Customer Relationship Termination and Marketing Effectiveness in Commercial Banks

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Abstract

It is not all customers who contribute value to the firm's success. Firms often experience customers who are not profitable or are difficult to work with, thus the need to consider customer relationship termination as a valid strategic marketing option of managing relationships. It is evident that relationship ending, is not well understood and appreciated by both organizations and customers. Existing literature lacks sufficient empirical evidence that ending relationships is beneficial to the firm. The findings of this study indicate a statistically significant positive association, between relationship termination and marketing effectiveness in commercial banks. The results also indicated that most banks are reluctant in terminating relationships with these low value customers and that most customers would not recommend relationship termination. The results suggest that with efficient implementation and termination of non-profitable customers' relationships marketing effectiveness is enhanced.

Key Words: Relationship Termination, Unprofitable Customers, Marketing Effectiveness, Disengagement.

1. Introduction

With increasing competition and customer churning among commercial banks in Kenya, banks are seeking to adopt Customer Relationship Management (CRM) as one of their strategies of gaining a competitive edge wangi, 2013). CRM aims at attracting, establishing, developing, maintaining relationship with value adding customers and terminating relationships with low value customers when need arises. Relationship termination is the final stage of the CRM process where firms terminate relationships with customers who show no signs of being profitable and those who serve no other strategic purpose (Buttel, 2010; Duyer, Schurr and Oh, 1987; Reinartz et al. 2004). Business relationships dissolve when one partner no longer views the other as a worth continuing investment. Literature agrees that, not all customers contribute value to the firm's success and that disengagement remains a possibility in any relationship (Kotler et al., 2009; Egan 2011).

There are indications that business relationship ending in not well understood and appreciated by both organizations and customers and that existing literature is short of understanding of relationship termination as a management issue.

In addition, existing research lacks empirical evidence that ending relationships is beneficial for the firm (Reinartz et al., 2004; Kubi and Doku, 2010). Empirical evidence on how companies terminate relationship is also scarce. This current study therefore, is an attempt to fill this gap by adding to the existing literature empirical evidence on the extent to which relationship termination, influences marketing effectiveness.

Customers are not always right, firms often experience customers who are not profitable or are difficult to work with. This dysfunctional customer behaviour affects both the employees and the other customers. In addition, these customers create direct and indirect cost for the firm (Ritter and Geesbro, 2010). Studies such as Ang and Taylor (2005) have shown that unprofitable customers account for up to 50% of some banks' customers. Termination of customer relationships aims to improve the profitability of the customer base by divesting customers who show no signs of ever becoming profitable. Although most research on relationship marketing has indicated that long term relationship with customers are more profitable to the firm, relationship termination is increasingly gaining interest among marketers as a way of saving on budget, time and increasing profitability, by reducing the operation cost associated with unprofitable customers (Su and Robinson,2010). Reinartz et al. (2005) argue that, with termination of low value customers, the percentage of valuable customers, increases thus increasing marketing effectiveness. Ritter and Geesbro (2010) demonstrated that for relationship termination to be effective, companies must define their unwanted customers, accept termination as a valid strategy for managing customer relationships, and have a set of deliberate activities to dissolve business relationships with non-profitable customers. The lack of an agreed non-profitable customer definition, termination systems and procedures increases the likelihood that poor relationships are not terminated. Given that unprofitable customers do not add value to the firm, firms need to consider relationship termination as a valid option and prepare themselves to exercise it

Literature Review

Ending customer relationships is currently viewed as one of the essential elements of marketing management (Reinartz et al. 2004; Buttel, 2010). Though, it should be noted that marketers should consider the potential for development for those low value customers before terminating the relationships. Termination of customer relationship is always confronted with the risk of losing a potentially valuable customer. The future value of an apparently dead customer, and the collection of marketing costs spent periodically for the purpose of customer maintenance or promotion, should be evaluated and compared in order to make a reasonable choice in termination of a relationship. Hence, the decision of relationship termination has to be made on the basis of the future potential of a seemingly unprofitable customer (Samini et al., (2012). Smith and Dikolli (1995) argue that unprofitable customers may be developed to become profitable, by meeting their needs more satisfactorily.

Su and Robinson (2010) argue that, business relationship termination is a process and not an event which begins when partners are no longer committed and attracted to each other though business may still be going on. The existence of termination processes and systems in a firm has a positive impact on firm performance (Reinartz et al. 2005). Buttel (2010) categorises companies into three with respect to customer sacking behaviour: Category one are the hardliners who take an active and rigorous stance in terminating unprofitable customer relationships. The second category is the appeasers who take a more cautious approach with regard to termination and finally the undecided who are reluctant in terminating the unprofitable customers. Three termination sub process of relationship termination process, were considered for this study which include determining customer value, identifying low profit customers and discontinuing low value customers.

2.1 Determining Value of Customer

Customer value is a measure of an individual customer or a customer segment, profit generation for a company. Evaluating customer value involves analysing the probability that the customer will buy products from the company in future, the cost of serving the customer and the amount of discount rates that will be applied to future net margins low value customers are often inactive in terms of buying behaviour and therefore generate little or no profits, since the cost of serving them is about equal to or even exceed their revenues (Buttel, (2010); Shapiro et al., 1987). It is also argued that customer value should also be evaluated basing on the word of mouth influence considering that a satisfied customer not only buys but also influences others to buy.

2.2 Identifying Low Profit Customers

Low profit customers are those whose cost of maintenance exceeds the value that the firm obtains from them. These may include: Fraudsters, persistent late payers, serial complainants, those who are capricious and change their minds with cost consequences for the supplier and switchers who are constantly searching for a better deals (Buttel, 2010). Low value customers can be evaluated using frequency purchase, the assumption being that, customers are most likely to reduce their frequency of purchase before terminating a relationship and the gross margin from the customer's purchase (Venkatesan and Kumar, 2004).

It is therefore important for companies to conduct regular reviews of customer base to identify potential candidates for dismissal and avoid sub-optimal deployment of marketing resources. In their study, Ang and Buttel (2005) found that 85% of the companies studied, had a way of identifying clues or advance warnings that customers are about to switch and 19% used format models to predict defection. Though Reinartz et al. (2004); Butell, (2010) recommend discontinuation of low value customers, Smith and Dikolli (1995) argue that the purpose of understanding profitability of customers should not be to eliminate unprofitable customers, but to make them more profitable as circumstance change and their needs are met more satisfactorily.

2.3 Discontinuing low value customers

Discontinuing low value customers has been recommended by writers such as Reinartz et al., (2004; Buttel, (2010); Ritter and Geesbro (2010) as way of increasing firm performance. However, according to a study by Oztaysi et al., (2011), terminating relationships with unprofitable customers did not show any significant relationship with CRM outcomes. Buttle, (2010) identifies several ways of sacking low value customers which include: Raising the price of the product, unbundling the offer– re-specifying or redesigning the products so that it no longer appeals to the customer, re-organizing sales and marketing so that they no longer focus on the sackable segment of customers or changing the communication channel to limit their access to information. It is recommended that firms should a clear relationship ending strategy. To this extent, research has shown that firms rarely document a clear relationship ending and that in many occasions such decisions are made on intuition rather than objective data Samini et al., (2012). Su and Robbinson (2010) record that, considerable resources have sometimes been freed up and put to better use by dissolving unprofitable relationships.

Termination of unprofitable customers on the other hand, should be conducted with sensitivity, given that some of these customers may be well connected and spread negative word of mouth to other current and potential customers thus creating cracks in the relationship network Ang and Buttel (2005). Su and Robbinson (2010) found that banks are particularly concerned about negative word of mouth advertising as a result of terminating relationships with unprofitable customers and so they are reluctant in actively terminating the unprofitable customers. The study reported that Taiwanese banks declined to terminate relationships but encouraged these less profitable customers to use self-control services like ATMs in order to save operation time and cost. Tahtinen (2002) argues that when relationships are terminated, it is important for firms to manage the consequences of the dissolution for the sake of the other actors in the network. Firms must consider the consequences of the dissolution not only with regard to the affected customers but also the implications on the other customers.

3. Methodology

The study was conducted in Nairobi City County, Kenya focusing on the customers of the 43 commercial banks. Customers with deposit accounts domiciled in branches within Nairobi City County were considered. The target population for this study was therefore about 1,600,000 customers. The study focused on all the three categories of banks (large, medium and small size) as categorised by the central bank of Kenya. Each category was treated as a cluster and proportional stratified sampling was used to identify the respondents based on the category market share as given in the Bank's Supervisory Report 2013. A total of 385 customers were considered. In addition, purposive sampling was used to pick on either the Marketing or the Customer Care manager from each of the selected banks for interviewing. The interview data was used to validate the customer responses (Copper and Schindler, 2006). Cronbach's Alpha (α) was used to determine the reliability of the instrument based on internal consistency. A computed alpha coefficient of above 0.70 was adopted for this study as recommended by Sekaran and Bougie, (2009) .Both face and content validity of the questionnaire were tested through logic (Fraenkel and Wallen, 2006).

3.1 Data collection procedure

Structured questionnaires with both open ended and close ended questions were used to collect primary data from the customers. The questionnaires were administered in the banking hall as the customers waited to be served. The customers were requested to complete the questionnaires on the sport. In addition, interview schedule was used to collect primary data from Management for validation of the customer responses.

Relationship termination was measured using three sub-processes of termination shown in table 1. The items were rated using a five point Likert Scale; where 1was strongly disagree, 2 was disagree, 3 was neutral, 4 was agree and 5 was strongly agree.

4. Presentations and Discussion of Findings

A total of 390 questionnaires were completed and returned out of which 5 were rejected due to inconsistencies and incompletion. This translated to a response rate of 72.6%. Analysis of the respondents' characteristics' show that, 56.1% of the respondents were male while 43% were female. On education levels acquired, 49.1% had acquired a Bachelors degree, 16.4% had post graduate qualification, 23.6% Diploma, while the remaining 10.9% had a Certificate and below. On switching, 56.1% of the respondents reported to have switched banks, out of which 60% had switched at least twice. The results also revealed that majority of the customers who switch banks do not terminate accounts with their previous banks, as only 26.2% of the respondents who had switched, indicated having ever terminated the accounts with previous banks. In addition, the findings also revealed that 87.1% of the terminated accounts were by self, while only 12.9% had been done by the banks. This shows that Commercial Banks in Kenya are not proactive in terminating relationships with low value customers. The findings are consistent with those of Reinertz et al. (2004); Su and Robson (2010) that most companies are reluctant in terminating relationships with unprofitable customers and that relationship termination is mainly originated by customers when they no longer need to use the current products.

4.1. Descriptive analysis for Relationship Termination

The study sought to establish whether banks were actively identifying and terminated relationships with low value customers. Reinertz et al. (2004) recommend that to increase effectiveness of marketing initiatives, companies should terminate relationships with low value customers. Relationship termination was measured using 11 items, based on three sub-processes namely: Determining customer value, determining none profitable customers and discontinuing low value customers.

4.1.1 Determining Customer Value

Three aspects of a high value customer shown in table 3 were used to determine whether the customers were valuable to the bank. The findings in Table 1show that 69, 9% of the respondents agreed that they were willing to open another account with their banks if there was need to do so, 58.2% agreed that the number of transactions they did with their banks were significantly high, while 73.2% agreed that they could recommend their banks to their friends; with means and standard deviations in parenthesis of 3.703(0.988), 3.668(0.969) and 3.896(0.945) respectively. The findings indicate that majority of the banks had a good percentage of valuable customers. This implies that banks made efforts towards maintaining relationships with high value customers.

4.1.2 Determining Non Profitable Customers

The findings in Table 1 show that cumulatively, 76.6% of the respondents agreed that a good amount of their income was paid through their banks, 69.4% agreed that they did not intend to switch from their banks any time soon while 75.7% agreed that they frequently withdrew and deposited money in their accounts. With the following respective means and standard deviations in parentheses 3.961(0.979), 3.812 (1.014), and 3.961(0.979) the findings suggest that a majority of the customer were profitable to the bank and that most commercial banks in Kenya made an attempt to maintain relationships with high value customers.

4.1.3 Discontinuing Low Value Customers

The results in Table 1 indicate a less favourable agreement with all the five items that were used to measure the extent to which banks implemented discontinuation of low value customers. Only 35.5% of the respondents agreed that their banks actively discontinued relationships with low value customers while 38.8% agreed that their banks had an effective system of identifying low value customers. With means ranging from 2.255 to 3.018 and standard deviation between 0.936 and 1.398, the results indicate that banks were reluctant in discontinuing relationships with low-value customers.

The findings are supported by an argument held by Reinartz et al. (2004) that companies are subject to Type II error in that, they are reluctant in terminating relationships with low value customers. It is also evident from the findings of this study that, a majority of the customers would not encourage their banks to discontinue relationships with low value customers, as only18.7% agreed with the statement. These findings are supported by an argument held by Smith and Dikolli (1995) that, the purpose of identifying unprofitable customers should not be to discontinue them but to make them more profitable by meeting their needs more satisfactorily. Consistent with Smith and Dikolli, Oztaysi et al., (2011) found that terminating relationships with unprofitable customers did not show any significant relationship with CRM outcomes.

Ritter and Geersbro (2010) argue that pre-relationship screening would help firms avoid entering into unwanted customer relationships and thus minimise the need for termination. This is seen as better option than using resources to establish relationships only to break them later. The correlation results on Table 2 indicate that relationship termination, positively affects marketing effectiveness (r (385) 0.416; $p < 0.001$).

4.2 Regression analysis on the Relationship Termination and Marketing Effectiveness.

The study sought to determine the extent to which relationship termination influences marketing effectiveness among Commercial Banks in Kenya. It was hypothesised that there is no significant relationship between relationship termination and marketing effectiveness. To determine the relationship, the model $Y= \beta 0 + \beta 1RT + \varepsilon$ was fitted. The regression results in table 3 show that the association between relationship termination and marketing effectiveness was positive and significant ($F (1,383) = 80.378$, $p < 0.001$). With $R2 = 0.173$, the model implies that about 17.3% variation in marketing effectiveness is explained by variations in relationship termination. However, the model did not explain 82.7% of the variation, meaning that there are other factors associated with marketing effectiveness which were not fitted in the model. The model equation is therefore, $ME = 1.749 + 0.606\ RT + \varepsilon$. Where ME is marketing effectiveness and RT is relationship Termination. β was also significant ($\beta = 0.416$, $t = 8.965$, $p < 0.001$) indicating that, for one unit increase in relationship termination, marketing effectiveness increases by about 0.416 units. With p-value < 0.05, the null hypothesis was rejected and the study concluded that there is a statistically significant association between relationship termination and marketing effectiveness. The findings imply that the more banks efficiently implement and manage relationship termination, the higher the effectiveness of marketing. Reinartz et al. (2004) and Buttel, (2010) recommend termination of relationships with low value customers.

5. Conclusion and Implications

The objective of the current study was to establish the extent to which customer relationship termination influences marketing effectiveness in commercial banks. The study found a statistically significant relationship between the two, in terms of customer satisfaction, customer retention and the value of customers. The results also show that banks in Kenya are reluctant in terminating relationships with low value customer and that a majority of the customers would not encourage their banks to discontinue these relationships. The findings of this study suggest that the more efficiently banks implement and manage relationship termination with low value customers, the more effective marketing becomes. This study adds to the body of knowledge, empirical evidence on the association between relationship termination and marketing effectiveness. It is expected that the study will have an impact on how customer relationship termination is perceived by both the banks and the customers. The study recommends that banks Management put in place a set of deliberate and proactive actions, processes, and policies for dissolving unprofitable customer relationships. The study also recommends regular assessment of customers' value by the banks so as to identify the low value customers for dismissal.

5.1 Limitations and Recommendations for Future Research

Customer Relationship Termination is not well understood and appreciated by both the customers and the banks. Existing literature has differed on whether it is more effective to terminate relationships with non-profitable customers or to endeavour to make them more profitable by meeting their needs more satisfactorily. From the findings of this study, it is evident that most banks in Kenya are reluctant in terminating relationships with these low profit customers and that customers do not appreciate termination of relationships by the banks. Further research could be done in this area to establish which of the two approaches is more profitable for firms.

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APPENDIX

Table 1: Responses on Relationship Termination.

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	mean	Standard deviation
Determining customer value							
1. Am willing to open another account with my bank if need be.	4.7	7.3	18.0	53	16.9	3.703	0.988
2. The numbers of transactions I do with my bank are significantly high.	2.1	12.7	27.0`	42.6	15.6	3.668	0.969
3. I can always recommend my friends to join my bank.	2.9	4.7	19.0	46.8	26.4	3.896	0.945
Determining non profitable customers							
4. A good amount of my income goes through my bank.	2. 6	6.8	14.0	45.2	31.4	3.961	0.979
5. I don't intend to switch from my bank any time soon.	3.7	6.8	20.1	43.6	25.8	3.812	1.014
6. I frequently deposit and withdraw money from my bank.	3.1	5.0	16.2	44.1	31.6	3.961	0.979
Discontinuing low value customers							
7. My bank actively discontinues relationships with low value customers.	14.0	16.4	28.8	35.3	5.5	3.018	1.398
8. My bank has an effective system of identifying low value customers.	13.3	25.3	19.0	38.8	3.6	2.943	1.148
9. My bank offers products that do not meet my expectations.							
10.I would encourage my bank to	5.5	14.5	39.0	36.4	4.9	3.203	0.936
discontinue relationships with low value customers	34.8	26.2	20.3	16.1	2.6	2.251	1.169
11. The status of my accounts denies me access to some of my banks services.	18.6	19.6	20.1	29.8	12.3	2.982	1.311

Cronbach alpha = 0.706

Table 2: Correlation between Relationship Termination and Marketing Effectiveness

		Marketing Effectiveness	Termination
Marketing Effectiveness	Pearson Correlation	1	.416**
	Sig. (2-tailed)		.000
	N	385	385
Termination	Pearson Correlation	.416**	1
	Sig. (2-tailed)	.000	
	N	385	385

** Correlation is significant at the 0.01 level (2-tailed).

Table 3: Regression Results for Relationship Termination on Marketing Effectiveness

Model Summary						
Model	R	R2	Adj. R2	Std. Error		
1	.416a	0.173	0.171	0.647		
ANOVA b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	33.632	1	33.632	80.378	< 0.001
	Residual	160.258	383	0.418		
	Total	193.89	384			
Coefficients a						
Model		Unstand. Coefficients		Stand. Coefficients		
		B	Std. Error	Beta	t	Sig
1	(Constant)	1.749	0.232		7.551	< 0.001
	Termination	0.606	0.068	0.416	8.965	< 0.001

a) Predictors(c) CRM Termination
b) Dependent variable – Marketing Effectiveness