be the result of customer inertia rather than true customer loyalty. The effort required for a customer to transfer the relationship to another bank is often seen as being too cumbersome, compared with the benefits of making the transfer. Situations in which there is no close relationship will always be in danger when more attractive alternatives are presented to customers. However, customers who value the banking relationship over the long term and do not seek to
exploit the bank are most desirable (Gibbs 1985). In the past, different views existed on the relevance and importance of relationship banking as part of the relationship marketing strategy. The old view was that customers only used their banks for transactions and viewed the bank as a ‘utility’. The new view is that over and above the transactional aspect of banking, there is a relationship aspect that fulfils certain needs of the customer (Grönroos 1997; Cram 2001). Relationship banking is an expensive sales and service approach, however, and it is critical that it achieve the purpose for management that it sets out to do, with one of the aims being to enhance customer loyalty (Murray 2004).

Relationship banking as part of marketing strategies is an imperative in the highly competitive banking industry. Management needs to understand the economic value of building long-term relationships with high-value customers. Customer retention of profitable customers is not negotiable, as all institutions and niche banks want this profitable share of the market. Banks need to own the relationship with the client and use this as a competitive advantage over other banks (Abratt & Russell 1999). Management needs to realise the effects of customer loyalty on business growth and profits.

**OBJECTIVE**

The objective of the study was to investigate the effect of relationship banking on the loyalty of business customers from one of the four main South African retail banks. The relationship-banking offering, as part of a bank’s relationship-marketing strategy, aims to strengthen the customer relationship, increase customer satisfaction, support customer retention and increase customer loyalty. Loyal customers tend to buy more, share their market knowledge with their bankers and refer new customers; they are less price sensitive and become cheaper to serve over time (Christopher, Payne & Ballantyne 1991; Bhote 1996; Reichheld 1996; Duffy 1998; Reichheld 2001; Iniesta & Sánchez 2002; Ferreira 2004). The management of retail banks should therefore place a much higher value on the phenomenon of customer loyalty. Where feasible, they should also focus their attention on the appropriate application of relationship banking as a value-creating strategy.

However, opposing views exist on the existence of customer loyalty (Rayner 1996; East, Lomax & Freeman 2002; Reinartz & Kumar 2002; Ambler 2003). The study aims to shed light on whether business customers who receive a relationship-banking offering, or who have a relationship banker, are more loyal to their banks than business customers who do not receive a relationship-banking offering or do not have a relationship banker. These opposing views form the rationale for the hypothesis that is tested in this study.
CONCEPTUAL FRAMEWORK

Relationship marketing

Harker (1999), Bennett & Durkin (2002) and Howcroft et al. (2003) believe that the best definition of relationship marketing is the following one by Grönroos (1990; 1994a), covering all the underlying conceptualisations: “to establish, maintain and enhance relationships with customers and other partners, at a profit, so that the objectives of all parties are met. This is done by mutual exchange and fulfilment of promises” Grönroos 1990: 138).

The challenge for most companies today is to thrive in a relationship economy (Cap Gemini Ernst & Young 2005). Competition for the most profitable customer relationships is extremely tough, and companies need to know who their customers are. This includes aspects such as their preferences, habits and experiences with companies and, most importantly, their values. Customers have become very demanding, and their expectations have increased to new heights. The environment has evolved into a complex landscape, which has resulted in the high value placed on relationship marketing today.

Relationship marketing has evolved from a primary focus on consumer goods in the 1950s, industrial marketing in the 1960s, non-profit and societal marketing in the 1970s, services marketing in the 1980s and finally, relationship marketing in the 1990s (Christopher et al. 1991). Grönroos (1994a) states that a paradigm shift is evolving in marketing from the focus on the four Ps of marketing – product, price, place and promotion – to a new approach based on building and managing relationships. Relationship-building can be regarded as the cornerstone of marketing (Grönroos 1994b). Relationship marketing has focused on customer retention, service, product benefits, a long-term scale, service emphasis, high customer commitment, customer contact, quality and finally, customer loyalty (Cheese 1994; Gummesson 1998; Abratt & Russell 1999). The focus of relationship marketing is to move customers up the ladder of loyalty (Voss & Voss 1997). The relationship marketing strategy also seeks to change the market demands in favour of a particular company by providing unique value, which must be sustainable over time. The key relationship is based on the relationship between the supplier and the customer. This discussion reflects the notion that the centre of the relationship marketing philosophy is to retain and make the most of existing customers to enable the company to make long-term profits. Relationship marketing addresses the importance of gaining customers, but also, more importantly, retaining customers and building ongoing relationships (Rayner 1996). However, it is not always possible for companies with large customer bases to have close relationships with all their customers (Bennett & Durkin 2002). Not all
relationships need to be at the same level of intimacy. An appropriate relationship-marketing strategy will ensure that customers are managed by market or segment level.

**Relationship banking**

Relationship banking can be defined as “a long-term, intimate and relatively open relationship that is established between a corporation and its bank. Banks often supply a range of tailor made services rather than once-off services” (Life Style Extra 2005). In the early 1980s, Levitt (1981) referred to a banking relationship as the process of becoming the designated supplier, which requires a successful passage through several consecutive stages in the sales process. Companies try to develop stronger bonds and loyalty with their customers (Kotler, Armstrong, Brown & Adam 1998). Most bankers recognise the need to build and maintain a close relationship with customers (Rauch 1993). The goal for banks is to ‘own’ the relationship with the customer and use the relationship as a competitive advantage (Abratt & Russell 1999). However, most banks have been unsuccessful in implementing relationship-banking strategies, as they have been unable to make the shift to a relationship-based sales culture (Schneider 2003).

Cheese (1994) relates the importance of relationship banking directly to the business growth and profit potential of companies. This is based on the effects of relationship banking and long-term relationships, which lead to customer retention, loyalty and lifetime customer value (Iniesta & Sánchez 2002). The focus must be on the customer, by building long-term relationships through providing them with the right mix of product, channel of access and service attributes. The underlying principles of any personal relationship are based on trust, shared values and mutual benefits as the foundation of a long-lasting relationship. The individual responsible for building the relationship with the customer is called the relationship manager (Wetzel, De Ruyter & Van Birgelen 1998), relationship banker, account manager (Gibbs 1985), customer relationship specialist/customer services manager (Cheese 1994), account executive or portfolio manager. The relationship refers to one-to-one contact by the relationship banker with the customer (Ellis 2004). Banks are more likely to retain customers who have a personal relationship with a relationship banker (Abratt & Russell 1999).

**Customer loyalty**

“Customer loyalty means that customers are so delighted with a company’s product or service that they become enthusiastic word-of-mouth advertisers” (Bhote 1996: 31). Loyalty can also be defined as “the willingness of someone – a customer, an employee, a friend – to make an investment or personal sacrifice in order to strengthen a relationship” (Reichheld 2003: 48). Loyalty is much more than repeat
purchases, as inertia, circumstances or exit barriers erected by the bank may trap customers who buy again and again. Loyalty has a far wider connotation than just customer behaviour. Rayner (1996) describes two dimensions of loyalty: one referring to the emotional aspect, for example, faithfulness and allegiance, and the other based on the behavioural aspect such as being constant, for example, frequently occurring behaviour. He defines customer loyalty as “the commitment that a customer has to a particular supplier” (Rayner 1996: 126). Doyle (2000) emphasises that customer loyalty is the most important determinant of profit margins and long-term growth. Loyalty is built by earning customers’ enthusiastic commitment to a relationship that will improve their lives over the long term (Iniesta & Sánchez 2002). Rayner (1996) considers that loyalty can be applied as a long-term strategy in order to build long-term customer relationships. Loyalty marketing is based on the recognition that it is cheaper to generate more business from existing relationships than to create new relationships or win new customers.

There are opposing views on the existence of customer loyalty, however (Rayner 1996). In general, society dismisses the relevance of loyalty in business, and maintains that loyalty should only have a place in life’s finer institutions namely, family, church, school and community. Experts claim that loyalty is dead and that some statistics confirm this view. Ambler (2003) states that none of the pro-loyalty supporters have proved their views empirically. East et al. (2002), for example, challenged the increased customer gains from referrals and found that it was relevant only in certain industries, one of which was banking, which is the base industry of this study. Reinartz & Kumar (2002) felt that the loyalty supporter theories are mostly “bunkum”. Their research found a far weaker relationship between loyalty and profitability than the supporters of loyalty programmes claim. Some customers also indicated that they resent companies that try to benefit from loyalty. However, they agreed that certain customers are more valuable than others and that companies need to measure the relationship between loyalty and profitability so as to focus their marketing strategies on profitable customers.

Figure 1 illustrates the link between relationship marketing, relationship banking and customer loyalty. The first important aspect to understand is the concept of relationship marketing. Relationship marketing involves the dimensions of inter-relationships, consumer behaviour, segmentation, measurement, customer relationship management (CRM), relationship-based selling and top management support. The inter-relationship revolves around the bank, employee and customer interactions. It is critical that the bank understand all aspects of consumer behaviour, including buying behaviours. Next, banks need to segment their market according to various demographic criteria and value propositions, considering both bank and customer requirements. A supporting activity for the segmentation process is the measurement of customer profitability, as value propositions must be financially feasible for the bank. CRM is part and parcel of relationship marketing and must be appropriately
applied in the distribution network of banks. Technology, for example CRM systems, must be used as a support function for the parties involved in the inter-relationship triangle. The principles of relationship-based selling are core to the relationship-banking offering that must be implemented. Lastly, the support of top management is critical for any implementation of strategy.

Figure 1: Conceptual framework for linking relationship banking and customer loyalty

The second aspect of the conceptual framework involves the relationship banking offering itself. The critical factors include the value proposition, service and quality, employee competency (relationship banker), price, reward and recognition, and communication. Relationship marketing and the relationship-banking offering are integrated, and relationship banking develops and flows from relationship marketing.

The value proposition encapsulates the relationship offering or value-added to the customer in totality, including the aspects of one-to-one contact, reliable performance, trust, accessibility, education, individuality, service, quality, assistance, communication, recognition and preferential treatment. The relationship banker plays a critical role in the relationship-banking offering as the relationship develops between customer and banker. The relationship banker must be competent,
experienced, knowledgeable, qualified, customer-orientated, service-orientated and motivated.

The last part of the conceptual framework concludes the principle of customer loyalty and its benefits. One of the main objectives of the relationship-banking offering is to create a higher level of customer loyalty and develop this loyalty over time. The benefits include retention of customers and staff, customer satisfaction, trust, word of mouth referrals and growth, cost reduction, cross-sales, profitability (relationship lifetime value RLV) and enhanced competitive advantage for the bank.

HYPOTHESIS DEVELOPMENT

The competition between retail banks in South Africa has become fierce, and banks realise that they need to protect their existing customer base. Customer retention has become a business imperative, and banks realise that customer lifetime value identifies the real value of a long-term relationship. They also realise that there are major financial benefits in mining the existing customer base through cross-selling of products and services. As part of their relationship marketing strategies, commercial banks have started to extend the relationship-banking offering, which was previously offered only to corporate customers, to their high value business customers in the retail banking environment. One of the aims of the relationship banking strategy is to establish a high level of customer loyalty. Opposing views exist, however, on the existence and value of customer loyalty in the business environment. Some believe that customer loyalty could lead to increased profits and customer retention, while others believe that customers are interested only in the transactional value, price or service received. The relationship banking offering is a very expensive sales and service approach, and it is critical that it achieve its intended purpose – to enhance customer loyalty – and that it justify the financial outlay or cost.

Management thus needs to know and understand the benefits of following a relationship-banking strategy. They must also determine whether customer loyalty exists in their business environment and whether this is enhanced by relationship banking. Banks need to ensure that they own the relationship with their customers and use it as a competitive advantage over other banks. The relationship banking offering, as part of a bank’s relationship marketing strategy, aims to strengthen the customer relationship, increase customer satisfaction, support customer retention and increase customer loyalty. Loyal customers tend to buy more, share their market knowledge with their bankers and refer new customers; they are less price sensitive and become cheaper to serve over time. The management of retail banks should therefore place much higher value on the phenomenon of customer loyalty. Where feasible, they should also focus their attention on the appropriate application of relationship banking as a value-creating strategy.
The null hypothesis is therefore:

\[ H_0: \text{There is no difference in customer loyalty between business customers who receive a relationship banking offering or have a relationship banker, and business customers who do not receive a relationship-banking offering or have a relationship banker.} \]

The alternative hypothesis is:

\[ H_1: \text{Business customers who receive a relationship-banking offering or have a relationship banker are more loyal to their bank than business customers who do not receive a relationship-banking offering or do not have a relationship banker.} \]

**METHODOLOGY**

**Measurement instrument**

The research instrument that was used was the Loyalty Acid Test Survey developed by Reichheld (2001), who refers to it as the acid test for measuring customer loyalty and the building of lasting relationships. It is a relationship report card specifically designed to assist companies in evaluating and strengthening key relationships. Customers are asked to grade their relationship against the dimensions that drive loyalty, which include satisfaction, trust and commitment. The questionnaire focuses mainly on how well customers understand the bank’s core principles, their consistency with the rules of loyalty, grading the bank’s efforts in putting these principles into practice, and finally asking what must be done to be more worthy of their loyalty.

Reichheld (2001) developed the measurement tool for measuring customer loyalty to companies situated mainly in the United States of America (Bain & Company 2005). The validity and reliability aspects were addressed and justified by Reicheld’s previous research on customer loyalty. The tool is further accredited through the management and support received from the reputable research company, Satmerix Systems Inc. in the United States. The researchers are therefore satisfied with the validity and reliability of the measurement tool.

**Data collection method**

The primary data were collected by means of an electronic mail survey using a questionnaire. The main driver for this method was that of cost, as it is one of the most affordable research methods. Accessibility is another benefit of this type of method, as the sample elements generally have electronic mail facilities. Convenience is also an important factor, as the sample elements can undertake the survey in their own time, whenever convenient. However, the disadvantages include low response
rates, absence of interviewer intervention, inability to seek clarification, the need for accurate mailing lists and the fact that the questionnaire cannot be long or complicated.

Sample

In the current retail banking environment, the relationship banking offering is found mainly in the upper business market band, namely the commercial banking, business banking or business customer market segments. However, the main banks differ in their segmentation criteria, and cognisance must be taken that the relationship banking offering is not restricted only to the upper business customer segment. Certain banks use additional criteria to segment their customers and include them in the relationship banking offering, including contribution bands and industry or sector.

The samples for this study were restricted to:

- Eighty business customers who receive a relationship-banking offering and have a personal relationship banker dealing with their accounts (sample 1). The sample frame for this sample consisted of 900 business customers of one of the four major banks in South Africa. Simple random sampling was used.
- Eighty business customers who do not receive a relationship-banking offering and do not have a personal relationship banker dealing with their accounts (sample 2). The sample frame for this sample consisted of business customers from eight branches of the same bank and the same geographic area as sample 1. Ten business customers were drawn from each of the eight branches by means of simple random sampling.

The samples of business customers are similar in respect of annual turnover band, which is in the R3 million to R50 million category. This turnover band selection ensures that the samples’ elements will be similar.

Statistical test

The one-tailed t-test for independent groups was used to test the hypothesis. The desired level of significance used was 0.05.

RESULTS

A summary of the survey responses is presented in Table 1. A total of 160 questionnaires were mailed, 80 to business customers that had a relationship banker (sample 1) and 80 to business customers that did not have a relationship banker (sample 2). A total of only 51 questionnaires were returned, which included 33 business customers with a relationship banker and 18 without a relationship banker.
The number of responses received totalled 32% of those distributed, with the best response rate coming from the customers with a relationship banker (41%). The low response rate is in line with response trends experienced with the e-mail data collection method (Cooper & Schindler 2006). The lower response rate (23%) from sample 2 is possibly an indication of the low level of the relationship with the bank. The standard deviation for sample 1 (1.52) was slightly lower (17%) than for sample 2 (1.83), which reveals that the variability of sample 1 is lower and more consistent. The mean for sample 1 was 7.65, which is a significantly higher rating than the mean for sample 2 of 5.07. The results reflect a higher level of agreement and a more favourable attitude among sample 1 towards the loyalty aspects and dimensions related to the bank. The mean for sample 2 indicates that this group is generally more neutral towards the loyalty aspects and dimensions related to the bank. The one-tailed t-test for independent groups was used to test the hypothesis. The objective of the statistical tool was to determine whether a statistically significant difference exists between the two groups. The desired level of significance used was 0.05. The results of the t-test are presented in Table 2.

Table 1: Summary of survey responses

<table>
<thead>
<tr>
<th>Category of respondents</th>
<th>Sample size</th>
<th>Number of respondents</th>
<th>Percentage of respondents</th>
<th>Average or mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample 1 – Business customers with a relationship banker</td>
<td>80</td>
<td>33</td>
<td>41</td>
<td>7.65</td>
<td>1.52</td>
</tr>
<tr>
<td>Sample 2 – Business customers without a relationship banker</td>
<td>80</td>
<td>18</td>
<td>23</td>
<td>5.07</td>
<td>1.83</td>
</tr>
<tr>
<td>Total business customers</td>
<td>160</td>
<td>51</td>
<td>32</td>
<td>6.74</td>
<td>2.07</td>
</tr>
</tbody>
</table>

Table 2: T-test to determine whether a statistically significant difference exists between the sample with a relationship banker and the sample without

<table>
<thead>
<tr>
<th></th>
<th>Sample 1 With a relationship banker</th>
<th>Sample 2 Without a relationship banker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>7.65</td>
<td>5.07</td>
</tr>
<tr>
<td>Variance</td>
<td>0.43</td>
<td>0.72</td>
</tr>
<tr>
<td>Observations/Question</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Pooled variance</td>
<td></td>
<td>0.58</td>
</tr>
<tr>
<td>Calculated value</td>
<td></td>
<td>9.92</td>
</tr>
<tr>
<td>Critical test value (one-tailed)</td>
<td></td>
<td>1.68</td>
</tr>
</tbody>
</table>
The results indicate that the calculated value is larger than the critical value and that there is a significant difference in the results from the business customers with a relationship banker or personal banking relationship, as opposed to business customers with no relationship banker or personal relationship with their bank. The null hypothesis is thus rejected and the alternative hypothesis supported. This is an indication that a relationship banking offering by retail banks does influence customer loyalty.

DISCUSSION OF RESULTS

- The results of the survey, as reflected in Table 1 as well as the previous studies discussed, support the view that relationship marketing, or in this case relationship banking, enhances customer loyalty (Cheese 1994; Gummesson 1998; Abratt & Russell 1999; Cram 2001; Iniesta & Sánchez 2002; Rigby, Reichheld & Dawson 2003). This indicates that there is a significant difference in the results from business customers with a relationship banker or personal banking relationship, compared to business customers with no relationship banker or personal relationship with their bank. This is an indication that a relationship banking offering by retail banks does influence customer loyalty positively.

- Somewhat contradictory to the generally positive findings from sample 1, the experience of both groups was that the bank places short-term profits before people and relationships. This aspect received the lowest and most negative ratings. The recent ‘outrage’ at high bank fees, the excellent financial performance of banks and exuberant emoluments of directors is considered to be the main reason for this perception. Some respondents indicated that pricing is too high, or that the bank must price according to their loyalty.

- Sample 1 believes that the bank deserves their loyalty and indicates that their loyalty has grown over the last year. This confirms that the objective of the relationship offering is achieved, while the opposite is evident for sample 2 customers. The objective of relationship banking is to enhance and develop the loyalty of customers over the long term (Rayner 1996; Abratt & Russell 1999; Reichheld 2003). Respondents indicated that the bank should return their loyalty and that their bank’s loyalty is important to them.

- Sample 1 business customers felt that the bank really cared about building a relationship with them, while sample 2 customers had an adverse perception of the bank’s intention to build a relationship. This indicates, firstly, that the relationship banking value proposition is working with respect to high-value customers and achieving the objective set by the bank, and secondly, that there is a gap in the relationship offering to the next level of customers.

- The role of the relationship banker is a critical aspect in determining whether relationship banking is successful or not (Murray 2004). The relationship banker is
responsible for delivering the relationship value proposition to the customer. The main roles of the relationship banker include service delivery, and developing and building a relationship with the customer. Customers prefer face-to-face interactions with their bank when purchasing complex and specialised services (Howcroft et al. 2003). Sample 1 again rated their relationship banker more positively than business customers in sample 2. Both samples indicated that they want a single point of contact, specialised advice and regular interaction. The business customers from sample 1 consistently pointed out the importance of their relationship banker in their dealings with the bank. Some respondents indicated that they want the bank or relationship banker to understand their business.

- The research indicated the importance of communication in any relationship (Bhote 1996; Cram 2001; Perreault & McCarthy 2002). Sample 1 customers were very positive and satisfied with the communication and flow of information, which is one of the key aspects of the relationship banking offering. Sample 2 customers, however, experienced the communication very negatively. The qualitative responses of customers supported the view that regular contact must be maintained.

- Neither of the samples considered that the bank valued them or rewarded them appropriately. Although sample 1 was marginally positive, the responses to this question were nevertheless their second lowest rating overall, which indicates that customers in general do not believe that they are appropriately valued and rewarded. Customers want to feel valued, treated in a unique manner and rewarded or recognised (Barnes & Howlett 1998; Gummesson 1998; Abratt Cram 2001; Gray & Byun 2003). This raises the question of the success of loyalty programmes and whether they are valued by customers.

- The survey results indicate that both samples have a high probability of remaining with their current banker and continuing to use the products and services. Both samples are also fairly positive that they would support the same bank if they had to decide again. This aligns with Levitt’s (1981) statement that banking allows no room for ‘divorce’ and that a banking relationship is similar to the process of becoming a designated supplier. Where the nature or service is complicated, such as financial services, retention is also higher. The financial services demanded and products used by business customers are generally more complex than those used by individuals, which also confirms the high probability of remaining with their banker. The higher average of sample 1 is in line with research by Cheese (1994), which indicates that where involvement is high, customers are more conversion resistant. His research also shows that where close relationships exist, customers are more willing to forgive and not change bankers if problems or complaints arise. However, customer inertia could also be a reason for not defecting (Cheese
Many customers do not move because of the ‘hassle factor’, ‘laziness’ and ‘lack of differentiation’, which could be reasons why sample 2 customers are willing to continue supporting their current bank (Howcroft et al. 2003).

The survey results indicate that customers who receive a relationship banking offering are more willing to refer other businesses to their banker. According to Reichheld (2003) and Vinocur (2004), referring others to a company is the best sign of customer loyalty and sacrifice. If a customer is willing to put his/her reputation on the line, he/she is willing to go beyond indicating satisfaction or receiving good economic value, and this will indicate an ‘intensely’ loyal customer. The conclusion can thus be made that, based on this principle, relationship banking leads to customer loyalty.

The research reflects that relationship banking customers experience a higher level of customer satisfaction. This supports the relationship banking offering, as its aim is to provide a higher level of service and value offering to the customer. However, customers who are satisfied are not necessarily loyal (Novo 2004).

The importance of trust and integrity in a relationship is clearly reflected in the research results, which indicate that where a close relationship exists, customers perceive the trust and integrity of their banker to be much higher than customers that do not enjoy a close relationship. Customers who share the values of a bank and trust it will recognise the mutual benefits of extended product use within a relationship (Cheese 1994; Howcroft et al. 2003). Sample 1 customers also considered their bank to have a winning strategy, which supports their trust in their banker. Trust is an important part of any relationship and is critical to developing loyalty (Christopher et al. 1991; Grönroos 1994b; Reichheld 1996; Barnes & Howlett 1998; Duffy 1998; Wetzels et al. 1998; Cram 2001).

The opportunity for cross-sales increases as the relationship develops and loyalty is vested (Cheese 1994; Grönroos 1997). Cross-sales support ‘locking-in’ customers to improve retention. Long-term customers who are loyal are able to reduce their costs, as they become very efficient buyers once they get to know the business and its products or services (Reichheld 1996). Costs will similarly reduce for the bank, as customers will not have to refer to them for routine purchases and information that has become known to them.

By building meaningful relationships with customers, a bank can increase market share and improve its bottom line by reducing costs and increasing revenues. The value of the relationship grows over time through extended product and service use, cross-selling and word-of-mouth referrals. Related research supports the findings and indicates that loyal customers are also more profitable (Bhote 1996; Reichheld 1996; Novo 2004). Loyal customers tend to purchase more frequently and spend more (Rayner 1996). Finally, the relationship banking offering and the development of customer loyalty strengthens the bank’s competitive advantage (Christopher et al. 1991; Reichheld 1996; Duffy 1998; Gummesson 1998; Abbratt & Russell 1999; Ambler 2003; Reichheld 2003).
CONCLUSION

- The aspects of relationship banking that are important in creating customer loyalty include relationship banking value proposition, service and quality, relationship banker competency, price, reward and recognition, and communication. The benefits of relationship banking include the retention of customers and staff, customer satisfaction, trust, word of mouth referrals and growth, cost reduction, cross-sales, profitability (relationship lifetime value), and enhancement of the bank's competitive advantage.

- From the research, it is clear that relationship banking enhances business customer loyalty, which has numerous advantages and benefits for retail banks in South Africa. This includes that for retail banks to achieve sustainable success, they require a relationship banking model that considers the importance of customer loyalty. The researchers conclude, from the research conducted, that relationship banking is applicable and indeed a business imperative in the retail banking industry. Relationship banking also affects customer loyalty positively.

RECOMMENDATIONS

- Retail banks need to develop relationship strategies for all levels of customers. While the intention is to retain all customers and provide them with some level of a relationship offering, respondents did not experience the relationship offering at lower levels. A possible remedy is that banks should consider a relationship strategy based on different levels of relationship offerings: high-touch, medium-touch and low-touch. These different value propositions should represent the mutual requirements of the bank and the customer, as well as being financially feasible for banks. To support relationship strategies, banks need to understand the behaviour of their customers and their buying habits. Market segmentation is a critical aspect of relationship marketing, and the segmentation of business customers must be in line with the different levels of relationship offerings. Segmentation should be according to customer value or customer profitability, the complexity of financial demands, annual turnover and industry. Segmentation would allow banks to provide the correct relationship banking offering to the right customer. To support the segmentation process, banks need to be able to determine individual customer profitability. Management information systems should be developed and used to determine the profitability of the customer. Once the segmentation has been concluded, banks should implement and use applicable CRM strategies and CRM systems to complement the relationship banking offering. This entails that they should know their customers well enough to determine the kind of relationship they would like to have. Banks should also try
to extend their CRM strategy across all customers. Support from top management and understanding of the relationship banking offering is critical, as a lack of support can derail the success.

- All retail banks should align their interaction with their business customers with a relationship banking model that includes a high-touch, medium-touch and a low-touch offering. Such offerings would be aligned with the segmentation of customer value, as it is not cost prudent or economically viable to provide a one-to-one offering to all business customers.

LIMITATIONS

The survey had several limitations:

- The samples were restricted to customers of only one of the four major banks in South Africa. If the assumption is made, however, that in measuring the impact of relationship banking on customer loyalty, no difference exists with respect to business customers’ attitudes and perceptions between the various retail banks, the generalisation of customers’ attitudes and perceptions across different banks could be defended.

- There were only 51 respondents out of a total of 160 questionnaires distributed. Of the 51 respondents, 33 were from the sample that included customers who have a relationship banker or a close relationship with their banker, and the remaining 18 respondents were from the sample of customers with no relationship banker or no close relationship with their banker. There were thus differences in the number of respondents per sample, which influenced comparability.

- The confidentiality policies of banks as regards customer information limited the collection of demographic data. All customer demographic data were withheld, and the research therefore focused only on feedback on aspects relating to relationship banking and customer loyalty. This limits the value of the research, as the availability of demographic information might reveal additional findings.

- The study did not focus on brand loyalty, loyalty programmes, customer rewards and incentives. Although these aspects could influence the banking relationship and customer loyalty, they are considered research fields in their own right. The researchers limited the study to the specific research objectives.

SUGGESTIONS FOR FUTURE RESEARCH

Future research could focus on the following:

- The calculation of relationship lifetime value
- A model for appropriate market segmentation of business banking customers in South Africa
The importance of reward and recognition strategies, and loyalty programmes to valued customers

Key characteristics of relationship bankers.

GLOSSARY

Business customers are business account holders at retail banks and include any commercial small and medium enterprises, companies, close corporations, firms, trusts and partnerships. Such customers are generally represented by individuals or small groups of owners. These people are usually also the decision-makers and management teams.

The market represents a group of potential customers with similar needs who are willing to exchange something of value with sellers offering various products or services that satisfy their needs.

Relationship marketing is aimed at establishing, maintaining and enhancing relationships with customers and other partners, at a profit, so that the objectives of all parties are met. This is achieved by mutual exchange and the fulfilment of promises.

Relationship banking can be defined as a long-term, intimate and relatively open relationship between a corporation and its banks.

REFERENCES


