EFFECTS OF RELATIONSHIP MARKETING ON CUSTOMER RETENTION IN THE KENYAN BANKING SECTOR.

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DECLARATION

This project is my original work and has not been submitted in any other university for research in fulfilment of any degree.

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RECOMMENDATION

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ABSTRACT

Over the past years a major shift has occurred in the way marketers approach their customers. Researchers assert a paradigm shift from the traditional marketing concept based on transactions to relationship marketing concept based on retaining customers on long term. Today’s world is one where customers have a lot of options of product vendors, which makes for a very picky customer. This means that customers have an increasing rate of expectation and a decreasing level of tolerance. These and other major factors like intense competition, undifferentiated products have resulted in the need for relationship marketing. This study sought to establish the extent to which relationship marketing has been adopted by Kenyan commercial banks. The general objective of the study was to investigate the relationship marketing strategies adopted by various banks and their effects to customer retention; out if Kenyan banks have adopted relationship marketing strategies, their benefits and challenges experienced.

The literature reviewed highlights the development and shift from transactional marketing concept to relationship marketing concept. A conceptual framework showing the relationship between the relationship marketing strategies as independent variables and customer retention is then derived. The study had a population of 46 commercial banks as listed by the Central Bank of Kenya as at December 2006. The sampling frame grouped banks according to total asset base with 12 being large, 20 medium and 14 being small banks. Simple random sampling was used to the sample size of 50% from each group making it a sample size of 23 banks. From each selected bank 5 customers were picked randomly to constitute a sample size of 115. A descriptive survey was carried out with data collected using a questionnaire. The data was analyzed using the Statistical Package for Social Sciences (SPSS) for Windows version, and the findings presented using percentages in tables.
The study found that banks have adapted and implemented various relationship marketing strategies, with customers not being aware of some of them. It also found that some strategies have a greater effect on customer retention than others. The study found that the banks faced several challenges in implementing these strategies. This includes increased marketing costs, changing customer needs and fraud among others. Despite these challenges banks listed several benefits that they get from practicing relationship marketing. This included increase in sales, strengthening partnership with their customers and enhancing company image among others. It is from these that in conclusion the study highlights a number of strategies that are effective from the customers’ response such as customization of products to suit customer needs, customers ease in accessing their accounts and good customer care. From these the study makes recommendations to the banks like, investing more in creating awareness of their products to customers. Also create clear channels of communication with their customers so that customers are aware of their services and even improve on their services. Customers on the other hand are advised to make sure they orient themselves with all the services that are offered by their banks. This will eliminate wasteful marketing practices on the banks part and maximum benefits for both the banks and the customers.
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DEFINITION OF TERMS

Banking sector: This consists of commercial banks, whose functions include pooling collecting savings into financing and investments, providing efficient and effective payments system.

Conventional /Traditional /Transactional marketing: This emphasizes on the transaction (the single sale) of a product or service, which is short term.

Customer retention: This is the number of customers at the beginning of a period that still remain customers, at the end of the period; in this case at least five years.

Customization: The ability of a seller to design and offer a product/service that fits specifically only to an individual buyer’s to requirements.

Relationship Marketing: It refers to all marketing activities directed towards establishing, developing and maintaining successful relational exchanges between the seller and the buyer. It entails the seller having a stronger value offering product or benefit bundle accompanying the product offered to customers so as to win and keep the customer.

Value-Added Services: All those extra benefits that are offered alongside the core product to increase the satisfaction of the customer. They may be free or charged lower than the competitors.
ABBREVIATIONS

CBK: Central Bank of Kenya

FOSA: Front Office Services Available

IRAC: Interest Rates Advice Center

IT: Information Technology

MFI: Micro Finance Institutions

MI: Market Intelligence

SACCO: Savings and Credit Cooperative Societies
CHAPTER ONE:  
INTRODUCTION

1.0: OVERVIEW
This chapter looks into the background of the study, which gives an overall outlook at the concept of relationship marketing and the factors that have resulted in the need to adopt it in the commercial banking sector. The statement of the research problem is clearly indicated with the research objectives being outlined. The research questions, purpose and justification of the study are also included.

1.1: BACKGROUND OF THE STUDY
The Kenyan banks are experiencing severe challenges as competition intensifies both from the traditional competitors and new forms of competition from outside the sector. This includes institutions like the building societies e.g. Housing finance, Micro lending institutions like African Capital investment, Real people and Molyn Investments who offer instant loans against pay slips. SACCOs with front office services like Mwalimu SACCO’s Withdrawable Savings Fund (WSF) and many micro finance institutions e.g. K-Rep have also joined in to offer services that were originally offered by banks. Communication companies too have joined in with money transfer services like the M-Pesa for Safaricom, Chakaza for Celtel and Chukua for Telecom.

Much of it has to do with liberalization of the economy that allows even non-financial institutions to conduct business previously a preserve for banks only. The repeal of Foreign Exchange Act in 1992 and deregulation of interest controls in 1995 liberated the banking industry (Gitangu (1996). According to The policy framework paper (2003) numerous reform measures have been undertaken opening doors to private investors, such as reduction of the number of national and local fees and licences required for a new business to operate. This created a free trading environment in Kenya, opening gates for entry into various sectors of business by new players.

Just recently there were the pyramid schemes that saw customers borrowing money from the commercial banks to invest in these schemes (Daily Nation, 15th July 2007). Eventually many people lost their hard earned cash when the schemes collapsed. All these boil down to one hard reality that customers are not willing to invest in banks for one reason or the other but are willing to go there as a last resort.
Recently we have seen banks practically ‘hawking’ easy loans to the previously untouchable groups, which they had abandoned in the 1990s. ‘Developing numerous products is not enough for the banks to accumulate a pool of applicants who can give them high returns’, warns Naomi Wandia, a consultant with the Interest Rates Advisory Centre (IRAC). The banks are now dealing with more enlightened clientele that will not simply swallow their marketing gimmicks considering that some of them lost their properties in the 1990s when the interest rates shot to the skies (Daily Nation, 15th July 2007).

Intense competition has resulted in the little or no differentiation among their products owing to product imitation. Thus no bank can claim a substantive edge over the other. To remain competitive banking service providers are increasingly focusing on service quality. These banking service providers are using information technology to reduce costs and create value-added services for their customers. Some examples of IT-based services enhancement include web-based banking systems, automatic ticketing machines by airlines. These services are expected to help service providers improve the quality of service, financial performance, customer satisfaction and productivity. These technological advancements have led to increased demand for non-traditional services including the automation of a large number of services and move towards an emphasis on the customer rather than the product. It has also led to customer awareness and hence the demand for individualized goods. This has created a need to develop and sustain worthy relationships with customers so as to keep abreast of their changing needs and behaviour (Mbote, 2003).

Morgan and Hunt (1994) found that companies have recognised that sustainable competitive advantage in the global economy increasingly requires one to become a trusted participant in some network or set of strategic alliances. Relationship marketing has therefore emerged to ensure existing customers are retained for future profitability. As competition intensifies, products and services become more homogeneous and markets become mature. It is becoming increasingly harder for companies in both marketing and services industries to differentiate themselves from other organisations. Merely providing customers with quality products and services does not suffice any more to be competitive enough to gain and retain the market share.

Over the past years, a major shift has occurred in the way marketers approach their customers. Market researchers (Gronroos 1990, Payne et al 1995, Morris et al 2001) assert a paradigm shift from the traditional marketing to relationship marketing if businesses are to retain their market share. Today’s world is one where customers have a lot of options.
There are too many retail stores, too many banks and too many airlines all going to the same place. And the competition is just beginning to heat up. Such a variety of vendors make for a very picky customer. This means that customers have an increasing rate of expectation and a decreasing level of tolerance. This boils down to one hard reality, that most potential customers today are already attached and companies without enough are sure to come looking to lure yours away. When that happens all your “tried and true acquisition tricks” as Furlong (2001) calls the traditional marketing ploys, will fall flat.

If Platinum Credit’s (a credit and loans company) network expansion to 12 branches and 65 agencies since its inception in October 2003 is anything to go by, then there is a great potential out there for the banks to do even better (Daily Nation, 12th July 2007).

It is with this in mind that a lot of attention has been given to how customers are handled. Many institutions have realized the need to take great care with their customers and have gone ahead to establish customer care desks as part of their front office services. In so doing they seek to address customer queries and complaints before the customer goes back into the wider market and express their dissatisfaction to other customers and would be customers (Kotler, 2002).

Peppers and Rogers (1993), declared the need to focus less on products and more on customer relationship. In their book, “The One to One Future”, they argue that “…in the coming years, you will not be trying to sell a single product to as many customers as possible. Instead you will be trying to sell a single customer as many products as possible, over a long period of time and across different product lines. To do this, you will need to concentrate on building unique relationships with individual customers on a 1:1 basis.” Moreover, Groess et al (1995), estimate that it costs six to nine times more to acquire a new customer than it does to retain a current one, demonstrating the value of relationships.

1.2: STATEMENT OF THE PROBLEM
According to Thuo (1999), before liberalization in 1993, there were nineteen (19) commercial banks in Kenya, currently there are up to forty six (46) registered commercial banks with other non-financial institutions providing services that were originally a preserve of the banks. Liberalization created immense competition with similar products/services on offer, which call for the need to differentiate services by these institutions. But Kimani (2003) in a study on the product strategy of Kenyan commercial banks found that few products are highly differentiated.
An observation that can be explained by the fact that most of our local banks focus on market niches which are similar, as well as offer selective services and products. This has called for adoption of defensive marketing strategies.

Gabarino and Johnson (1999) indicate that under certain circumstances a long-term relationship between the vendor and the customer is the best way to success for the selling firm. Various value-added services, which start before the actual transaction and go beyond it, have to be delivered in order to stay competitive and create customer loyalty hence retention. Although this may be common knowledge, it is not always common practice. One reason for this may be that some organisations do not know how to develop and or maintain a relationship with their customers. Indeed according to Butcher (1998) customer satisfaction with a product/service offer is not on its own a guarantee of customer loyalty and hence customer retention. It is with this in mind that the study sought to establish the effects of relationship marketing on customer retention in commercial bank.

1.3: GENERAL OBJECTIVE:
The general objective of this study was to investigate the relationship marketing strategies adopted by various banking institutions and their contribution to customer retention.

The study had five specific objectives which were:

1. To determine if banks have adopted relationship marketing.
2. To determine the relationship marketing strategies adopted by commercial banks.
3. To establish the extent to which relationship marketing has contributed to customer retention.
4. To determine other benefits to the banks other than customer retention, that accrues from the use of relationship marketing.
5. To identify the challenges experienced in the use of relationship marketing strategies.
1.4: RESEARCH QUESTIONS
The study sought to answer the following research questions in an effort to attain the objectives of the study:

1. Have Kenyan banks adopted relationship marketing?
2. Which relationship marketing strategies have they put in place?
3. To what extent can customer retention be attributed to relationship marketing?
4. What other benefits apart from customer retention accrue from the use of relationship marketing?
5. What are the challenges experienced in the use of relationship marketing?

1.5: JUSTIFICATION OF THE STUDY
The findings of the study will be useful to the banks in designing marketing strategies that will reach out to and retain their customers in a bid to eliminate wasteful marketing. To other institutions like insurance companies, hotels, tour and travel companies and any other in the service industry, who have or would want to adopt relationship marketing. To add to the already existing body of knowledge on relationship marketing, as well as to future scholars, as a basis for future research in the areas that will not have been addressed by this research.

1.6: SCOPE OF STUDY
The study covered commercial banks operating in Kenya as at 31st December 2007. This made a population of 46, though a sample of 23 banks representing 50% was taken. The study centred on those strategies that fell under relationship marketing since there are other strategies that deal with transactional marketing. The study also sought to cover those customers who had been with the said banks for at least five (5) years. This was attained by asking a few questions to randomly selected customers by the researcher before handing over the questionnaires to would be respondents.

1.7: EXPECTED LIMITATION
The anticipated limitation to the study was in the response rate, as past studies in the banking sector had problems with the response rates (Thuo1999, Kandie, 2003). The researcher intended to curb this limitation by administering the questionnaire in person, hence a lot of travel time and transport expenses was incurred.
CHAPTER TWO:
LITERATURE REVIEW.

2.0: OVERVIEW
This chapter looks at the development of marketing from transactional to relationship marketing. It covers the different levels of relationship marketing and the strategies adopted in each. The concept of relationship marketing in creating customer value and hence retention is also discussed. The chapter takes a look at related studies in different industries as well as in the Kenyan banking sector. Finally, the conceptual frame work showing independent and dependent variables is elaborated.

The development of marketing is influenced by the development of the society and its economy. Ngahu (1986), states that marketing management must change to suit the needs of the society. It has to keep abreast of the changes being experienced in the wider society for it to maintain its place and play its role in the society. Over the past years, a major shift has occurred in the way marketers approach customers. Researchers assert a paradigm shift from the traditional marketing to relationship marketing, Morris et al, (1998.)

2.1: DEVELOPMENT OF RELATIONSHIP MARKETING
Relationship marketing is a strategic orientation adopted by both the buying and the selling parties, which represent a commitment to long-term mutually beneficial collaboration (Morgan and Hunt, 1994). It refers to all marketing activities directed towards establishing, developing and maintaining successful relational exchanges. There are no buyers and sellers or providers and customers in relational exchanges but partners exchanging resources (Morris et al, 1998).

According to Nigel (2002), in his book: “Market-Led Strategic Change”, the difference between conventional or traditional marketing and relationship marketing is the move from emphasis on the transaction (the single sale) of a product or service to focus on the continuing relationship with the customer. According to Rust (1999), maturing markets lower population growth and increased global competition have forced marketers to examine the cost of winning new customers versus retaining their old ones.
It is with this in mind that Gronroos (1990) redefines marketing as establishing, maintaining and enhancing relationships with customers and other partners at a profit so that the objectives of the parties involved are met. This is achieved by the mutual exchange and fulfilment of promises. Over the last few decades, studies in marketing show that the nature of interrelations with customers is changing with the emphasis moving from a transaction to a relationship focus. Customers become partners and the firm must make long-term commitment to maintaining those relationships with quality service and innovation. Webster (1992).

Payne et al. (1995) argue that the changes in the two focuses can be characterized as follows: -Under transaction marketing, the focus is on single sales with the orientation being on the product features with little emphasis on customer commitment. There’s also moderate customer contact as it’s based on a short time scale interaction where quality is primarily a concern of production. While in relationship marketing the focus is on customer retention with the orientation being on product benefits. Relationship marketing is based on long time scale orientation seeking high customer commitment hence the emphasis being on customer service, with quality being a concern for all.

A number of authors have proposed that customers vary in their relationships with a firm on a continuum from transactional to highly relational bonds, Dwyer et al. (1987). Therefore organisations may need to pursue both transactional and relational marketing simultaneously because not all customers want the same working relationship. This means that customers need to be segmented according to their needs and profitability.

Relationship marketing starts when a company establishes contact with a new customer after which constant contact must be maintained, as customer needs change through their lives. This regular quality customer contact with information that reflects customer needs is then used to build long lasting relationship with the customer (Payne et al. 1995)

2.2.1: LEVELS OF RELATIONSHIP MARKETING

Berry (1995), distinguishes three levels of relationship marketing:

The first level relies on pricing incentives to secure customers loyalty, which is considered to be the weakest level of relationship marketing because competitors can easily imitate price. This includes tangible rewards as a means of appreciating a customer e.g. frequent flyer’s miles, free gifts, points earned on such things as hotel stays, airtime units spent among others. These rewards help customers remain loyal regardless of service enhancement or price promotions of competitors. Peterson (1995) and De Wulf (2001).
The second level of relationship marketing focuses on the social aspects of a relationship, which are characterised by regularly communicating with customers or referring to their names during encounters. Level two marketing tactics include direct marketing strategies like:

Direct mail; these targets specific groups of customers as regular customers as opposed to non-regular customers. Preferential treatment; which refers to situations where a retailer treats and serves regular customers better than non-regular ones. (De Wulf 2001).

Interpersonal communication; which differs from preferential treatment in that it refers to the personal touch in communication between a store, bank or retailer and its customer while preferential treatment emphasizes that regular customers receive a higher service level than non-regular customers.

Consumer focus and consumer selectivity are implicit in the idea of relationship marketing. They recognise that all customers do not need to be served in the same way. In fact by not differentiating customers, companies waste resources in over satisfying more valuable loyal customers. (De Wulf, 2001) Different authors have recognised that the frequency of these buyer-seller interaction and communication increases the probability of discovering behaviours that generate rewards; enhances the prediction of behaviour of the party and classifies each other's roles, special status and closeness. (De Wulf 2001, Dwyer et al 1987, Morgan and Hunt, 1994).

The third level of relationship marketing offers structural solutions to customer's problems. At this level the solution to the customers' problem is designed into the service-delivery system and therefore does not depend on the relationship-building skills.

2.2.2: COMPONENTS OF RELATIONSHIP MARKETING

Kotler (1999) states that companies need to sweeten their offering to their customers. He adds that value-adding companies have figured out a stronger value offering or benefit bundle strategies to win the buyers preference. These benefits go a long way to convince the customers that they benefit more by sticking with a certain supplier. Some of the strategies noted by Kotler (1999) include customisation, more convenience, faster service, more and/ better service, coaching, training or consulting, useful hardware and software tools and membership benefits programme.
Under customisation, Kotler (1999) argues that a company practises "customer intimacy" when it can customize its offerings-to a particular customer’s requirements. According to Kotler (1999) mass customization is the ability to prepare on a mass basis individually designed products, services and communications. He notes that this is possible through flexible manufacturing and (in the case of banks) computer database that stores and analyses information gathered from customers’ past records which enables companies to offer one of a kind products to hundreds, thousands or millions of their products.

For mass customer convenience, Kotler (1999) notes that sellers have a better chance of attracting and satisfying customers when their customers find it easy to reach them, to see their products and to place orders. He notes that one way of doing this is through offering customers more hours for contacts. Banks previously had very limited hours of contact.

But some banks like NIC have extended their contact hours while others are exploiting options of online banking to extend banking hours.

Kotler (1999) notes that some companies have positioned themselves as speed leaders, sewing customers who want faster service. He continues to state that service marketers can distinguish themselves by offering faster service. An example quoted is Citibank, which uses a software program that can tell mortgage applicants in a matter of minutes as to whether the bank can extend a mortgage to them.

Kotler (1999) further states that all businesses must be service businesses. He adds that manufacturers need to deliver service along with their products. An example is caterpillar, which promises to repair its equipment anywhere in the world within 24 hours. He notes that caterpillar makes sixty percent of its profits by selling aftermarket parts and services.

In Customer training and/or coaching Kotler (1999) states that smart companies will help their customers get maximum use value out of their offerings. They will seek to understand their customer’s businesses and offer training and coaching programmes to these customers. For membership benefit program Kotler (1999) notes that this is an effective way to win keep and grow customers by rewarding them for being customers. Examples noted here include airline frequent flyer programme and such membership groups as Harley owners Group (HOG), which presents an attractive set of benefits to the Harley motorcycles owners.
2.2.3: RELATIONSHIP MARKETING AND CREATION OF CUSTOMER VALUE
According to Payne et al (1995) relationship marketing is itself not a new concept rather it's a refocusing of traditional marketing with greater emphasis being placed upon the creation of customer value.

Customer value is the summation of all the positive effects that a supplier has upon the customers' business or, in the case of end users their personal satisfaction. Further he says that the fundamental principle upon which relationship marketing is founded is that the greater the need of customer satisfaction with the relationship, and not just the product or service, then the greater the likelihood that the customer will stay with us.

The importance of retaining customers is that there is strong evidence that customer retention and profitability are directly related. According to Berry (1983) at the heart of relationship marketing approach is integration of company wide of hitherto separate customer service and total quality initiatives with the main stream of marketing strategy. Conventionally customer service and quality have been managed separately from marketing. In the relationship marketing paradigm they are intertwined and managed as one, the logic being it is through quality and service that the relationship is built.

The foundation of any relationship strategy is delivery of value to the customer. Relationship marketing strategy therefore requires an understanding of what customer's value, and at what price. The aim being to position the firm in the market in such a way as to attract and keep customers. This positioning gives the firm an advantage relative to its competitors. (Christopher et al, 1997).

2.2.4: CUSTOMER LOYALTY AND RETENTION
The primary goal of relationship marketing is to built and maintain a base of committed customers who are profitable for the organisation. Relationship marketing recognises that it is more profitable to retain and grow business with existing customers than to keep winning new ones and therefore has customer retention as its main objective.

To build customer loyalty, companies try to improve customer satisfaction, which strengthens bonds by adding more value to the core product (the product quality is improved, supporting services are included into the offering and so on.). According to (Gronroos 1990) customer satisfaction is one of the most important criteria for customer loyalty. Customer satisfaction indicates how well a product use experience compares to the buyers value expectations and the value expectations of competitors.
Customer loyalty through one on one-customer relationships is one of the most important real assets with measurable long-term value for both large and small companies (Anton, 1996). According to Hawkins et al (2001) committed customers, in a retail setting are developed by understanding customers desires at every stage of the shopping process, from retail advertisement through to disposition of the products.

At every stage the retailer needs to move customers beyond satisfaction through delight and to affection. In a study conducted by Gabarino and Johnson (1999), in a consumer environment in which customers receive highly similar services, (like in the banking sector), the future intentions of low relational customers was found to be driven by overall satisfaction, whereas the future intentions of the highly relational customers was found to be driven by trust and commitment.

Commitment has been defined as an enduring desire to maintain a valued relationship. According to Hawkins et al (2001) committed customers have reasonably strong emotional attachment to the product or firm. Generating committed customers requires that the firm consistently meet or exceed customer expectations. Further, customers must believe that the firm is treating them fairly and is, to some extend at least concerned about their well-being”. To achieve this, a customer focused attitude is required in the firm, which is then translated into actions that meet customers needs, hence retention of these customer.

However customer retention is not enough, some long-lasting relationships, where the customers are obviously satisfied with what they get, are not profitable even in the long run. As demonstrated in a study by Gronroos (1990) segmentation based on customer relationship profitability analysis is therefore a prerequisite for customer retention decisions. He proposed that for any company to provide competitive value to its customers it needs to gain a thorough understanding of its customer’s needs and the activities, which constitute the customers, value chain. They further state that if this is not done, the task of providing the right value to the right customer becomes difficult and the chances of winning the battle for customer loyalty is greatly reduced.
2.2.5: PITFALLS OF RELATIONSHIP MARKETING

Hawkins et al (2001) listed five key elements of relationship marketing; developing a core service or product around which to build a customer relationship, customizing the relationship to the individual customer, augmenting the core service or product with extra benefits, pricing in a manner to encourage loyalty, and marketing to employees so that they will perform for customers.

Although relationship marketing is in vogue and managers talk about it, companies profess to do it in new and better ways, and academics extol its merits, a closer look at relationships between companies and consumers show the existence of trouble. Unfortunately, many companies tend to view relationship marketing from the point of view of the company whereby companies ask their customers for friendship, loyalty and respect without too often giving their friendship loyalty and respect in return (Butcher 1998).

Schroder et al (2001) points out that sometimes companies unwittingly make their loyal customers feel disadvantaged by their loyalty. For example when they are mandated with inappropriate corporate mailings. And sometimes a company’s preoccupation with its best customers feeling left out and under appreciated.

2.3: OTHER RELATED STUDIES

The Kenyan banks are experiencing severe challenges as competition intensifies both from the traditional competitors and new forms of competition from outside the sector. Much of it has to do with the liberalization of the economy that allows even non-financial institutions to conduct business previously a preserve of the banks only.

SACCOs, micro lending institutions, and even telecommunication companies like Safaricom with their M-Pesa service, are all involved in service previously a domain of the banks.

Banks adopted strategic marketing in an effort to come to grips with increased competition. Lack of customer focused differentiation and the fact that banks must attract both the funds and the borrowers of these funds underscore the importance for effective marketing strategies (Okutoyi 1989) Maintaining existing clients loyalty is the first step to survival. Kenyan banks focus more and more of their resources on attracting new customers forgetting to take care of the ones they have.
Thuo (1999) conducted a research to investigate the state of relationship marketing strategy in the Kenyan banking sector. His study found that bank marketer’s awareness and understanding of the relationship-marketing concept was quite high but implementation was rather low and unilateral. Banks tended to apply relationship marketing mostly to their corporate clients who form a minority of their client’s base as opposed to consumer clients who form the bulk of their customer base.

Njuguna (2003) in a study on the use of relationship marketing strategy by supermarkets found that managers of large supermarkets had a highly positive attitude towards relationship marketing. Managers of medium and small supermarkets had a fairly positive attitude and average understanding of the concept.

She found that the managers understanding of the relationship marketing concept influenced the managers attitude towards adopting relationship marketing practices.

In another study by Murage (2002) on relationship marketing strategies in the paint industry, which sought to measure its usage in enhancing brand loyalty of industrial buyers, he found that most executives were not aware of the relationship marketing concept. But they undertook those activities particularly the ones to do with customer retention such as identifying customer needs through research and also responding promptly to customer complaints. He also found that the respondents also recognized the importance of reinforcing promotions for their best customers as a tool for enhancing brand loyalty.

2.4: THE KENYAN BANKING SECTOR

The Companies Act, the Banking Act, the Central Bank of Kenya act and various prudential guidelines issued by the Central Bank of Kenya, governs the Banking industry in Kenya. The repeal of the foreign exchange Act in 1992 and the deregulation of interest controls (1995) liberated the banking industry. Kathanje (2000) noted that the liberalization resulted in massive failures with fourteen banks failing in 1993 alone, and fourteen by 2002. By the end of December 2002 the banking sector consisted of 44 commercial banks, which was a decline from 47 that were there in December 2001, due to mergers (Mugo 2003).

The 2003 budget set out to control some of the banking activities since the liberation had seen the bank’s pursue individual interest with the majority of Kenyans being left out.
With the reduction of statutory requirements like minimum statutory capital deposits from 500 million to 250 million, we saw small banks with specific clients entering the market. However the banking industry felt that the government should not introduce controls, as echoed by Adan Mohamed (CEO Barclays Bank) ‘the market forces, increased levies of productivity, new products, technology and efficiency should determine prices.’(Daily Nation, July 15, 2003 pg 10)

By the end of 2003, there were 43 commercial banks, 2 financial institutions, 4 building societies and 2 mortgage finance Companies in Kenya. Some of these institutions, which were not in the business of offering financial services, started competing with the traditional players. The Marketing Intelligence (MI) Banking Survey of June 2006, listed the no of commercial banks in Kenyan to be 44 in 2004 and 43 in 2005, with the exit of First American bank of Kenya limited through acquisition by commercial Bank of Africa. The banking sector is fragmenting as more banks join the fray. The large no of the banks and the continued growth of the industry’s assets are leading to the continued fragmentation.

With the latest institutions on the block being Family finance Building Society and Gulf Commercial bank, which is based on the Islamic Laws. Many Micro financing institution (MFIs ) and SACCOs are in the waiting wings with front office services available (FOSA) and bank like services since the Treasury and the CBK got together to push for the Micro finance Act that was enacted and came into force on 1st of July this year, (Daily Nation July 12th 2007).

According to the central bank analysis of May 2007, there are 46 banks operating currently in Kenya, with the bulk of the business being controlled by 13 banks with a total of 75% control of the industry’s business and another 13 banks controlling only 4.3%of gross assets and a mere 2.4 percent of the industries profits, (Daily Nation, 19th June 2007).

But this number is bound to reduce if the regulation set by the minister in the 2007 budget requiring banks to raise their share capital from Kshs 250 million to 1 billion in the next three years by 2010 is to be implemented. There is bound to be a lot of consolidations through mergers and takeovers, if we go by the Central bank weekly review of May 2007, the Kenyan banking sector can do away with current large number of banks (46) since most of them were set up to serve niche markets which are all so similar. This was well elaborated by Groupe Bank of Africa managing director Phillipe Leon Dufour in the Sunday Nation of 17th June 2007; ‘The future of banking in Kenya is in consolidation.’
2.5: CONCEPTUAL FRAMEWORK

Relationship Marketing refers to all marketing activities directed towards establishing, developing and maintaining successful relational exchanges (Morgan and Hunt 1994) this means it starts when a company establishes contact with a new customer through direct marketing strategies like personal selling, tele-banking and offering a product/service. The offer has to be made in a way that it meets the customers need and satisfies them more than what the competitors are offering. Hence in most cases the seller will need to add additional benefits associated with the product/service besides the core benefits if to keep the customer coming back. The company in customizing the product/service is using value adding strategies that are important to the customer, which will make the customer, want to stay with the company. This can be features like faster services, free gifts.

After which constant contact must be maintained between the company and the customer as the needs of the customer changes and are addressed so as to ensure a mutually beneficial relationship. This can be achieved through some of the direct marketing strategies like, Tele-marketing, mobile marketing, personal selling, direct mail.

To maintain and develop the customer relations companies has to establish membership programs that act as avenue of interaction exchange of ideas and also as an appreciation of the customer. Customer training and coaching services are offered to customers that need structural information on the products that the company offers so as to help the customers maximise the benefits they get out of their products. If customers are satisfied they will be loyal to the company hence remain with the company (Butcher, 1998). The company on the other hand will experience more profitability as result of more business placing, lower operating costs of advertising seeking new clients, more referrals due to word of mouth advertising from the satisfied customers.
Figure 1: Conceptual framework

RELATIONSHIP MARKETING STRATEGIES.

Direct marketing strategies

Customizing products

Augmenting core product/service with extra benefits

Customer training/coaching

Membership (Benefit) programs

Customer Retention

Moderating variables

Customer Values

Product price

Customer Satisfaction

INDEPENDENT VARIABLES

(Source; Author), 2008

DEPENDENT VARIABLE

2.6: SUMMARY AND GAPS TO BE FILLED BY THE STUDY

Studies have been conducted in the banking sector such as product strategy in commercial banks (Kimani 2003), influence of technology in marketing in commercial banks (Mbote 2003), customer perception and expectation of quality service in banks, (Kandie 2003), and (Thuo 1999), looked at the state of relationship marketing in commercial banks analysing the attitude of bank managers on the concept. Little has been done on specific relationship marketing strategies adopted by the banks. It is therefore necessary to undertake this study to evaluate the extent to which relationship marketing strategies have been adopted and their contribution, if any to customer retention. With the data collected recommendations will be made that will contribute positively to banks marketing strategies.
CHAPTER THREE: METHODOLOGY

3.0: OVERVIEW
This chapter deals with research methodology used to conduct the study. It covers the population of study, the sample, and data collection methods and data analysis and presentation techniques.

3.1: RESEARCH DESIGN
A descriptive survey was conducted to assess the extent to which the management have adopted relationship marketing and to determine the practices currently in use. According to Mugenda and Mugenda (1999), the descriptive method is appropriate because it explores the relationship between variables in their natural setting. A questionnaire was used for data collection. Questionnaires are appropriate for this study since it is a survey research.

3.2: POPULATION.
The population comprised all commercial banks registered and operating in Kenya. Currently there are forty-six commercial banks listed by the Central Bank of Kenya. (See appendix 1). Most of them headquartered and based in the Central business district of Nairobi. (Central Bank, 2006). The population also comprised 120 customers who have maintained accounts with the selected banks.

3.3 SAMPLING FRAME.
The Central Bank of Kenya based the classification of the banks on total assets with large banks holding over 10 billion Kenya shillings, the medium banks hold over 3 billion but less than 10 billion. The small banks hold less than 3 billion Kenya shillings. The other classification would be based on market share, which is more or less similar to the asset classification. Of the forty-six banks, 13 were classified as large, 20 as medium and 13 as small. (Central Bank of Kenya, 2007). For the customers the research will seek to have those who have maintained accounts with the bank for at least 5 years. This is illustrated in the figure below:
3.4: SAMPLE SIZE.
Simple random sampling of banks was used to desired sample size. This constituted sample of 23 banks, which represent 50% of the total population, each having an equal chance of being selected for the study. Purposive sampling of respondents will be done, as it will include the head of customer care functions or departments and those customers who have maintained accounts with the bank for at least 5 years. According to Kombo and Tromp (2006), this method has the advantage that it yields research data that can be generalised to a larger population. This will include 6 large banks, 10 medium and 7 small banks.

For the customers the researcher will seek to have 5 customers from each selected bank to bring the total to 115 customers, though purposely those who have been with their banks for at least 5 years ill be considered.

3.5: DATA COLLECTION METHOD
Data was gathered from the sample by way of questionnaire, which had both open and closed ended questions. The researcher will administer the questionnaires the questionnaire is suited for both survey and experimental research. Researcher administered questionnaires have several advantages like, the ability to reach more respondents hence increases the response rate and clarifying issues that might not be clear to the respondents.
3.6: DATA ANALYSIS AND PRESENTATION

Data will be analysed using the statistical package for social sciences SPSS for windows version. Descriptive statistics such as frequency distribution and percentages will also be used to analyse the data.

Summary statistics including percentages and cross tabulation will be used to present the findings. Welman and Kruger (2002) noted that descriptive statistics enable the researcher to summarize and organize data in an effective and meaningful way. They provide tools for describing collections of statistical observations and reducing information to an understandable form.
CHAPTER FOUR:
DATA FINDINGS AND ANALYSIS

4.0: OVERVIEW
This chapter discusses the data findings and analysis of the study. The data was analyzed using frequencies and percentages to determine the relationship marketing strategies adopted by banks and the extent to which these strategies have contributed to customer retention, benefits as well as challenges of relationship marketing. Out of the 23 selected banks, 20 responded, giving a response rate of 87%. Out of the 115 customers selected all responded though only 100 were analyzed as the others had not been customers for at least the 5 years required. This brought the response rate to 87%.

4.1: THE BANK MANAGERS RESPONSE.
This section deals with managers response on the concept of relationship marketing, the strategies adopted and implemented, the contribution of these strategies on customer retention, other benefits accrued from practising relationship marketing as well as challenges faced in implementing these strategies.

4.1.1: THE BANK MANAGERS UNDERSTANDING OF RELATIONSHIP MARKETING CONCEPT.
This section deals with the bank managers understanding of the concept of relationship marketing, and the extent to which the banks have adopted and implemented it.

<table>
<thead>
<tr>
<th>Table 4.1a): Respondents conversant with relationship marketing.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Response</strong></td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

All the respondents said they were conversant with the concept of relationship marketing.

<table>
<thead>
<tr>
<th>Table 4.1 b): The banks that have implemented relationship marketing.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Response</strong></td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>
All the banks studied had adapted, implemented and were practicing relationship marketing.

4.1.2: RELATIONSHIP MARKETING STRATEGIES ADAPTED BY THE BANKS.
This section deals with bank managers responses on the various relationship marketing strategies adapted by their banks.

**Table 4.1.2 a): Customizing products.**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>No</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

All the respondents had customized their products to suit their customers. Though 9% said they had customized products for corporate clients only while 91% had customized for both retail and corporate.

**Table 4.1.2 b): Direct marketing strategy.**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct mail</td>
<td>12</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>Personal selling</td>
<td>18</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Tele-banking</td>
<td>8</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>On-line banking</td>
<td>6</td>
<td>14</td>
<td>20</td>
</tr>
<tr>
<td>Mobile banking</td>
<td>10</td>
<td>10</td>
<td>20</td>
</tr>
</tbody>
</table>

All the banks practiced various direct marketing strategies. Though personal selling was the most highly practiced with 90% of the respondents practicing it; while on-line banking was the least adapted strategy with only 27% practicing it.

**Table 4.1.2 c): Augmenting core products with extra benefits.**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>16</td>
<td>80</td>
</tr>
<tr>
<td>No</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>
Out of the 20 banks, 80% practiced core product augmentation with extra benefits. Such benefits included ease in paying for utilities, free gifts, and faster service at no extra charge.

Table 4.1.2 d): Customer training and coaching on financial matters.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>No</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Of the respondents, 50% said they offered customer training with on operation of certain accounts and business training. Some of those who said did not offer customer training as a strategy though said it was merged with personal selling strategy.

Table 4.1.2 e): Operating customer membership programs.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>16</td>
<td>80</td>
</tr>
<tr>
<td>No</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

20% of the respondents did not operate membership programs, while 80% of them did. Those who did, half of them operated membership programs for retailers only; while the rest operated for both retail and corporate clients. It should also be noted that those who operated for retail clients were mainly the big banks by market capitalization.

4.1.3: EFFECTS OF RELATIONSHIP MARKETING STRATEGIES ON CUSTOMER RETENTION.

This section deals with the banks’ response to the percentage attributed to each strategy for maintaining their customers.

Table 4.1.3 a): Customization of products.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 25%</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>26 - 50%</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>51 - 75%</td>
<td>12</td>
<td>60</td>
</tr>
<tr>
<td>76 - 100%</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>
Over 70% of the respondents said that customization greatly contributed to customers maintaining their accounts with them, while 10% said that it contributed to a very small percentage. This is perhaps due to the fact that 80% of the customers were aware of their strategy, hence must have been beneficiaries.

Table 4.1.3 b): Direct marketing strategies.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 25%</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>26 – 50%</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>51 – 75%</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>76 – 100%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

20% of the respondents said that direct marketing contributed minimally to customer retention, while the remaining 80% were agreed that it enhanced.

Table 4.1.3 c): Augmenting core products with extra benefits.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 25%</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>26 – 50%</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>51 – 75%</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>76 – 100%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>None</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

40% of the respondents said that extra benefits contribute minimally to customer retention, while the other 40% did not contribute to customer retention since they did not practice it.

Table 4.1.3 d): Customer training and coaching.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 25%</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>26 – 50%</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>51 – 75%</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>76 – 100%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>None</td>
<td>6</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
50% of the respondents said that training contributed averagely to customer retaining, while the other 30% did not answer that question since they did not practice it.

Table 4.1.3 e): Operating membership programs.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 25%</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>26 – 50%</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>51 – 75%</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>76 – 100%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

50% of the respondents said that membership programs contributed averagely to customer retention while 40% of them said it contributes to a quarter of their customers.

4.1.4: BENEFITS OF IMPLEMENTING RELATIONSHIP MARKETING TO THE BANKS.

This section deals with responses on the benefits of relationship marketing to the banks. Respondents were provided with a list of benefits to pick that apply to their bank.

Table 4.1.4: Benefits of relationship marketing to banks.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Frequency</th>
<th>Out of</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Helps in product differentiation</td>
<td>14</td>
<td>20</td>
<td>70</td>
</tr>
<tr>
<td>Helps to keep in constant communication</td>
<td>16</td>
<td>20</td>
<td>80</td>
</tr>
<tr>
<td>Increases sales turnover</td>
<td>16</td>
<td>20</td>
<td>80</td>
</tr>
<tr>
<td>Enhance company image in the market</td>
<td>20</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>Helps strengthen partnership with customers</td>
<td>20</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>Encourage customer loyalty hence retention</td>
<td>20</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>Helps offer structural solution to customer problems</td>
<td>14</td>
<td>20</td>
<td>70</td>
</tr>
<tr>
<td>Reduces advertising costs seeking new customers</td>
<td>10</td>
<td>20</td>
<td>50</td>
</tr>
</tbody>
</table>
All the respondents said relationship marketing in general helped strengthen the partnership with their customers, hence making them loyal to the banks, as well as improving the company’s image. However, 50% of the respondents did not agree that it reduced costs of seeking new customers.

4.1.5: CHALLENGES IN IMPLEMENTING RELATIONSHIP MARKETING.
This section deals with the challenges that banks face in implementing relationship marketing strategies.

Table 4.15: Challenges in implementing relationship marketing.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in marketing costs</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>Keeping up with changing customer needs</td>
<td>18</td>
<td>90</td>
</tr>
<tr>
<td>Increase in research costs to keep up with customer changes</td>
<td>8</td>
<td>40</td>
</tr>
<tr>
<td>Competition within and outside the industry offering similar services</td>
<td>16</td>
<td>80</td>
</tr>
</tbody>
</table>

90% of the respondents said that their main challenge is the changing customer needs as a result of having informed customers while only 40% said relationship marketing strategies increase cost of marketing. Fraud was listed as a challenge and standardization of products to meet different customer needs.

4.2: CUSTOMER RESPONSES

This section deals with responses from the customers on their awareness of the relationship marketing strategies practised by the banks and the factors that have contributed towards their maintaining accounts with the respective banks. Out of the 115 customers selected 100, were analyzed as the others had not been customers for at least the 5 years required. This brought the response rate to 87%.

Table 4.2.1 a): Customers duration at the specific banks.

<table>
<thead>
<tr>
<th>Years</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 – 10</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>11 – 15</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>16 – 20</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Over 20 years</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
60% of the respondents had been at their banks for less than 10 years, while 20% had been with their banks for over 20 years. This means that these 60% started banking after the liberalization of the banking industry in the mid 1990s. Or they have been changing from bank to bank over the years since over 50% of the banks in the study had been in operation for more than 20 year; with others having been in operation for more than 40 years, especially the big banks.

Table 4.2.2 b): Customers awareness of the bank’s relationship marketing strategies practiced.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Yes</th>
<th>No</th>
<th>Not sure</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customizing products to suit customer needs</td>
<td>80</td>
<td>20</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Offers extra benefits for free</td>
<td>30</td>
<td>20</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>Have direct marketing strategies like personal selling</td>
<td>60</td>
<td>0</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>Offer customer training and coaching on financial matters</td>
<td>30</td>
<td>70</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Operate membership programs for its customers</td>
<td>20</td>
<td>10</td>
<td>70</td>
<td>100</td>
</tr>
</tbody>
</table>

From the above observation, the most known strategy by the customers were customization of products/accounts and direct marketing strategies with 80% and 60% of the respondents respectively agreeing while the least known is membership programs for the customers, with a rate of 20% of the respondents being aware.
4.2.3: CUSTOMERS RESPONSES ON FACTORS AFFECTING THEIR RETENTION.

This section deals with the customers' response to the factors translating to strategies that have made them remain customers at their various banks.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>No. of Respondents</th>
<th>Out of</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Customized account</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>2 Offered extra benefits</td>
<td>10</td>
<td>100</td>
<td>10</td>
</tr>
<tr>
<td>3 Because of personal touch from staff</td>
<td>40</td>
<td>100</td>
<td>40</td>
</tr>
<tr>
<td>4 A member of account club</td>
<td>20</td>
<td>100</td>
<td>20</td>
</tr>
<tr>
<td>5 Good customer care</td>
<td>70</td>
<td>100</td>
<td>70</td>
</tr>
<tr>
<td>6 Financial advice offered</td>
<td>60</td>
<td>100</td>
<td>60</td>
</tr>
<tr>
<td>7 Ease of accessing account</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>8 Faster services</td>
<td>40</td>
<td>100</td>
<td>40</td>
</tr>
</tbody>
</table>

Customization of accounts and accessibility was paramount for customers having maintained their accounts with 100% for each while extra benefits scored the least important reason for maintaining their accounts. Good customer care was equally important.
CHAPTER FIVE:
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 OVERVIEW
This chapter addresses the findings of the research in answering the research questions and the objectives outlined in chapter one. This study attempted to determine the relationship marketing strategies adopted by commercial banks and the effects of these strategies on customer retention. The study also sought to determine other benefits and challenges faced in practicing relationship marketing. The section covers conclusion, recommendations, study limitations and suggestions for further research.

5.1: CONCLUSIONS
This section covers the summary of interpretations from the findings of the study from both the bank managers and the customers.

5.1.1: CONCLUSION FROM BANK MANAGERS
From the analysis conducted, the bank managers were conversant with the concept of relationship marketing and said that their banks had adopted and implemented various relationship marketing strategies. The highly practiced strategy was customization of products to suit customer needs, with all the responded having adopted it. Though 9% of the banks said they customised products for corporate clients only will all the rest customised for both retail and corporate clients. Product augmentation with extra benefits was another strategy well practised by 80% of the respondents. All the banks practised various direct marketing strategies like direct mail, personal selling, mobile banking, tele-banking, and on-line banking. The last two being the least practised with only 27% practising on-line banking.

Of the banks respondents 20% did not operate membership programs for their customers, while those who did, half of them operated for retailers only and these were mainly the big banks by market capitalisation. The least adopted strategy was customer training and coaching on financial matters, with only 50% of the respondents practicing it. Again some banks said customer training and coaching had been merged under direct selling specifically as a personal selling strategy.
Customer retention was attributed to the various relationship marketing strategies practised by the banks to varying extend. Over 70% of the managers said customization of products contributed to over 75% retention of customers. This is perhaps due to the fact that 80% of the customers were aware of this strategy by the bank and hence must have been beneficiaries of this strategy at one point or another. While 80% agreed that direct marketing strategies enhanced customer retention to between 26-75%.

Of those who practised augmentation of core product with extra benefits, over 40% said it contributed to 26-75% of the customer retained. Customer training/coaching and membership programs were attributed to retaining customers on average of between 26-50% of the customers by 50% of the respondents who practised it.

Apart from enhancing customer retention there were numerous benefits accrued from practicing relationship marketing. Enhanced company image and strengthening partnership with customers were some of benefits that all the respondents said they got. Increased sales turnover was another benefit, while only 50% of the respondents said that it helped them reduce costs of seeking new customers. This contradicts previous studies on relationship marketing that suggest that it reduces costs of advertising and seeking new customers (Gross 1998).

In offering the various relationship marketing strategies the banks faced several challenges, with keeping up with changing customer needs being the most prominent. Increasing competition within and outside the industry offering similar services like money transfers was also another challenge facing the banks. Some institutions said fraud involving some clients was a challenge involving marketing strategies. Others listed standardization of products to meet different customer needs, where they could not customize to suit each customers needs as major a challenge.

5.1.2: CONCLUSION FROM CUSTOMERS RESPONSES.

From the customers response the researcher found that 60% of the customers had been with their banks for a period of between 5-10 years, and were aware and sure of only some of the relationship marketing strategies practised by the banks. The most known strategy was customizing product to suit customer needs followed by direct marketing strategies with 80% and 60% respectively of the respondents picking it. Customer coaching and training was the least known with 70% of the respondents saying their banks did not practise it. Membership programs were an equally unknown strategy with 70% of the respondents not being sure.
This might be attributed to the fact that only 20% of the customers belonged to membership clubs with their banks.

When it comes to customer retention, the customization of accounts to suit specific customer scored highly with the customers. Extra benefits offered such as ease in paying utilities, free gifts and membership programs were least important to customers, yet the banks rated them as having contributed significantly to customers retaining their accounts with the banks. Customers also rated good customer care which is one of the direct marketing strategy offered through personal selling, as important to them. Other factors like ease of accessing one’s account, faster services were also important.

5.2: RECOMMENDATIONS

This section deals with suggestions of improvement to both the bank and the customers on how they would enhance their performance in offering their services so as to eliminate wasteful marketing practises so as to maximise the benefits from their relationship as partners in their business transactions.

5.2.1: RECOMMENDATIONS FOR MANAGERS

From the study analysis one can see that banks have adopted and implemented various relationship marketing strategies, which the customers are aware of though to varying degrees. Strategies like customisation of products to suit the customers needs, direct marketing strategies such as personal selling and mobile banking were well known to customers. But others like customer training and coaching on financial matters as well as customers membership programs were least known if they existed. And this awareness contributed to their maintaining their account with their banks, depending on which strategy was important to them. Though other factors not related to relationship marketing also contributed greatly to their staying at their respective banks.

It is with this in mind that banks need to invest more in creating more awareness among its customers and potential customers, on the various practices that would be appealing to customers, hence keep them loyal to their institutions. The banks would use the direct marketing strategies like personal selling strategies, more and intensive advertising to create awareness, since with the developments in technology customers rarely get to meet their bankers as most of their transactions are automated. Hence banks have to keep on researching on the changing customer needs and come up with ways of interacting with their customers.
Also these will increase the customer’s awareness and participation in some of their strategies like membership programs which scored very minimal among the customers. Since when one is a member it would be very difficult to switch to other institutions, hence creating a strong membership base which even acts as a word of mouth advertisements for the banks to other customers.

Those strategies that are known by the customers were found to have a greater impact on customer retention from both the banks and customers response. These were customisation of products and direct marketing strategies. While customer training and membership programs scored minimally. This implies that there is need for the banks to increase their effort in publicising there strategies to there customers through appropriate channels that will reach all their customers so as to reap maximum benefits from having these strategies. Or maybe the customers need to be first informed of the benefits they would derive from these services that are on offer before they can fully participate.

It is evident from the study that there are numerous benefits to be accrued from relationship marketing though to varying extend. These include enhanced company image, strengthened partnerships with customers and increase in sales turnover among others. There are more benefits that can be derived from relationship marketing on top of increasing the before named. The study recommends increase in communication between the banks and their customers for purposes of sharing information and ideas. The study recommends intensive advertising of banks services when they are introduced in the marketing so as to reach a wide target audience. If customers are aware and try the services and find them to be satisfactory they will be loyal to the banks, and even tend to recommend others to try the service or product as they. This in the long run will reduce banks cost of advertising and promotion seeking new clients.

In practising these strategies banks faced several challenges, the main one being keeping up with changing customer needs and intense competition. These resulted in increased marketing costs. This study recommends that to deal with some of their challenges banks need to invest in continuous research to find out the customer needs, through constant communication with their customers. In these days of mobile phones the short message system (sms) has proved to be a very effective way of reaching a large population over a wide area. Banks also have to come up with innovative ways of solving their customers needs, that will set them apart from their competitors. Many of the banks operate in similar market niches offering similar products and services such that customers can move from one bank to another and still get similar services.
Hence the study recommends that banks strive to have an individual identity that will make its products unique so as to lock in their customers.

5.2.2: RECOMMENDATIONS FOR CUSTOMERS
From the customers’ response one can see that there is a gap between the information on services offered by the banks and what the customers are aware of their banks offered products. Customers should seek to fully orient themselves with what is offered by their specific banks so as to reap maximum benefits from their relationship with their banks.

This can only be attained if customers will communicate to their respective banks on areas they think should be improved on or assisted on through filling the confidential response forms in the banking halls or talking to a customer care person in the banks. Also customers are advised to participate in open fun days that banks organise once in a while, in which an interactive session is organised between the banks and the customers. From these sessions customers can learn more about the banks services and even receive advice on financial matters offered by the experts available in a non formal setting.

5.3: LIMITATION OF THE STUDY
The researcher faced two limitations. Some of the bank’s respondents did not answer the questionnaires, and were not willing to. This lost time for the researcher setting up new appointment times to come back. Some respondents were not willing to give some information citing it to be sensitive information, and needed time to consult with their superiors. Some of the customers were not willing to answer the questionnaires, as they were weary of the whole process as the research was carried at a time when there had been political instability in the country.

5.4: SUGGESTIONS FOR FURTHER RESEARCH
1. This study covers broadly on relationship marketing strategies, future studies could address individual strategies like membership programs in depth.
2. A study could be carried out to determine factors considered important in the adoption of relationship marketing strategies, since some banks have adopted others and not others. The study centred on relationship marketing on customer retention, and yet there are other factors which affect retention which could be investigated.
3. Also a comparison study could be done in the banking industry on different parameters like foreign owned and locally owned or the small banks vs. big banks since this study looked at the industry at large.
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### Appendix I:

**List Of Commercial Banks**

**The Structure of the Kenya Banking System**

**Total Asset Ownership**

<table>
<thead>
<tr>
<th>RANKING</th>
<th>INSTITUTION</th>
<th>Total Assets (Kshs in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Barclays Bank of Kenya</td>
<td>104,522</td>
</tr>
<tr>
<td>2</td>
<td>Kenya Commercial Bank</td>
<td>78,315</td>
</tr>
<tr>
<td>3</td>
<td>Standard Chartered Bank</td>
<td>72,842</td>
</tr>
<tr>
<td>4</td>
<td>Cooperative Bank of Kenya</td>
<td>51,830</td>
</tr>
<tr>
<td>5</td>
<td>CFC Bank</td>
<td>33,112</td>
</tr>
<tr>
<td>6</td>
<td>National Bank of Kenya</td>
<td>32,584</td>
</tr>
<tr>
<td>7</td>
<td>Citibank</td>
<td>30,928</td>
</tr>
<tr>
<td>8</td>
<td>Commercial Bank of Africa</td>
<td>29,539</td>
</tr>
<tr>
<td>9</td>
<td>NIC Bank</td>
<td>20,585</td>
</tr>
<tr>
<td>10</td>
<td>I&amp;M</td>
<td>18,046</td>
</tr>
<tr>
<td>11</td>
<td>Diamond Trust</td>
<td>16,384</td>
</tr>
<tr>
<td>12</td>
<td>Stanbic Bank</td>
<td>14,994</td>
</tr>
<tr>
<td>13</td>
<td>Equity Bank</td>
<td>11,457</td>
</tr>
<tr>
<td>14</td>
<td>HFCK</td>
<td>9,861</td>
</tr>
<tr>
<td>15</td>
<td>Bank of Baroda</td>
<td>9,265</td>
</tr>
<tr>
<td>16</td>
<td>EABS Bank</td>
<td>8,856</td>
</tr>
<tr>
<td>17</td>
<td>Fina Bank</td>
<td>8,615</td>
</tr>
<tr>
<td>18</td>
<td>Imperial Bank</td>
<td>7,773</td>
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<tr>
<td>19</td>
<td>Bank of India</td>
<td>7,206</td>
</tr>
<tr>
<td>20</td>
<td>Prime Bank</td>
<td>7,154</td>
</tr>
<tr>
<td></td>
<td>Bank Name</td>
<td>Amount</td>
</tr>
<tr>
<td>---</td>
<td>---------------------------------</td>
<td>---------</td>
</tr>
<tr>
<td>21</td>
<td>Bank of Africa</td>
<td>5,349</td>
</tr>
<tr>
<td>22</td>
<td>ABC Bank</td>
<td>5,145</td>
</tr>
<tr>
<td>23</td>
<td>Giro Commercial Bank</td>
<td>4,905</td>
</tr>
<tr>
<td>24</td>
<td>Habib A.G. Zurich</td>
<td>4,743</td>
</tr>
<tr>
<td>25</td>
<td>Guardian Bank</td>
<td>4,451</td>
</tr>
<tr>
<td>26</td>
<td>Southern Credit Bank</td>
<td>4,221</td>
</tr>
<tr>
<td>27</td>
<td>Charterhouse Bank Ltd</td>
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</tr>
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<td>28</td>
<td>Victoria Commercial Bank</td>
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<td>Middle East Bank</td>
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<tr>
<td>30</td>
<td>K-Rep Bank</td>
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<tr>
<td>31</td>
<td>Equatorial Commercial Bank</td>
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</tr>
<tr>
<td>32</td>
<td>Prime Capital &amp; Credit</td>
<td>2,947</td>
</tr>
<tr>
<td>33</td>
<td>Consolidated Bank</td>
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</tr>
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<td>34</td>
<td>Habib Bank Ltd</td>
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</tr>
<tr>
<td>35</td>
<td>Credit Bank</td>
<td>2,798</td>
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<tr>
<td>36</td>
<td>Development Bank of Kenya</td>
<td>2,718</td>
</tr>
<tr>
<td>37</td>
<td>Chase Bank</td>
<td>2,601</td>
</tr>
<tr>
<td>38</td>
<td>Trans-National Bank</td>
<td>2,024</td>
</tr>
<tr>
<td>39</td>
<td>Fidelity Commercial Bank</td>
<td>1,666</td>
</tr>
<tr>
<td>40</td>
<td>Paramount Universal Bank</td>
<td>1,491</td>
</tr>
<tr>
<td>41</td>
<td>Oriental Commercial Bank</td>
<td>1,376</td>
</tr>
<tr>
<td>42</td>
<td>Dubai Bank</td>
<td>1,153</td>
</tr>
<tr>
<td>43</td>
<td>City Finance Bank</td>
<td>510</td>
</tr>
<tr>
<td>44</td>
<td>East African Building Society</td>
<td>505</td>
</tr>
<tr>
<td>45</td>
<td>Family Bank</td>
<td>487</td>
</tr>
<tr>
<td>46</td>
<td>First Community Bank</td>
<td>102</td>
</tr>
</tbody>
</table>

Source: Central Bank of Kenya, 2007
Appendix II

Letter of Introduction

Euphemia Shirley Oduor,
Kenyatta University,
P.o. Box 43844,
Nairobi.
Date:

TO THE CUSTOMER CARE MANAGER

Dear sir/madam

RE: REQUEST FOR RESEARCH DATA: RELATIONSHIP MARKETING ITS EFFECTS ON CUSTOMER RETENTION IN THE BANKING SECTOR.

I am a post-graduate student currently finalizing on an MBA program from Kenyatta University. I am undertaking a project which is in partial fulfilment of the Masters in Business Management Degree program, area of specialization marketing. Consequently am undertaking a research study on the extent to which customer retention can be attributed to Relationship Marketing, other benefits if any and problems faced in implementing these strategies.

I would therefore greatly appreciate, if you could provide the requested information in the questionnaire.

The information received will be handled in strict confidence and will only be used for research purposes.

Yours sincerely,

Euphemia S. Oduor.
Appendix III

The Questionnaire

SECTION ONE.

1. Name of the bank.................................................................

2. For how long has your bank been in operation in Kenya (please tick)?
   0-10   []
   11-20  []
   21-30  []
   31-40  []
   Over 40 years []

3. How many branches of your bank are there in Kenya? (Tick as appropriate)
   Less than 20 []
   41 –60 []
   61 –80 []
   81 –100 []
   Above 100 []

SECTION TWO

Relationship marketing strategies

4. Are you conversant with the concept of Relationship marketing?
   Yes ( ) No ( )

5. Would you say your institution has implemented and is practising it?
   Yes ( ) No ( )

6. Which strategies below does your institution practise? (Tick as many)
   Customizing of products []
   Augmenting core products with extra benefits []
   Direct marketing strategies []
   Customer training and coaching []
   Operating membership programs []
7. If customizing products to suit certain customers

a) Which customers do you offer customized products?
- Retail only [ ]
- Corporate only [ ]
- Both retail and corporate [ ]

b) To what percentage of customers who have maintained accounts with your bank can you attribute to product customization?
- 1-25% ( )
- 26-50% ( )
- 51-75% ( )
- 76-100% ( )

8. If you practice direct marketing strategies

a) Which of the following strategies does your bank use? (indicate with a tick)
- Direct mail ( )
- Personal selling ( )
- Tele banking ( )
- On-line banking ( )
- Mobile banking ( )

If there are others, please specify.

b) To what percentage of customers who have maintained accounts with your bank can you attribute to direct marketing?
- 1-25% ( )
- 26-50% ( )
- 51-75% ( )
- 76-100% ( )

9. If you augment core products/service with extra benefits

a) Which of the following services do you offer?
   a) Free cheque books [ ]
   b) Ease in paying utilities [ ]
   c) Free gifts e.g. pens, calendars etc. [ ]

If there are others, please specify.

b) To what percentage of customers who have maintained accounts with your bank can you attribute to offering extra benefits?
- 1-25% ( )
- 26-50% ( )
- 51-75% ( )
- 76-100% ( )
10. If you offer customer training or coaching

a) Which of the following training services do you offer?
   a) How to use products e.g. ATM Cards [ ]
   b) How to operate certain accounts [ ]
   c) How to manage certain investments [ ]

If there are others, please specify.................................................................

b) To what percentage of customers who have maintained accounts with your bank can you attribute to offering training?

- 1- 25% ( )
- 26 -50% ( )
- 51- 75% ( )
- 76 -100 % ( )

11. If you have membership programs

a) For which customers does your bank operate membership programs?
   Retail only [ ]
   Corporate only [ ]
   Both Retail and Corporate [ ]

b) To what percentage of customers who have maintained accounts with your bank can you attribute to having membership programs?

- 1- 25% ( )
- 26 -50% ( )
- 51- 75% ( )
- 76 -100 % ( )

SECTION THREE

12. What benefits would you say accrue to your bank from using the above strategies? (Tick as many)

a). Helps to improve differentiate our products. [ ]

b) Helps to keep in constant communication with customers. [ ]

c) Increases sales turnover. [ ]

d) Entrance company image in the market. [ ]

e) Help strengthen partnership with our customer [ ]

f) Encourages customer loyalty hence retention. [ ]

g). Helps us offer structural solution to customer problems. [ ]

h) Reduces Advertising costs seeking hew customers [ ]

If there are others, please specify.................................................................
13. What challenges would you say your institution faces in offering the above strategies? (Tick as many)

a) Increase in costs of marketing [ ]
b) Keeping up with changing customer needs [ ]
d) Increase in research costs to keep up with customer changes [ ]
e) Competition within and outside the industry offering similar services [ ]

If there are others, please specify.

Thank you for your cooperation.
CUSTOMER QUESTIONNAIRE.

1. Please indicate the name of your bank...........................

2. How long have you been a customer in this bank?
   0-5 [ ]
   5-10 [ ]
   11-15 [ ]
   16-20 [ ]
   Over 20 years [ ]

3. What would you say is the reason for having maintained your account at this bank
   (Multiple answers allowed)
   a) The bank has designed an account that suits my needs. [ ]
   b) The bank offers extra benefits that are not charged for e.g. free cheque books. [ ]
   c) Because of the personal touch I get from the staff. [ ]
   d) Am a member in one of the account clubs? [ ]
   e) Their customer care is good. [ ]
   f) They offer faster services. [ ]
   g) They offer advice on financial matters. [ ]
   h) I can access my account more easily [ ]
   i) They have mobile and internet banking [ ]

4. Would you say your bank practises the following strategies?
   a) Redesign products to suit customer needs [ ] [ ] [ ]
   b) Offering customer training & coaching on financial matters. [ ] [ ] [ ]
   c) Offering extra benefits for free e.g. free cheque books,
      Ease of paying utilities like electricity, water. [ ] [ ] [ ]
   d) Have direct marketing services like mobile banking.
      Personal selling, direct mails. [ ] [ ] [ ]
   e) Operate membership programmes for its customers. [ ] [ ] [ ]

   Thank you for your cooperation