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Development of Long-term Relationships with Clients in Financial Sector Companies as a Source of Competitive Advantage[1]

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Abstract

Relationship marketing represents the concept which gives long term dimension to consumer's role and importance, because it has in its focus loyalty development and long term cooperation and partnership relationships with key clients of financial organization. Relationship marketing is focused on: loyalty obtaining and "catching" of clients for a longer period, client's value, quality of provided service, engagement regarding fulfillment of client's expectations, as well as concern of all employees toward the client. That is why relationship marketing represents a significant strategic leverage which can improve companies' competitive advantage.

Key words: *relationship marketing, long-term strategy of relationship with customers, competitive advantage financial organization*

JEL Classification: *M31, M39, M21*

Introduction

Relationship marketing is a new concept which introduces long-term dimension to roles and importance of customers. It focuses on development of loyalty and long-term relationship based on cooperation and partnership with key customers. The concept was developed during the last decade of the 20th century, at which time several new definitions of relationship marketing were introduced.

Gordon defines relationship marketing as a process of creation of new values for each single customer and distribution of gains achieved during interaction[2]. According to Gummesson

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[2] G o r d o n , I., *Relationship Marketing*, Jon Wiley&Sons, Canada, 1999, p. 12.

relationship marketing emphasizes long-term relationships between consumers and goods/service providers as well as long-term profitability.[3]

Relationship marketing is focused on identifying and meeting the needs and wants of our clients. It includes management of detailed information about individual customers and analysis of all "interaction points" with customers with a goal of maximizing their loyalty. “Interaction point” with buyers represents every situation when the buyer interacts with brand or service – including personal experience, mass communications or random observations.[4]

Grönroos uses the term relationship marketing to promote the idea that the main goal of the business activity is to build and retain stable and long-term relationships with market actors that contribute to the success of the company. Grönroos’s definition of relationship marketing concept is: to identify, establish, develop and maintain relationships with customers and other stakeholders, while creating profits, in such a way as to fulfill the objectives of all parties, through mutual exchange and fulfillment of expectations and promises.[5]

Financial institutions tend to develop close relationships with their stakeholders (employees, investors, shareholders, etc.) for two reasons. First - because companies strengthen their competitive advantage in the market and second - the application of this concept requires creation and use of databases as very powerful tools for achieving business success in the market.

Relationship marketing focuses on: gaining and retention of customer loyalty in the long run; the customers’ value; quality of service, commitment to meeting customer expectations; and concern of all employees on relationship with the client. In addition to relationship marketing, the *concepts* based on the development of direct relationships with customers are:

- Customer Relationship Management - CRM;
- Database marketing;
- Marketing with a license;
- Retention Marketing;
- Loyalty Marketing;
- Interdependent marketing;
- One-to-One marketing;
- Frequency marketing;
- Partnership marketing.

Effectiveness and efficiency have become an indispensable criterion of market economy that caused organizations, especially in financial sector, to direct their marketing activities on developing relationships with their customers and on analyzing their needs and wants. To become successful in the dynamic financial services market, companies must deliver superior service to targeted customers, which are becoming more demanding over time. Selection of products/services is a process based on rational balance of price and quality.

Increased competition and narrow operating space forced financial institutions, primarily banks and insurance companies, to implement strategies and techniques of customer relationship management (with their clients) in order to achieve expectations of owners and other stakeholders. Banks and

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[3] Gummesson, E., Relationship marketing as a paradigm shift: some conclusions from the 30R approach, *Management Decision,* Vol 35/4, 1997, p. 268.
[4] Kotler, Ph., Wong, V., Saunders, J., Armstrong, G., *Marketing Concepts,* Mate: Zagreb School of Economics and Management, Zagreb, Croatia, 2006, pg. 125.
[5] Grönroos, C., *The Rebirth of Modern Marketing: Six Propositions About Relationship Marketing*, Swedish School of Economics and Business Administration, Working Paper, Helsinki, 1995, pg. 26.

insurance companies had to redefine their goals, business relationships with major customers and stakeholders, as well as a range of marketing activities. To achieve that purpose financial institutions had to:

- Define their basic goals - profitable operations, improving of business through acquiring new and retaining old customers;
- Focus on private and business customers who create most of the profit through a range of direct marketing and mass media communications.

For example, *Aegon Insurance*, one of the world's largest insurance with 4,500 employees, implemented a strategy to attract and make long-term commitment of their commercial clients in such a way that they split activities of life and pension insurance into the individual business sectors, which improved the quality of each of them. This led to a significant increase in the number of concluded long-term contracts with corporate customers to whom, apart from high quality services and access to facilities of the global market, the most important thing is to be assured that their insurance company will be with them and share the risk in the long run.[6]

In the investment sector of banking, customer relationship management is still in the implementation phase. This is a great opportunity for banks to manage their approach to customers, to adapt coverage strategies and to use new technologies in order to improve competitiveness.

Customers in the banks are well informed and therefore very selective, thus banks can no longer believe to have the advantage over clients because they have more information. Customers who have good information about market have more precise needs and requirements and they are not so loyal to one brand. Leading clients tend to focus their business on few strong service providers who offer competitive advantage and benefits in terms of cost in order to hold their position in the market.

Investment banking is characterized by two kinds of relationships with clients:

- Relationship of *common way of thinking* in which the Bank is directed to carry out large and significant transactions for clients;
- The relationship of *joint portfolio* which requires coordination of many activities of the bank and customers. Since the banks are merging and the number of clients is growing, the scope of activities has expanded and the complexity of relations with business customers has increased.

Even though relationship marketing is important, it is certainly not the only requirement banks have to comply with in order to remain competitive on the market. Two main determinants of the success in the investment banking business are: customer satisfaction and product quality. To make CRM functional, banks must have a clear picture of what their clients really want from them. Four main types of customers' *needs* are:[7]

1. Reduced costs and efficient service;
2. Better control and transparency as a result of responsibility for achieving results;
3. Greater comfort resulting from the fact that the company needs to operate with a smaller number of banks;
4. Bank should be precisely informed about customer's needs, so as to offer the right product at the right time and at the right price.

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[6] Harwood, T., Garry, T., Broderick, A., *Relationship Marketing – Perspectives, Dimensions and Contexts*, McGraw-Hill Education, UK, 2008, pg. 101.
[7] Stone, M., Mathias, P., *CRM in financial services*, Kogan Page Publishers, London, 2002, pg. 212.

Clients are increasingly focusing on strategic selection of providers of financial services, based not only on opportunistic and tactical decisions. They expect continuous long-term bank orientation towards a leading position in the market.

The ability of banks to achieve global presence and product quality is crucial in the client's selection process of providers of financial services. In addition, the bank must provide a high level of regional coverage and appropriate infrastructure for their branches.

When the bank becomes the main provider of services, it must establish a strategy to retain that position and to gradually increase its share in the client's portfolio over time. The bank may offer different options for achieving added value for the entire range of its products, in accordance with the needs of the client. In this way, through development and improvement of relations with clients, by implementation of CRM, the bank improves its relationships, enhances its image and positions itself strategically in the client's mind in order to maximize its share of client's financial portfolio.

Successful development of CRM includes the following activities: [8]

- Creation of new market by selection of specific market segments and establishment of leading position in it through development of suitable financial products;
- Improving the qualitative level of relations with customers in the market, by involving them in the design and development of new products;
- Implementation of monitoring and interpolation of trends in order to trace changes in the environment and proactively react to them;
- Development of partnership marketing concept with customers, suppliers and other actors in the market who may help company to be more successful on the market.

Relationship marketing can be introduced on different *levels*, three of them being:[9]

- Tactical level (similarity with the activities of sales promotion);
- Strategic level (emphasis on developing partnerships with customers);
- Philosophy level (reflecting the essential philosophy of marketing - the entire organization is focused on delivering total satisfaction to customers, maintaining and developing of business).

Relationship marketing is particularly interweaving with direct marketing, with CRM concept and marketing loyalty concept. They may be viewed as independent concepts, but they also may be a part of relationship marketing. They differ in relationship approach, as one of the forms of partnership marketing, and traditional (transactional) marketing approach.

Relationship Marketing vs. Transaction Marketing

Transaction marketing strategy based on the concept of traditional marketing is typical for situations in which the customer often changes suppliers and purchasing decision is made on the basis of the cost of products/services. Such relationships are short-run because they represent one-time transaction. Table 1 shows the difference between transactional and partnership marketing.

In traditional marketing, consumers are focused on a single purchase and achievement of individual goals. Mass advertising and promotional campaigns are used for increase of sales. Marketing manager activities are mainly aimed at creating attractive products that emphasize its traits and characteristics, and thus attract the customers' attention. Their activities are least oriented on good long-term

[8] L i t t l e , E., M a r a n d i , E., *Relationship Marketing Management*, Thomson Learning, London, 2003, pg. 157.

[9] V e l j k o v i ć , S., *Marketing usluga*, Faculty of Economics, Belgrade, 2006, pg. 185.

relationships through good quality, reasonable price or after-sale services. Product design, various marketing tricks and sales promotions are the most common ways of gaining customers. However, this type of purchase will not be repeated and the customer will be lost forever.

Table 1. Transaction vs. Partnership marketing

Transaction marketing	Partnership marketing
Focus on one sale	Focus on customer retention
Orientation on product/service features	Orientation on product/service gains
Short-term activities	Long-term activities
Low level of services	High level of services
Sufficient level of contacts with customers	High level of contacts with customers
Quality is mostly concern of producer	Quality is concern of all actors in the marketing channel
Company growth and development is based on internal forces	Company growth and development is based on both internal and external forces
High dependence on own strengths	Cooperation with partners (networking)
Mass marketing	Target marketing
Standardization	Harmonization with buyers' needs and wants
Usually only single contacts with customers	Relationship oriented contacts with customers including exchange of information, knowledge sharing and mutual understanding, with a goal of creating long-term cooperation

Source: Egan, Ph. (2004), *Relationship marketing*, 2nd edition, Pearson Education, pg. 65.

Transaction marketing has no intention to create loyal customers, because the sale is made only once, and the transaction can be performed from home. Hence, transaction marketing is suitable for sales that do not require relationships with current customers, such as real-estate business sales to one-time customer. Such transactions imply the existence of pre-defined conditions for sale (standards, quality, etc), so that the primary element of decision making should become the price.

Therefore, transactional marketing has advantages only in business transactions that require pre-existence of certain conditions, or when the nature of the product is such that sales during the life span are limited due to certain factors. The fact that there is no transaction cost of relationship marketing to gain customers and maintain relations with them may be seen as an advantage in terms of cost-effectiveness for the company. If the company on the basis of information from customers' database plans to find a balance between application of transactional marketing and relationship marketing, it can use the synergy effect that will result in more revenue than they planned. Such business opportunities are defined by ad-hoc operations, so there is no possibility of applying the universal solution. Managers of the companies that want to implement and apply optimal solutions in customers' relationships have proved to be able to use the new technology which means that the new IT solutions can be implemented on the basis of existing data if the company followed the innovations to the appropriate area.

Benefits from Relationship Marketing

The development of long-term relationships with consumers, unlike in traditional marketing, is a concept that has found application in many organizations from various sectors of the economy. The concept is universal and applicable in almost all types of organizations because there is a need in every strategy-oriented activity for the development of long-term relationships with consumers.

The main goal of the implementation of this concept in profit-oriented companies, like companies from the financial sector, is to inform customers, to achieve higher satisfaction and loyalty level, and to accomplish better business results. Depending on where the concept is applied and on the specificity of organisation, it is conceived a different development program of long-term relationships with consumers. However, basic concept ideas and principles show their effects in these fields as well, with the ultimate goal of higher consumers' satisfaction and loyalty level.

The improvement of long-term relationships with consumers is implemented both in marketing oriented B2C (Business to Consumer), as well as in business oriented B2B (business to business) activities. The concept may be widely applied in B2B because:

- There is a smaller number of clients - business partners (compared to the number of final individual consumers);
- There is longer cooperation where partners are directed to each other by the nature of business; data availability about financial and other cooperation indicators;
- There is a need for easier information system about company and its management.

The company has to think about their consumers when dealing with other companies, since it has to be aware of the way in which their product/service meets consumers' needs; to what extent consumers are loyal; how profitable each customer is; and who their customers really are. That is important because industry demand is derivative, dependant on demand of final users - consumers.

The leaders in the implementation of such new business approach are the financial institutions (banks and insurance companies), the telecommunication sector, the tourist and catering companies and the organisations (hotels, tourist agencies, restaurants, etc.).

The advantages of the concept of long-term relationships with consumers are as follows:[10]

- Improvement in market philosophy of behavior and work;
- The role of consumers in company business is perceived in a proper way;
- Data about consumers are collected systematically and continuously, and then stored in the database;
- Consumer segments are profiled by data analysis;
- Causes of consumers satisfaction/dissatisfaction are discovered;
- Critical success factors are identified;
- Continuous interaction with consumers and properly set communication channels enable the company to develop long-term relationships;
- Information is becoming knowledge;
- Knowledge serves to adjust products to the needs of (individual) consumer;
- Knowledge and acquired experience are the basis for taking various actions in all business segments (research and development of new products, production, acquisition, sale, marketing, etc.);
- Efficient and effective implementation of the concept is improving the satisfaction of internal and external consumers;
- Consumers' trust, loyalty and familiarity are created;

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[10] Harwood, T., Garry, T., Broderick, A., *Relationship Marketing – Perspectives, Dimensions and Contexts*, McGraw-Hill Education, UK, 2008, pg.122.

- Loyal customers are buying more, they are less sensitive to price, spreading positive propaganda, appreciating the value of company's products and the company itself;
- Loyal customers of one company are at the same time lost customers for competitors;
- Company image and image of its trade marks are increasing;
- There is significant increase in gained profit (particularly on long-term).

The development of long-term relationships with consumers is a reality that is accepted by a number of companies, organizations and institutions in all developed countries. However, it should be known that relationship marketing is not universal solution for all problems which could appear during the product/service life cycle. Building of long-term relationships and consumers' personalization implies the need for adjusted offer according to the needs of each individual consumer, both on the level of service and communication adjustment.

General assumptions, which should be fulfilled so as to successfully adjust service to customer, are:

- Identification of consumer's characteristic, need, wants and preferences;
- Knowing nature and specificity that make service appropriate for consumer;
- Training of employees which are delivering services to react properly in specific situations in terms of adjustment to consumers demand;
- Service adjustment has to result into higher customer satisfaction, and has to carry out greater additional value to them.

Consumer's behaviour, as a scientific discipline, contributed to improved process of service delivery to consumers, increase of satisfaction and loyalty, because the market success of each company begins and ends with customers and their perception of service.

Financial organizations, as service companies, will have loyal, highly satisfied clients, proportional to the extent to which they meet the needs and wishes of their most valuable consumers and according to the way they adjust their services.

Development Strategy of Long-Term Relationships with Consumers

The development of long-term relationships with consumers has to take care of the relationships with consumers' management value chain and activities that should be organised for the development of profitable relationships. The relationships with consumer's management chain have four levels:

- Defining of supply value;
- Segmentation, targeting and positioning;
- Business operations and delivery system;
- Measuring and feedback.

The development of long-term relationships with consumers and key clients is based on strategy creation. The major goal has to be the delivery of quality service which will affect long-lasting consumers' satisfaction (general precondition of full loyalty). Consumers' loyalty also means increase in profit, which affects satisfaction and loyalty of employees in service companies (satisfaction between consumers and employees is mutually correlated). The general assumptions for successful implementation of this concept are:[11]

[11] M a r i č i ć , B., *Ponašanje potrošača*, Publishing center, Faculty of Economics, Belgrade, 2005, pg. 124-126.

- Company top management has to be leadership and vision oriented, professional and capable, aware of the importance of service marketing and long-term relationships development;
- The company must have a project team created for the implementation of the concept into the company's business practice (for service companies which have not implemented it until now);
- Design of appropriate micro and macro organizational structure, according to consumers' orientation;
- The company needs appropriate corporate culture and adequate technical and technological qualifications (in terms of database and information technology development);
- Availability of the sufficient human resources on different levels, with key traits being communication skills;
- Sufficient financial funds.

Development phases of long-term relationships with consumers include: data collecting, data analysis, establishment and maintaining of long-term relationships, as well as tracking, analysis and control of concept implementation. Basic elements of long-term relationships development originate from the factors that are necessary for good marketing functionality in service activities, such as:

- Information about the consumer (needs, wants, traits, behavior);
- Market-oriented behavior;
- Achievement of modern concepts, which are focusing on development of relationship with consumers;
- Company's capabilities and need;
- Understanding the role and importance of all persons included in the process of service creation and delivering;
- Long-term orientation;
- Uniformity of the company.

Aware of the key factors, we could divide the development process of long-term relationships into the following stages:

- Database creation;
- Identification and classification of consumers;
- Consumers recognition (personalization);
- Consumers differentiation according to values and needs;
- Interaction with consumers;
- Customization of service process, by approaching each consumer through personal contact or automated process;
- Creation of loyalty programs - rewards and added values;
- Continuous concept improvement (control, measuring and feedback information).

During concept implementation, all risks and possible errors should be determined and corrected. During concept implementation analysis, one should primarily focus on:[12]

- Assumption that the client wants to establish long-term relationship;
- Assumption that the client is ready for interaction and joint activities.

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[12] Domazet, I., Zubović, J., Drašković, B., CRM koncept u funkciji unapredjenja direktnog marketinga, *Management*, Vol. 51, 2009, pg. 1-11.

- Assumption that satisfaction is enough by itself;
- If clients are transferred into the "top customers", having awareness that they are valuable for the company, they will expect more;
- Problem of "hurting" clients who are not "top customers" by profit, or by company's directed attention, and they have significant contribution to company operations;
- Changing attitudes toward key clients could cause confusion;
- Some awards may be unnecessary (clients could behave similarly without them), and they may be expensive;
- Sometimes customers establish cooperation not because they are loyal, but because they do not have alternative substitutes in the market.

Researches conducted among different level managers in banking, telecommunication and public service sector in the USA show that the largest obstacles during implementation of long-term relationships concept with consumers are: time required for concept implementation, organization culture, financial funds, and many other initiatives implemented in the company. Long-term relationships development requires continuous interaction between company and consumers. The company has to take care of the relationship. This means that it has to trace all types and places where consumers and the company face each other in the process of information exchange.

For the development of long-term relationships, the following aspects of communication with consumers are particularly important:

- Personal contact (by phone or personally);
- Personalized mail;
- Internet and e-mail.

Apart from these, mass promotion is very important. The means of mass promotion are used simultaneously to attract potentially new consumers, as well as to keep existing consumers aware of the company. However there are certain communication limits with consumers, so the company has to take into account the following:[13]

- Do not start interaction with consumers if there is no clear communication goal;
- Consumer should not be asked twice about something;
- Communication should be done between two consumers' purchases;
- Interaction always starts with questions about consumers (not about products);
- Interaction should be personal and customized to specific consumer;
- It should be determined if consumer (always) wants interaction;
- Use of mass adjustment principle and technology is preferable in order to reduce interaction costs and personalize sent message;
- Consumers privacy should be kept;
- Dialog should be initiated by printing of phone number (for free calling), or by publishing website with all information about company (business cards, memo, billboards, etc);
- Make sure that consumer values interaction properly;
- Care about customer's time (everything about consumer can not be learned at once).

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[13] Peppers, D., Rogers, M., Dorf, B., Interaction generates customer feedback, *PT Motion Systems Distributor*, Sep/Oct 2000 Vol. 14/5, 2005.

Communication with consumers is important because:

- Dialogue can provide information;
- Information is transformed into knowledge (knowing consumer and his needs);
- Knowledge is the basis for adjustment of products/services, as well as for the establishment of long-term relationship;
- Efficient and effective action leads to consumers satisfaction, trust creation and familiarity;
- Consumers satisfaction and trust lead to loyalty; and
- Loyalty leads to profit.

Conclusions

Interaction with clients increases company profitability and consumer satisfaction. Contemporary business environment with strong competition leads financial organizations to introduce one new, more effective and efficient approach to the market, because company success mostly depends on how effectively it meets all consumer's needs which leads to creation of loyalty and profit growth rate. The majority of financial organizations claim that their products and services are adjusted to consumers' needs and requirements, but in practice that is not usually true due to several reasons: inconsistent application of the marketing concept, increment of needs and wants of modern consumer and limitations of classic marketing approach. Therefore, the client's value must be analyzed and business behavior adjusted accordingly. An important role in the process is played by the techniques and concepts of direct marketing, for example by the management of long-term relationships with clients. Management of long-term relationships improves clients' loyalty level. Loyal clients use company's products and services more and they are less sensitive to price. They spread positive propaganda, appreciating the value of the company's products and company itself. Loyal customers of one organization are at the same time lost customers for competitors. That leads to increase of market share and improves competitiveness. It consequently leads to significant profit growth which is the main goal of each and every company.

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Dezvoltarea relațiilor cu clienții pe termen lung în companiile din sectorul financiar – sursă de avantaje competitive

Rezumat

Marketingul relațional reprezintă conceptul care oferă o perspectivă pe termen lung rolului şi importanţei clientului, întrucât urmăreşte dezvoltarea cooperării loiale şi durabile a relațiilor de parteneriat cu clienții-cheie ai organizației financiare. Marketingul relațional se concentrează pe: obținerea fidelității şi menţinerea clienților pe o perioadă mai lungă, valoarea clientului, calitatea serviciilor oferite, angajamentul de a satisface aşteptările clientului, precum şi implicarea tuturor angajaților în relația cu clientul. Iată de ce marketingul relațional reprezintă un mecanism strategic semnificativ care poate spori avantajul competitiv al companiilor.