

REALIZING CUSTOMER RETENTION POTENTIALS BY ELECTRONIC BANKING

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CORPORATE COMMUNICATIONS AND ITS IMPACT ON CUSTOMER RETENTION

Economic literature has been focusing frequently on the impact of systematic coordination of all communication instruments, coming to the result that well managed corporate communications may strengthen return on sales. The justification of this assumption is the concept of market focused management, i.e. the strict orientation of all business activities by customer needs. The profit chain can be explained only briefly here. Caring for customer needs – even in communication – results in customer satisfaction which can be transformed into customer retention by adequate policies. Furthermore, Reichheld and Sasser (Reichheld/Sasser 1991, p. 110f.) have shown that profits are growing the more, the longer a customer relationship lasts.

Market orientation requires market segmentation, ranging to the “segment of one” in the extreme, and the differentiated marketing of the resulting segments. In the field of communication politics this requirement can be fulfilled comparatively easy as will be shown in chapter 3. Firms can take the chance of satisfying a critical, multioptional customer (Wiswede 1990, Liebmann 1996) by completing his or her needs and thus achieve customer retention.

Satisfying needs in this context means

- ◆ retracting from linear, one-sided mass communication towards a two-sided netted relationship marketing allowing individual communication and
- ◆ switching over from business initiated push marketing to pull communication, so the recipient can decide, which message to receive at what time and what location (Bruhn 1997, p. 823).

New media, e.g. the internet, are no longer just the playground for “online-freaks”, firms have recognized the chances offered by online communication. An empirical study, conducted by the Ludwig-Maximilians-University of Munich, Germany, reveals that service industries (mainly financial service providers) regard online advertising as very important (Schwaiger 1998). When asked about future importance of 20 communication instruments, service industries ranked online advertising on 3rd place right in front of classic advertising (1st and 2nd place are taken by employee training and public

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relations). Since the importance of sales force according to the study becomes lower we may draw the conclusion that efficient internet communication will be able to replace expensive sales force at least in parts, thus showing not only customer retention effects but cost cutting potential as well.

Some aspects concerning online communication of financial service providers shall be discussed focusing electronic banking.

TECHNICAL ASPECTS AND CUSTOMER GROUPS

Electronic banking is characterized by the use of data and telecommunication networks to establish an electronic connection between bank and customer in order to prepare, manage and control financial transactions (Burr 1996, p. 29). Customers are supported herein by configurable and exchangeable homebanking software products.

In Germany, electronic banking has been existing for some 15 years and thus is presently not a new way of communication between bank and customer. Meanwhile, electronic banking has become a fixed part of financial markets. A survey reveals that by the end of 1996 more than 95% of all German banking institutes provided electronic banking, 40% by use of the World Wide Web (Coopers & Lybrand Intl. 1997).

An analysis of banking services shows that the integration of the customer is a specific characteristic of financial services (Roemer/Buhl 1996, p. 566f.). Bank and financial services can not be produced in advance, they have to be tailor made, and the customers copartnership by the time of service completion is essential. The degree of integration is subject to the complexity of the service good on one side, on the other side it depends on the customers willingness to cooperate, so he should be integrated in the whole process of giving an offer already.

Transactions only form a specific case of banking service with low customer integration, since the customer supplies only the information needed for launching the transaction. Roemer and Buhl have discussed several ways of offering complex banking services via WWW (Roemer/Buhl 1996). To realize offer and sale of these complex service products a new conceptualization of the relationship between customer and bank using the possibilities

of internet communication is necessary. To do this, in a first step one must get a clear image about customer types. The potential electronic banking user was identified as a high involvement person belonging to the conservative or liberal-intellectual upper class or (in parts) as a member of the career-orientated upper middle class (Spiegel 1995). The authors of the Spiegel-study named these target groups "the sovereigns", "the cools" and "the insouciant". They all use electronic banking as interesting alternative to telephone banking.

- ◆ The sovereigns recommend technical progress in financial services. They regard the use of more comfortable technologies which allow service enhancement as a natural thing. They show great interest in direct-bank offers due to the financial advantages resulting from lower transaction costs.
- ◆ The cools adopt technical innovation without any doubt, never complaining about the loss of personal contacts by using electronic ways of communication. They show significant interest in direct-bank offers as well.
- ◆ The insouciant are looking forward to electronic banking, mainly because they expect more comfort. They avoid contact with financial service industries in general and do not care about losing personal contacts. But they are afraid of security gaps allowing manipulation and misuse by non-authorized persons.

All target groups have in common the careful search and the thorough apperception of information, which is easy to support by internet technologies. They are planning their lives in a rational way, they consequently pursue their own ideas (mainly the sovereigns) and they care about success and fun in their jobs (the cools). Even before consulting the web pages they analyze markets and compare prices and quality of desired objects. The decision is made on the basis of a careful trade off between price and expected merit. The choice of the "best" product (subject

to personal preferences) is as characteristic for the target groups as the influence of reference groups on buying decisions. Moreover, the target groups are affected by cocooning, consciously avoiding social contacts and retracting from out-of-home activities, except for job fulfillment.

In a narrow sense, only the sovereigns are real innovators. But all mentioned target groups show interest in new products and technologies, security aspects are considered neglectable by sovereigns and cools. Distributions of sociodemographic variables within the target groups are similar to those of internet users in general, showing mainly male persons aged under 40 years with higher education and higher income or at least higher income potential.

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CUSTOMER FOCUSED DESIGN OF INTERNET COMMUNICATION

INDIVIDUALIZATION OF MESSAGES

If we divide relevant categories into transaction, information, decision support and advice, we can derive following incentive factors concerning the design of web pages with respect to the mentioned target groups:

- ◆ A mere transformation of transaction offers into web applications will not satisfy customers. Numerous competitors will do better and due to the comparatively low customer retention a loss of customers will be most likely. Comfortable internet banking guaranteeing high security levels is already very common and does not allow differentiation. User do not regard the design of order sheets as important, but quick connections, automatic transactions, fast completion and immediate reporting of bank statements. Moreover, account access and configuration of ports to common software tools, e.g. Quicken or MS Money may be taken into consideration, since more and more customers use these programs to increase personal banking comfort.
- ◆ The typical web user wants to be respected as communication partner, and he wants his information needs to be satisfied individually (Bruhn 1997, p. 823), no matter who initiated the communication process. Financial service providers should not only offer relevant information to become an often visited site. Before responding to any internet offer customers walk through an intense search process in order to inform about objects and compare offers. Since pull communication is initiated by the customers login to the banks web page object search by various search items has to be supported. Incomplete, difficult to understand or difficult to find product information may annoy the customer and cause unwillingness to proceed and complete transactions.

- ◆ Information value can be enhanced by providing databases and analyst-tools. By offering such devices online or as downloadable version the information seeker obtains real decision support. Several banking institutes set up cooperations with information brokers, for example the "Direkt Anlage Bank" or Reuters by offering Direkt Depot Link. Using java applets, device independent and on every personal computer connected to the WWW executable programs, or designing active internet pages taking advantage of new HTML features allow individual search, calculations and comparisons. By doing so, customers can be integrated in the process of generating bank services subject to individual control. Several institutes are presently negotiating contracts with financial service software providers in order to find out, how specific program versions can be made accessible. Since customers are able to judge the value of these add ons, banks should avoid the distribution of "light" versions. Instead of this, standardized configuration routines should lighten access to supplier specific information and transactions without prohibiting access to competitors service sites.
- ◆ A particular problem exists in replacing personal advice in sales of complex explanatory bank services. At present considerable improvements are necessary concerning the design of sales support. Roemer and Buhl draw the conclusion that this process at best should be supported by parallel telephone calls (Roemer/Buhl 1996, p. 572 ff.). Moreover, Roemer and Buhl give a summary on distributed decision support systems as applications of artificial intelligence, where independent agents (i.e. a "customer analyzing agent" and several "skilled specialist agents") together solve the customers problem, for example a complicated finance management for house construction with respect to existing saving contracts and life insurance policies.

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SUPPORTING PULL COMMUNICATION BY ASYNCHRONOUS COMMUNICATION TOOLS

Even if electronic banking users are high involvement customers initiating communication processes (pull communication by logging in to web sites), banking institutes may rise communication frequency by enforcing web site accesses. The popular platform for bank initiated push communication is electronic mail. Some aspects should be taken care of:

- ◆ The easiest way of forcing direct response is embedding WWW-links into electronic messages. Although the layout of e-mails is rarely attractive the user may be supported in finding relevant web pages.
- ◆ A first improvement is done by using MIME, i.e. an add on allowing more attractive multimedia contents in e-mail messages. Meanwhile, every mail program can interpret voice or video

documents attached to the mail message. So a bank could use audio-visual support, e.g. when explaining "difficult" investment forms like futures and options. On the other hand, AVI-documents show big sizes and may cause an overload of the recipients mailbox. Moreover, the sender has to assure that the recipients personal computer is equipped with sound card and speakers.

- ◆ Integrated mail programs, as distributed with internet browsers by Microsoft or Netscape, are able to translate HTML-pages. Distributing HTML-pages by e-mail allows the recipient to read contents offline instead of visiting the corresponding web page online and paying the telephone line costs. Clicking on specific contents (links) launches an automatic login procedure, so offline documents can be connected with e.g. large databases, whose distribution would be inefficient (due to size, confidence or updating problems). An idea is to distribute standard forms and calculation routines via e-mail, e.g. when offering consumer credits. The customer may configure an adequate service offer offline without any pressure due to costs. If needed, actual prices or quotes can be obtained online.

In general banks have to notice that technical equipment among the customers may differ considerably. Technical progress would allow many features that can not be realized because customers use obsolescent hard- and software. If initiating push communication downward compatibility has to be ensured since inconvertible messages cause embarrassment and dissatisfaction.

SOME BASIC COMMUNICATION STRATEGIES

Depending on the communication target different strategies allow deliverance of push-communication messages. Banks have to respect different needs and likes/dislikes among the customer groups mentioned above. The only thumb rule that can be given is designing messages as in-

dividual as affordable and as general as possible with respect to substantial (i.e. banking) requirements. An advice how to determine contents with respect to customer groups could only be given if the psychographic customer groups (sovereigns, cools, insouciant) were clustered according to their needs concerning financial services. Furthermore, the use of different online systems (e-mail, newsgroups) implicates different customer retention strategies, because the integration of recipients into the communication process between bank and customer varies.

1. *Subscribing to Mailing Lists (News-Services)*

The easiest way to obtain regular information on desired topics is subscribing to a mailing list (listserver). For example, users may subscribe to a list of stock recommendations. Subscribers only have to add their e-mail address to the distribution list and receive changes in recommendation in specified intervals (daily, weekly, monthly or on demand).

2. *Subscribing to News Groups*

Some institutes (mainly unit banks in USA) have established specific

newsgroups for their customers. In Germany, a similar board is run by the discount broker Consors, where user-groups discuss about different types of shares and stocks (e.g. domestic and foreign, blue chips and small caps, technology, a.s.o.). Customers may post any question of public interest on the board, bank experts give answers accessible by every net user as well. Frequently Asked Questions (FAQ) are clustered, summarized and saved to a downloadable file to be read offline.

3. *Multicasting (e.g. Channels, Netscape LiveWire, PointCast)*

A recent development in internet technology, invented by press agencies, is called push-technology. Customers who are permanently connected to the internet may receive push information. Technology is delivered along with newer browser releases (by Microsoft or Netscape) or available as separate software application. Users are informed real time by popping up windows containing the message sent by the initiator. A common application at present is posting stock quotes via push-technology (e.g. EASDAQ-Site http://www.easdaq.be/pb/enb_00.asp).

Push-technology provider deliver contents without charging the recipient. Instead of this, they achieve refinancing by space broking (advertising) or by charging the information offering company.

CONCLUSION

Regarding the financial power of the described target groups users of electronic banking are of higher interest for banking institutes. So banks should not dampen expenses to perform research work on customers communication needs and demands. An electronic communication strategy based on these research results makes the customer feel the banks market focus and causes satisfaction, because customer orientated communication saves time and (customers) money. The retention potential resulting therefrom may be strengthened by asynchronous communication, if the impression of mass advertising can be avoided. To succeed in doing so banks will have to personalize and individualize messages stronger than they do this at present. Only then electronic communication like electronic banking will increase customer retention remarkably.

IMPROVING PERFORMANCE OF FINANCIAL SECURITIES TRANSACTIONS PROCESSES

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1. INTRODUCTION

In the last two decades there has been an enormous growth in the number and volume of transactions in financial securities (stocks, bonds and derivatives), currently well over 15,000 billion US\$ in the US alone (Federal Reserve, 1996). The financial securities sector is characterised by a variety of stakeholders, such as, brokers, custodians, and regulators (Dale, 1996). Increased competition has led to consolidations and diversifications in organisations, differentiation in services offered, and the increased importance of risk man-

agement (Federal Reserve, 1996; Weber, 1995). Developments in information technology create opportunities for organisations to communicate electronically, thus improving the speed and quality of information exchange (Venkatraman, 1990; Dale, 1996) and supporting the globalisation of the industry and the emergence of electronic markets.

The time needed to process an inter-organisational securities transaction has been reduced significantly over the last few years. In 1991, it used to take about

15-30 days to settle a transaction after it was executed on the exchange. In 1997, it took on average no more than 3 days. In the UK, the transaction throughput time was reduced from 10 days to 5 days in June 1994. In Hong Kong, it was changed back from 1 day to 2 days in order to be more in accordance with the industry standard of 3 days. In the US, it changed from 5 to 3 days in June 1995. Within the next few years, the industry standard of 3 days is expected to be reduced further to 1 day or a few hours (Group of Thirty, 1993).

Reduction of transaction times is important for organisations to remain competitive and to avoid or limit the high risks for the various stakeholders. For instance, the risk of non-payment or non-delivery was reduced from 15 to 3 days. But, along with this reduction of processing time, a