

A STUDY ON CUSTOMER RETENTION AT CANARA BANK, PALANI

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ABSTRACT:

The growth in the Indian Banking Industry has been more qualitative than quantitative and it is expected to remain the same in the coming years. Based on the projections made in the "India Vision 2020" prepared by the Planning Commission and the Draft 10th Plan, the report forecasts that the pace of expansion in the balance-sheets of banks is likely to decelerate.

Widely known for customer centricity, Canara Bank was founded by Shri Ammembal Subba Rao Pai, a great visionary and philanthropist, in July 1906, at Mangalore, then a small port in Karnataka.. Growth of Canara Bank was phenomenal, especially after nationalization in the year 1969, attaining the status of a national level player in terms of geographical reach and clientele segments.

The main objective of the study is to analyse the customer satisfaction level and obtain the ways to retain the. The study also aims at bringing out the pull factors of customer retention that prevails in the bank.

The research design used for the study is descriptive research. Convenience sampling technique is used for primary data collection using a structured questionnaire.

Keywords : Customer satisfaction, Indian banking industry.

Introduction:

The banking industry is highly competitive, with banks not only competing among each other; but also with non-banks and other financial institutions. Most bank product developments are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves on the basis of price and quality. Therefore, customer retention is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment.

It is more economical to keep customers than to acquire new ones. The costs of acquiring customers to "replace" those who have been lost are high. This is because the expense of acquiring customers is incurred only in the beginning stages of the commercial relationship.

In addition, longer-term customers buy more and, if satisfied, may generate positive word-of-mouth promotion for the company. Additionally, long-term customers also take less of the company's time and are less sensitive to price changes.

Objectives of the study:

PRIMARY OBJECTIVES

To analyse the customer's attitude and satisfaction level towards Canara bank, Palani branch and to identify the customer retention level improvement measures.

SECONDARY OBJECTIVES

- To identify the needs of customers for customer-bank relationship improvement.
- To know the preferences and problems of customers in the bank.
- To ensure the satisfaction level of services provided by the bank.
- To get views about the changing customer needs.

Limitations of the study:

- Data collection through questionnaire has possibilities of ambiguous replies and omission of replies to a certain extent.
- The study was conducted in Palani branch and does not reveal the position of other branches and the whole organization.
- Some customers do not show interest in answering all questions due to their time constraint.
- Some customers do not give the real fact due to fear.

Customer retention:

Customer retention refers to keeping a client's business rather than have the client use competitors' services or products. Businesses want to reduce customer defections to their competitors because a reduction in their market share and profits could result. Customer service retention is a popular marketing strategy as it involves focusing on meeting or exceeding clients' expectations in order to maintain their loyalty.

When people feel loyal to a certain brand or business, they're less likely to be persuaded by a competitor's ads and

offers. Maintaining customer retention through loyalty programs is a method commonly used by many businesses today.

Effective customer retention strategies focus on measuring and achieving the following objectives:

- Maximize customer satisfaction for current customers.
- Identify dissatisfied customers before they leave through a customer retention program.
- Measure why current customers leave.

Customer retention requires attention to customer details. Establishing personal relationships is difficult, especially as businesses grow.

Effective customer retention management helps to build the business without losing the friendly face on the business.

Literature review:

Previous studies have identified the benefits that customer retention delivers to an organisation (Colgate et al., 1996; Reichheld and Sasser, 1990; Storbacka et al., 1994).

For example, the longer a customer stays with an organisation the more utility the customer generates (Reichheld and Sasser, 1990). This is an outcome of a number of factors relating to the time the customer spends with the organisation. These include the higher initial costs of introducing and attracting a new customer, increases in both the value and number of purchases, the customer's better understanding of the organisation, and positive word-of-mouth promotion.

Apart from the benefits that the longevity of customers brings, research findings also suggest that the costs of customer retention activities are less than the costs of acquiring new customers. For example, Rust and Zahorik (1993) argue the financial implications of attracting new customers may be five times as costly as keeping existing customers. Customer satisfaction leads to **customer retention**. As a consequence, retaining customers becomes a priority. Previous research shows, however, that longevity does not automatically lead to profitability (Colgate, Stewart, and Kinsella, 1996).

In a highly competitive market, the shortest route to differentiation is through the development of brands and active promotion to both intermediaries and final consumers (Parasuraman, 1997). In the long run, however, branding, targeting and positioning would all be much more effective if the supplier had some tangible advantage to offer consumers (Baker, 1993). This is evident in the banking industry, where many banks are providing more or less the identical products for nearly the same price.

Unless a bank can extend its product quality beyond the core service with additional and potential service features and value, it is unlikely to gain a sustainable **competitive advantage** (Chang, Chan, and Leck, 1997). Thus, the most likely way to both retain customers and improve profitability is by adding value via a strategy of differentiation (Baker, 1993) while increasing margins through higher prices.

In businesses where the underlying products have become commodity-like, quality of service depends heavily on the quality of its personnel. This is well documented in a study by Leeds (1992), who documented that approximately 40 percent of customers switched banks because of what they considered to be poor service. Leeds further argued that nearly three-quarters of the banking customers mentioned teller courtesy as a prime consideration in choosing a bank. The study also showed that increased use of service quality/sales and professional behaviours (such as formal greetings) improved **customer satisfaction** and reduced customer attrition.

Research methodology:

The type of research design used in this study is descriptive research design. It includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of state of affairs, as it exists at present. It is also concerned with the relationships,

practices, beliefs that exists and the trends that are developing.

The collection of data is considered to be one of the most important aspects in the research methodology. Both primary and secondary data is used in this study in order to meet the requirements of the purpose.

Primary data was collected by using Structured Questionnaire. The structured questionnaire consists of both open-ended and closed-ended questions. The primary data has been collected through the questionnaire by means of personal interview. The main parts of the questionnaire are

- Personal information
- Efficiency of manager
- Branch efficiency
- Statement receipt
- Credit and mutual fund services

Since it's a difficult part to consider the whole population of customers, part of the population was taken for the study. A part of the customers of the Palani branch Canara bank are taken for the study.

The size of the sample is 100.

The collected data was analyzed and interpreted using Statistical Package for Social Sciences (SPSS).

For the analysis of data, the statistical tools employed are, Percentage analysis, Cross tabulation, Chi –square test, Factor analysis.

Chi – square test

The Chi-Square Test procedure tabulates a variable into categories and computes a chi-square statistic. This goodness-of-fit test compares the observed and expected frequencies in each category to test that all categories contain the

same proportion of values or test that each category contains a user-specified proportion of values.

Statistical test

$$\text{Chi-square test} = \sum (O-E)^2 / E$$

$$\text{Degrees of freedom} = (R-1)(C-1)$$

Where, O = Observed frequency
 E = Expected frequency
 R = Number of rows
 C = Number of columns

Factor analysis

Factor analysis attempts to identify underlying variables, or factors, that explain the pattern of correlations within a set of observed variables. Factor analysis is often used in data reduction to identify a small number of factors that explain most of the variance that is observed in a much larger number of manifest variables. Factor analysis can also be used to generate hypotheses regarding causal mechanisms or to screen variables for subsequent analysis. The sum of squared values of factor loadings relating to a factor is known as Eigen value or Latent root. This research shows that the eigen value indicates the relative importance of each factor in accounting for the particular set of variables being analyzed.

Results:

Personal information:

From table 1 it is clear that 33 percent of the respondents are from the age group 36 to 45. Large group of respondents come from business background. Second large group are from agriculture sector. This shows the effectiveness of the branch and the staff to make banking transactions easy even for illiterate people from agriculture background. 60 percent of the customers feel satisfied that they are being recognized as valuable customers. This is a valuable push factor to retain customers. Deposit/withdrawal and credit application services are the major services availed from the bank.

TABLE 1

	Percentage
Gender	
Male	76.0
Female	24.0
Age group	
15-25	10.0
26-35	24.0
36-45	33.0
46-55	25.0
56-65	8.0
Occupation	
Agriculture	27.0
Business	34.0
govt employee	11.0
private sector	8.0
Others	12.0
Education	8.0
Reason for visit	
Enquiry	20.0
dep/witd	47.0
Loan	33.0
Recognition of the Customer	
very satisfied	16.0
Satisfied	61.0
Neutral	9.0
Dissatisfied	14.0

Efficiency of the manager:

Table 2 clearly shows that, 78 percent of the respondents feel satisfactory about the knowledge of the manager, regarding the products and services. This ensures efficient help of the manager to the customers and retain them. 81 percent of the respondents are satisfied by the faster service of the manager towards the customer needs. 90 percent of the

customers feel that manager is readily available all time to assist the customers regarding their doubts.

TABLE 2

	Percent
Knowledge of the manager	
very satisfied	19.0
Satisfied	78.0
Neutral	2.0
Dissatisfied	1.0
Fastness of service	
very satisfied	10.0
Satisfied	81.0
Neutral	6.0
Dissatisfied	3.0
Availability	
very satisfied	27.0
Satisfied	64.0
Neutral	5.0
Dissatisfied	4.0

Branch efficiency:

Table 3 portrays that, Branch efficiency includes availability of staff, faster service, less waiting time and other facilities like availability of information notices, automatic machine services etc. In the bank undertaken for study, 60 percent of people feel that the bank is efficient. Some negative opinions come in case of automatic machine services.due to lack of maintenance and frequent out of order. Recent enhancement of the bank is core banking service. This facilitates customer’s transaction to all banks easily.

TABLE 3

	Percent
Efficiency of the branch	
very satisfied	24.0
Satisfied	60.0
Neutral	6.0
Dissatisfied	10.0
Automatic machine service	
Satisfied	66
Neutral	22
Dissatisfied	12
Statement receipt	
very satisfied	31.0
Satisfied	60.0
Neutral	6.0
Dissatisfied	3.0

Statement receipt:

Table 3 shows the efficiency of the statements sent. Statements are sent through mail for better communication and updation. 60 percent of the respondents feel satisfactory about the service. They feel that the statement is sent on time after every transaction in the account and is easily understandable.

Credit and mutual fund services :

Table 4 shows that , Credit service is one of the highly availed service in the bankMutual fund is another service provided by the bank. It is not a highly availed service, but yet some customers need help regarding this service. Nearly half of the respondents have applied for loan in the bank. Educational loans occupy major part of the credits applied. 40 percent of the applicant are satisfied with the response of the staff. The bank

offers mutual fund services only on demand by the customers. They do not have fixed counter for availing this service.

TABLE 4

	Percent
Credit application	
Yes	45.0
No	55.0
Response for credit Application	
very satisfied	17.0
Satisfied	24.0
Neutral	55.0
Dissatisfied	4.0
Mutual fund service	
very satisfied	3.0
Satisfied	26.0
Neutral	58.0
Dissatisfied	13.0

Chi-square analysis :

Chi –square test is done between two variables to find their relationship and how that has effect on customer retention. Table 5 shows that, recommendation of the bank to others is influenced by a number of variables like fastness of service, branch effectiveness, statement receipt, recognition of the customer and response for credit application. Another result obtained is meeting of mutual fund service needs depends mainly on the knowledge of the mutual fund manager. The fastness of service does not depend on the reason for the visit of the customer. All customers are equally recognized as valuable as assets, irrespective of their age and occupation.

Factor analysis:

Variables taken for analysis are,

Variable 1: understandability of the manager

Variable 2: recognition as a valued customer

Variable 3: efficiency of the branch

Variable 4: statements receipt

Variable 5: response for credit application

Variable 6: easy availability and help

The above factors are the main variables influencing customer retention. Table 5 shows that the variable understandability of the manager has the highest eigen value 1.504, recognition as a valued customer has the second highest eigen value 1.242 and the third highest eigen value goes to efficiency of the branch,1.026. Thus these 3 factors form the important reasons for customer retention.

TABLE 5

Component	Initial Eigenvalues		
	Total	% of Variance	Cumulative %
1	1.504	25.067	25.067
2	1.242	20.696	45.763
3	1.026	17.107	62.871
4	.843	14.058	76.929
5	.769	12.814	89.743
6	.615	10.257	100.000

Conclusion :

The constructs investigated in this study all received positive marks by the respondents as factors that would influence their decision to stay with or leave their current banks. The most important construct (by mean score) was customer satisfaction. These results lead to suggestions for bank managers to consider as to how they might improve customer retention in today’s competitive banking environment.

Results of this analysis have also shown that personal factors don't have significant association with the respondents' intention to stay with or leave their service providers.

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