

# Challenges of Customer Retention in the Kenyan Banking Sector: A case Study of KCB Treasury Square Branch, Mombasa

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## **Abstract**

This study is about the analysis of the challenges of customer retention in the Kenyan banking sector. The main objective of the study is to analyze the challenges that affect customer retention and how to overcome them in the banking sector. To achieve this, 40 respondents were selected from the 40 employees of KCB Bank, Treasury Square branch in Mombasa County. These employees were from the following departments: Finance, Customer Service, Compliance, Sales and Marketing, Control and Strategic Management. Data was collected and administered using a structured questionnaire to the respondents. The researcher requested the respondents to fill the questionnaire as they are served. The study incorporated descriptive data analysis tools and the likert scale to determine the weight of the factors.

**Keywords:** Customer retention

## **1. Introduction**

Customer retention is a cost-effective and profitable business strategy that is imperative in today's competitive economic environment. By definition customer retention is the activity a company undertakes to prevent customers from defecting to alternative companies.

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Successful customer retention starts with the first contact and continues throughout the entire lifetime of the relationship. Some of the benefits of customer retention are: to increased revenue to lower customer acquisition costs and to increased referrals. As the cost of acquiring new customers and accounts increases in the banking sector, and as competition for deposits and their associated fee income increases, banks are paying more attention to the number of customers and accounts they are losing.

Several studies have emphasized the significance of customer retention in the banking industry [1,2,3,11]. The challenges of keeping customers include determining who should be retained and how to retain them. When customers contact the bank to close their accounts, there is an opportunity to interview and possibly retain the customer by determining whether closing the account is necessary. For example, if the customer is moving out of the area, determine how the bank can continue to provide the same services; if there is a service level issue, resolve it [3].

Research findings suggest that the costs of customer retention activities are less than the costs of acquiring new customers. The financial implications of attracting new customers may be five times as costly as keeping existing customers [13]. In businesses where the underlying products have become commodity-like, quality of service depends heavily on the quality of its personnel. Approximately 40 percent of customers switched banks because of what they considered to be poor service [8].

## **2. Materials and methods**

### *2.1. Purpose of the study*

If the latest economic downturn has taught marketers anything, it's that we need to keep our friends close and our customers closer. The Kenyan banking industry has reached the maturity phase of the product lifecycle and has become commoditized, since banks offer nearly identical products. This carries the danger of creating a downward spiral of perpetual price discounting and fighting for customer share [10]. One strategic focus that banks can implement to remain competitive would be to retain as many customers as possible.

During a time of tight purse strings in both business and consumer spending, the battle for wallet share has never been more intense. Faced with the high cost of new customer acquisition and constrained marketing budgets, businesses are looking to improve their bottom line by increasing focus on their most valuable asset – their customers. Loyalty and retention programs designed to strengthen the relationship between customer and business are now a staple in the marketing mix.

Even though these programs are pervasive across all types of businesses, marketers are now challenged with new customer dynamics. The global recession and the now pervasive options available through social media and online channels have combined to usher in a new customer sovereignty, where frugal buyers can find, compare and evaluate purchases in a matter of minutes. What's more, social media has given the customer significant power to influence the purchase behavior of others, giving a whole new meaning to the adage "the customer is king." Customers are more fickle these days. Their expectations are greater. They are easily wooed by the promise of savings and getting more for less. Brand loyalty is certainly not what it used to be. These challenges are among the many that have compelled the researcher to analyze them and find out how Banks can mitigate them and come up with ways that will assist them to retain their clients.

## *2.2. Challenges of customer retention*

The dissatisfaction of customers generally stems from three sources: fees – misunderstood, unexplained, poorly explained, too steep, etc.; errors – or perceived errors; and poor service. While a great deal of focus has been placed on customer service within the industry, a University of Michigan study reported that bank service levels – based on customer perceptions – actually fell 5.4% from 1994 to 2000. Although customers from all categories close accounts, in many banks new customers close at a rate 75-100% higher than other categories. (New customers are defined as those whose relationship is 60 days or less. If the second account statement does not reflect the resolution of an error identified on the first statement, the customer leaves).

Many banks know little more about who is leaving than whatever information appears on their demand deposit applications' daily closed account reports. While many banks use elaborate tracking to conduct in-depth analyses of their new accounts, many of those same banks do not track or analyze their closed accounts. Given account acquisition costs, it seems prudent for those banks to develop formal customer retention programs. [5]. A formal customer retention program needs a vision, a strategy or objective (e.g., how the bank will build customer loyalty), and a tactical plan for success -- in that order [4]. Too many organizations implement tactical plans without first having defined the strategy or objective, thus creating a new problem rather than creating a solution. Included in the objective is defining the customer experience expectation – the *Harvard Business Review* reported that a 5% increase in customer loyalty could boost profitability 25-85%. Once the objective is agreed upon, communicate it throughout the organization and ensure buy-in at all levels. At a minimum the tactical plan includes monitoring customer expectations and providing for appropriate adjustments. Other elements of the plan include evaluating and implementing appropriate organization structure, processes, information, technology and scorecard.

*2.2.1. Customer expectations* – The expectations of many customers are dynamic. They keep on changing frequently. Banks should always seek and act on customer feedback. A University of Michigan study reports that a 1% increase in customer satisfaction yields a 3% increase in shareholder value. Banks should determine what customers want and deliver it - flawlessly. Improve customer satisfaction by resolving errors immediately. Customers generally are more concerned with speedy resolution than the errors themselves. The Tower Group reports that the average US consumer has 10.14 financial products with an average of 4.15 financial institutions. Seventy percent of those polled want to consolidate into one institution, but only 20% believe one financial institution can meet all their needs competently [7].

*2.2.2. Organization structure* – Most banks do not have a structure that support customer retention program. They should design an organization to support the customer retention program and communicate the structure and rationale throughout the company. They should also hire and train employees eager to work with customers. Train employees how to bundle products. In a March article about Washington Mutual, *Fast Company* reported, “WaMu’s studies have shown that as customers add products, retention rates soar: After one year, 96.4% of customers with

four products are still with the bank, while only 75.5% of those using one product are still around.” Train employees on the economics and importance of account retention.

When a prospective customer comes into the bank or is approached by the sales staff, it is critical that the employees who will be dealing with those prospects are well trained [12]. Train employees how to resolve problems effectively and allow them to resolve them at the customer touch point. Train employees to understand the impact of dissatisfied customers and how to turn them into opportunities. Ensure employees understand fee structures and how to communicate them effectively. Reward employees for retaining customers.

2.2.3. *Processes* – Long banking processes is a big turn off for customers. For example, long banking queues, slow IT systems and long waiting duration to acquire an ATM. Engineer processes that touch the customer. For example, shorten the cycle time for new accounts and monitor it closely to ensure a smooth setup. Ask customers what processes matter to them and engineer accordingly. Develop parameter-driven products to allow customization without creating exception processing.

2.2.4. *Information* –Determine what information is needed, then capture it, analyze it, and use the analyzed information [9]. How is attrition measured? By number of accounts? By account type? Geographically? How does the closed account portfolio compare to the active account portfolio? How does customer attrition expense compare to account acquisition expense? Can account churn be isolated? Is there any value in losing some customers? Consider predictive modeling so branch bankers can identify customers likely to leave and take appropriate action.

2.2.5. *Technology* – Obsolete and slow technology reduces customer retention rates. Identify technology requirements including integrating reporting or accounting applications with existing architecture and infrastructure. Customers expect that banks have a unified view of them across all channels.

2.2.6. *Scorecard* –Banks should set measurable objectives for each plan element and monitor them [6]. Although metrics will be unique for each element, they will link to support the overall objective, e.g., employee performance. Performix Technologies reports that several firms have researched the link between employees, their performance and profit. Companies with engaged employees are 56% more likely to have higher than average customer loyalty, 50% more likely to have lower staff turnover, 38% more likely to have above average productivity and 27% more likely to report higher profitability.

Focusing on a formal customer retention program may prove more efficient and effective for increasing revenue and deposits than account acquisition plans. At a minimum focusing on improving service levels will attract and retain customers. Good service – or perceived good service – appears to be a major differentiator in the marketplace.

### 2.3 Methodology and Research Design

The study was largely of a qualitative exploratory nature. It targeted the city of Mombasa and its environs. From a population of 40 employees of KCB Treasury Square Mombasa, the researcher targeted all of them in the survey. The sample consisted of 40 respondents selected from the five departments. Primary data was collected using a questionnaire. The questionnaire was employed for data collection in this study because a lot of information collected over a very short period of time. The study on the other hand, it is mainly concerned with views, options, perceptions, feelings and attitudes and such information is best collected through the use of questionnaires. Secondary data was obtained from the annual prospectus of KCB. More secondary data was obtained from news lines, bank agent, banks' pamphlets, and research findings from similar studies obtained from libraries, newspapers and other publications.

### 3. Results and Discussion of Findings

Data was collected from 40 employees. Of the 40 employees sampled, all of them responded, a reasonably high response rate of 100 percent. The collected data was then summarized coded and analysis made. Descriptive statistics e.g. percentages, graphs and cross tabulations were used to describe, analyze and present the study findings.

The first question in the questionnaire intended to establish whether there is a department whose main focus was on customer retention. The figure below summarizes the findings.

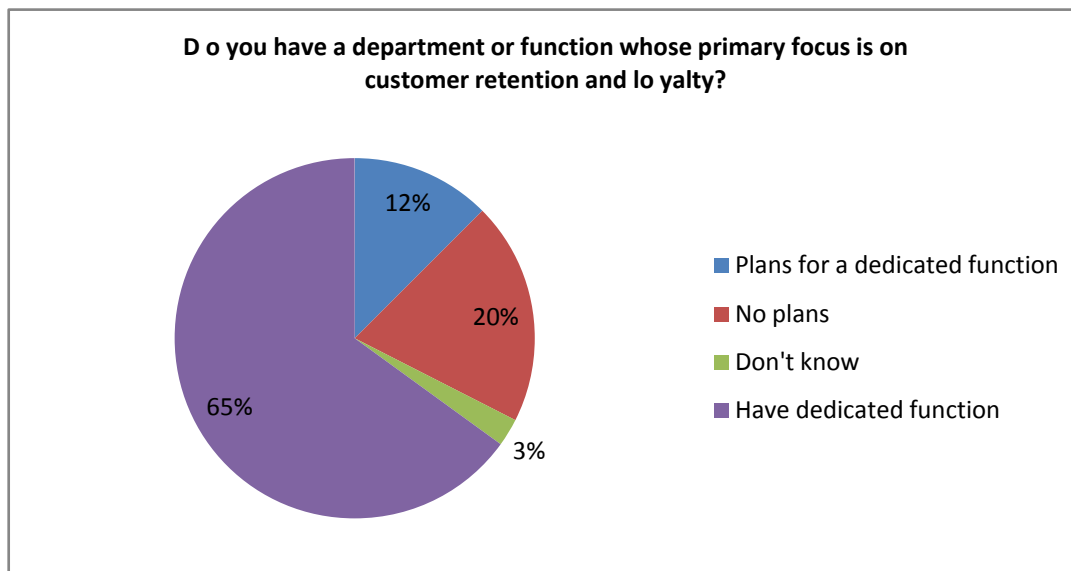
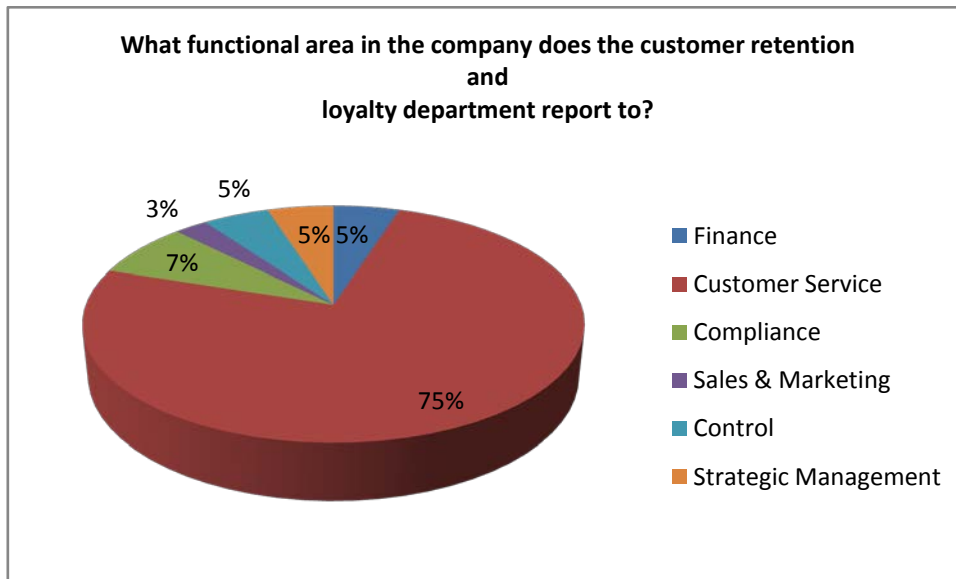


Figure 1. Customer Retention Focus

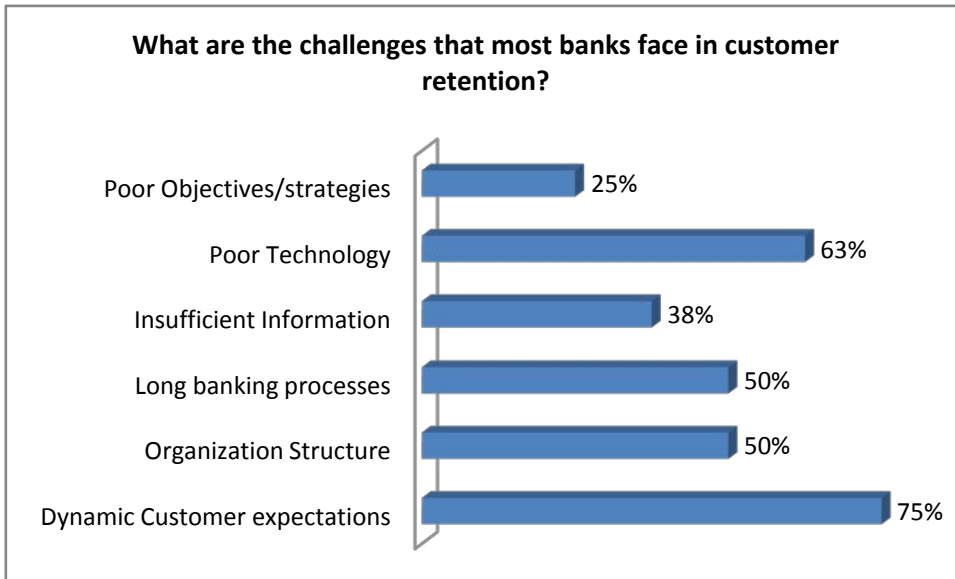
From the figure, it is clear that 65% of the respondents agree that the bank has a dedicated function that focuses on customer retention. This function reports to the department of customer service. This is reflected in figure 2 below.



**Figure 2. Customer Retention Reporting Line**

Improving the bottom line in the current economic climate means rethinking customer strategy. In addition to selling to new customers, businesses must continue to focus on the value they provide to their customers in order to maintain a competitive advantage. Effective retention and loyalty strategies are not merely about keeping customers at all costs. The conversation is now about developing loyalty among the most valuable customers.

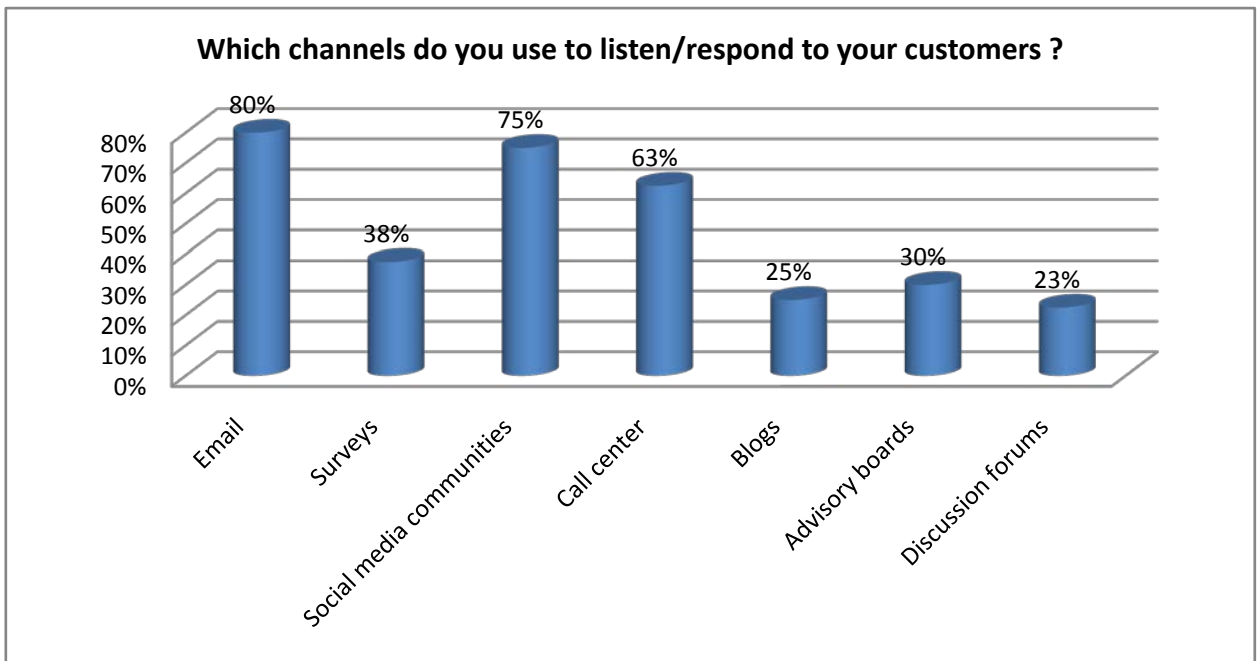
The next question in the questionnaire was aimed at finding the challenges that most banks face in customer retention. Figure 3 below summarizes the findings.



**Figure 3. Challenges in Customer Retention**

From the figure above, it is clear that a dynamic customer expectation is the biggest challenge that banks face in customer retention. This is because 75% of the respondents agreed with the statement.

The means of responding to the challenges were also further analyzed in the questionnaire. The findings are as shown in figure 4 below.



**Figure 4. Channel Used to listen/ Respond to Customers**

From the figure, the following are the channels that banks use to respond to customers; Email, surveys, Social media, call centers, Blogs, Advisory boards and discussion forums. The mostly used channels are emails and social media.

#### **4. Summary**

The aim of this research paper was to investigate the challenges of customer retention in Kenyan banking sector. In order to achieve this, the paper delved into Kenya's financial sector, the challenges facing customer retention in Kenya and the solution to the challenges. It is clear that the customer is a formidable challenge. While the era of big data has given us the opportunity to collect and store massive amounts of information about our customers, harnessing that information across the entire organization is difficult. And many organizations aren't there yet. They lack the tools, technology and infrastructure necessary for an effective customer information strategy.

#### **5. Conclusion and Recommendations**

With so much at stake, measurement of loyalty and retention program effectiveness is essential. While customer loyalty and retention are not new, there is certainly an increased focus on driving effective strategy around them. Traditional means of creating loyalty and keeping customers are gleaning diminishing returns.

Customers are becoming desensitized to loyalty programs and are more willing to switch for savings. Businesses must be innovative in delivering unique value to their current customers to protect their brand loyalty and grow their revenue stream. The concept of customers as brand evangelists is more important than ever.

This paper shows that unless serious attention is paid to customer retention, simply looking for more customers by concentrating on opening of new accounts will fail to effectively achieve the main objective of the banking sector in Kenya.



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