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**EFFECTS OF CUSTOMER RETENTION STRATEGIES ON CUSTOMER
RETENTION. A CASE STUDY OF THE BANKING INDUSTRY IN KENYA.**

**By
Magdalene Njoki Kaguri**

**Submitted in Partial fulfilment of requirement for the degree of Master of Commerce
at Strathmore University.**



May, 2016

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Magdalene Njoki Kaguri

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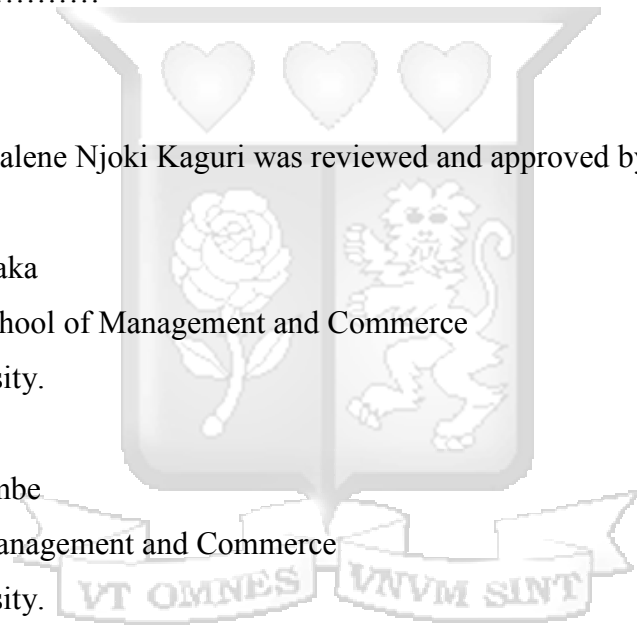
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ABSTRACT

The purpose of the study was to examine the perception of customer relationship managers on effects of customer retention strategies on customer retention in Kenya's banking industry. The study examined how three customer retention strategies: customer relationship management, relationship marketing and perceived pricing tactics affect customer retention in the Kenyan banking sector. The respondents of the study were customer relationship managers of all the 43 banks surveyed. Using a questionnaire, data were collected from the banks. Correlation analysis was used. Customer Relationship Management (CRM) had a moderately strong positive relationship with customer retention.

Price Perceived tactic was used to establish the extent to which customer relationship managers perceived that the pricing of their products and services to affect customer retention. There was a weak positive relationship between price tactic and customer retention. This weak relationship was attributed to the fact that most prices are regulated in the industry and as a result, it may not be a very good indicator of customer retention strategies. Customers may fail to switch service providers owing to the standardizing of products, services and prices. On relationship marketing there was a very weak positive relationship with customer retention, contrary to previous studies. This was attributed to product customization was not common in the market, and the 'know your customer' procedures appeared to be similar in different banks. As such, customers may fail to switch services providers because the relationship marketing appears similar across banks. Again, this appeared not to be a strong indicator of customer retention.

The study therefore concludes that in sectors with similar products and prices, customer retention will largely be driven by customer relationship management. The study recommends that banks invest more in managing relationships with their customers as a way of retaining them, and attracting new customers. Customer relationship management will give them more competitive advantage than pricing or relationship marketing.

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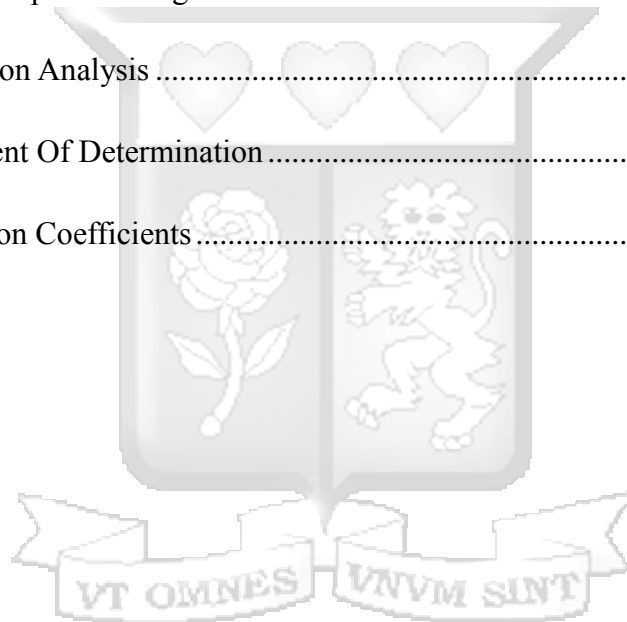
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LIST OF ABBREVIATIONS AND ACRONYMS

CBK:	Central Bank of Kenya
CRM:	Customer Relationship Management
KPI:	Key Performance Indicators
MFI:	Micro Finance Institutions
ROI:	Return on Interest
SPSS:	Statistical Package for Social Sciences
US:	United States



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I would like to acknowledge the people who supported me and contributed greatly to the successful completion of this study. Firstly, my supervisor Professor Ruth Kiraka for the dedication and professional guidance offered to me during the research process.

Secondly, my appreciation goes to the respondents. In the same vein, I acknowledge the stakeholders who participated in the research. My family, close friends thank you for the support.

It is through the Almighty God, that I have been inspired in my completion of this that it will give insight to the young professionals joining different industries.



DEDICATION

This research project report is dedicated to my loving family whose support has enabled me to complete it. This is to say “thank you” to colleagues and close friends who have been a great source of encouragement.

To God be the glory.



CHAPTER ONE: INTRODUCTION

1.1 Background Information

The present competitive setting of businesses exploits customer retention in order to ensure the company's fortification against penetrative competition (Fluss, 2010). Retention of the customer is the approach in which organizations emphasize their exertions on current customers with the aim to carry on business with them (Mostert et. al, 2009). Ramakrishna (2006) defines customer retention as the objective of marketing that bars customers from joining the competition. Nevertheless, customer retention can also imply the number of clients who stay with the supplier over an established period, like a year (Dawes, 2009). Customer retention is considered an important aspect in shaping the accomplishment of businesses. Fluss (2010) asserts that opponents are ever on the sentry to snip customers through superior deals. Fluss witnessed that annual customer attrition rates vary from seven percent in industries that have extraordinary withdrawal obstacles such as banking and insurance, to nearly 40 per cent in the mobile phone industry.

Customer retention is seen as an obligation by a customer to carry out business transactions with a particular firm on a regular basis (Hansemark&Albinsson2004). Molapo and Mukwada (2011) ascertained that firms are all out to foil attempts by customers to switch retailers and indirectly retain them. In addition, Erdis (2009) established that firms direct their marketing efforts to please their current customers in order to retain them and foster long-term relationships with them. Customers will frequently patronize firms which meet their needs and hence, an enduring relationship will be fostered (Fill, 2005).

Farquhar (2004) claimed that retained customers increase firms' profits because acquiring new customers is a costly affair. This is in line with the findings of Reichheld and Schefter (2000) which showed that firms that are able to raise customer retention by five per cent would be able to boost profits by 25% to 95%. In addition, the costs of acquiring new customers are five times more than those of retaining an existing customer for a firm. Thus, boosting customer retention will increase firm's profits and performance by leaps and bounds (Sim, Mak & Jones, 2006).

In line with Richard (2009), performance of organizations incorporates three main zones of firm outcomes: financial performance (profits, return on assets, and return on investment);

product market performance (sales, market shares); and shareholder return (total shareholder return and economic value added). In recent times, organizational performance has also been measured using non-financial measures such as customer satisfaction, social responsibility (corporate citizenship, community outreach) and employee stewardship (Herman & Renz, 2008); increased customer base and decreased number of complaints (Renz, 2008); and price satisfaction, meeting client's needs, customer retention and product development (Lombard, 2009; Richard, 2009).

Retention of customers is a prospective operational apparatus that banks can utilize in advancing a strategic gain and endure in the ever-increasing banking competitive environment thus enhancing their overall performance (Hull, 2002). The supporting argument on retaining customers is comparatively forthright. It is more economical to retain customers than to obtain new ones. The costs of acquiring customers to replace those who have been lost are high. This is because the expense of obtaining customers is met only in the initial stages of the commercial relationship (Dabholkar, 2000). Besides, longstanding consumers purchase in large quantity and quite frequently and, when motivated, might brood affirmative oral promotion for the institutions. In addition, lasting customers also consume slighter company's time and are not so thoughtful to price variations (Healy, 2009). The outcomes pinpoint management prospect to secure more referrals in someone's business, as it is frequently of superior quality and economical to acquire. Hence, it is understood that dropping customer defections by as little as five percent can double the profits (Healy, 2009).

Various major aspects inducing customer retention in banks embrace the variety of services, tariffs, levies and prices charged (Abratt & Russell, 2004). It is apparent that greater service only is not satisfactory in appeasing customers. Prices are vital, if not more significant than service and rapport excellence. Besides, service fineness, attaining client necessities, and giving advanced products are indispensable to flourish in the banking industry. Several commercial banks assert that generating and sustaining customer relationships is significant and they are cognizant of the constructive tenets that relationships offer (Colgate, 2000). Though there have been numerous scholarly works emphasizing the importance of retaining customers in the banking industry (Fisher, 2001), there is pint-sized pragmatic research probing the paradigms that could bring about customer retention.

Customer retention as a practice is progressively being viewed as a significant executive concern particularly in the setting of flooded markets or lesser growth of new customer numbers a company can acquire. Retention of customers is also recognized by Day (2003) and Reichheld (2003) as a central objective of relationship marketing chiefly because of its capability in providing grander relationship economics, that is, it costs less to retain than to acquire new customers. Customer retention is a vital factor for relations and marketing directors, mainly the ones in services industries (Bennett & Rundle-Thiele, 2004).

According to Mendzela, (1999), customer retention is regarded by most customers to be linked to customer professed value of the financial institutions; if the institutional services are undervalued by customers, then there is likelihood that customers would not be satisfied and retained by the services offered by them. Generally, when customers are satisfied with a good or service, the possibility of utilizing the service continuously increases (Dwyer, et al., 1987).

1.2 Banking Industry in Kenya

Banking in Kenya is administered by the *Companies Act*, the *Banking Act*, the *Central Bank of Kenya Act* and the numerous guiding principles dispensed by the Central Bank of Kenya (CBK). As at June 2014, there were 43 registered commercial banks in Kenya. The banking system is managed by the Central Bank of Kenya (CBK) which is accountable for articulating and executing monetary policy and nurturing the liquidity, solvency and proper functioning of the financial system. Thus, the CBK guarantees the appropriate running of the Kenyan financial system, the liquidity in the financial system and the soundness of the Kenya shilling. The banks are enjoined under the Kenya Bankers Association (KBA) that acts as an inducer for the banking sector's interests. The KBA serves as a forum for addressing issues affecting its members.

The banking sector in Kenya has constantly grown in assets, deposits, profitability and products offering. This growth has been reinforced by an industry wide branch network expansion tactic in Kenya and in the East African community, computerization of many services and a move to customize products to meet multifaceted customer needs rather than provide traditional 'off-the-shelf' banking products (Central Bank of Kenya Annual report, 2009).

The growth of banks in Kenya as indicated by Central Bank of Kenya (2013), encompasses forty three banks operating as commercial, one mortgage finance company, six deposit taking microfinance organizations, five liaison offices of alien banks, one hundred and eleven foreign exchange agencies and two credit reference bureaus. The banking industry has constantly enumerated enhanced performance with the number of bank customer deposits and loan accounts standing at 17.3 million and 2.3 million respectively as at March 2014. The size of assets standing at Ksh.2.4 trillion, loans and advances amounting to Ksh.1.4 trillion, while the deposit base stood at Ksh.1.8 trillion and profit before tax of Ksh.28.2 billion as at 31st March 2014. This growth has amplified competition both from local banks and international banks, with some being new players in the country. This has served the Kenyan economy well, and customers and shareholders have been the greatest beneficiaries (Central Bank of Kenya Annual report, 2014).

In a growing and competitive marketplace, banks need to employ customer retention strategies in an effort to enhance their performance in terms of market share, profitability and so on. This is particularly important as the industry is reaching a phase of maturity meaning that banks offer nearly identical products in the product lifecycle. Offering of identical products poses the danger of generating a descending spiral of continuous price discounting as banks struggle for customer share. One strategic focus that banks can implement to remain competitive would be to retain as many customers as possible (Menzela, 2003).

1.3 Problem Statement

The aspects that motivate a long-term relationship are multifarious. Story (2007) argued that even customer fulfillment indices are poor indicators in prediction of the future behavior of customers by business. This is confirmed by Rust (2008) who argued that numerous non-satisfaction elements essentially spur loyalty, while Little and Marandi (2003) uphold that customer satisfaction is only the preliminary step towards attaining customer loyalty. Strategies discussed by the authors are customer satisfaction and customer fulfillment and without these strategies there is no customer loyalty. Loyalty according to Little and Marandi (2008) has a great impact to customer retention.

Research on the importance of customer retention cannot be overlooked. Studies in Kenya have been done by Siboe (2006) who noted that there are arguments for bank management

to cautiously deliberate the features that might increase customer retention rates. Numerous studies have accentuated the significance of customer retention strategies (Dawkins & Reichheld, 2003, 2006; Fisher 2001). Their studies reported customer relationship management, relationship marketing and price tactic as the main strategies that enhance customer retention. Conversely, there has been minimal exertion to explore issues that might cause customer retention in the banking industry in Kenya (Siboe, 2006; Jerono 2008). In Kenya, little has been done in regards to customer retention. Jerono (2008) conducted a study on relationship marketing as retention strategy in commercial banks while Siboe (2006) studied customer retention strategies used by internet service providers. Mecha et al. (2015) conducted a study on customer retention strategies in Kenya's commercial banks. This study sought to determine the effectiveness of the customer retention strategies used by commercial banks in Kenya. The banking industry is very competitive since all banks offer similar products and services. As a result, banks fiercely compete to acquire and retain customers as this affects their performance as it is a costly affair to acquire new customer base than retaining existing customers.

The study sought to analyze the effectiveness of the retention strategies applied by the banks, and determine what strategies need to be applied in order to acquire retention. The strategies under study, are customer relationship management, relationship marketing and perceived price tactic.

1.3 Objective of the Study

1.3.1 General Objective

To examine the effect of customer retention strategies on organizational performance by analysing the perceived information of retention strategies from customer relationship managers in the banking industry.

1.3.2 Specific Objectives

This study was guided by the following research objectives:

1. Examine the effect of customer relationship management on customer retention in Kenya's banking industry.
2. Establish the effect of perceive price tactic on customer retention in Kenya's banking industry.

3. Determine the effect of relationship marketing on customer retention in Kenya's banking industry.

1.4 Research Questions

To achieve its objectives, this study was guided by the following research questions:

1. How does customer relationship management affect customer retention in the Kenyan banking sector?
2. How does perceived pricing tactic affect customer retention in the Kenyan banking sector?
3. How does relationship marketing affect customer retention in the Kenyan banking sector?

1.5 Scope of the Study

The scope of this study was all the 43 commercial banks in Kenya. The researcher considered the main branch headquarters which are located in Nairobi. The researcher anticipated that customer relations managers are knowledgeable of customer retention strategies employed by their banks hence would provide valid information towards the achievement of the objectives of the study.

1.6 Significance of the Study

Managers of banks in Kenya shall gain additional knowledge in relation to customer relationship management, relationship marketing and price perceived tactic as retention strategies practiced in Kenya in order to retain customers. The bank managers will also gain additional knowledge on which retention strategy is well utilized and the one that is less utilized. The results of this study shall help managers in the banking industry instil the right measures towards the retention of their market share with the aim of improving on performance. Managers of other organizations shall also benefit from the findings in that the findings shall help them in reviewing policies governing retention of customers. The study shall provide information on what strategies similar organizations can adopt to achieve customer retention.

Key stake holders such as customer relationship managers will benefit on additional knowledge in regards to retention strategies. This will enable them to review strategies currently being used, continue and adopt to new retention strategies. As for the banks'

management, it will provide a guidance on how well the banks are utilizing the retention strategies, identify any gaps that may prevent retention and work towards improving customer retention.

The study focuses on the topic of customer retention and scholars in this area shall be in a position use this study to further the debate on areas related to the study.



CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review on the impact of customer retention on organizational performance. Specifically the literature review provides the theoretical perspectives informing the study and discusses the themes of the study; benefits of customer retention in the banking industry, and the factors that contribution to customer retention. The chapter concludes by presenting the conceptual framework for the study.

2.2 Theoretical Perspective on Customer Retention

The theoretical framework on customer retention strategies was put forward by Reichheld (1996). In proposing the framework, Reichheld's thoughts are based on the fact that loyal employees and investors who share a similar dream of longer relationships will be able to grow a crop of loyal customers for the firm. In attracting new customers, he urged firms to be conscious of the diverse "loyal coefficient" which is the sum of economic forces required to switch customers from one provider to another. The easiest customer to win is likely to be the quickest to leave. In his own words, Reichheld commented, "*The customers who glide into your arms for a minimal price are the same customers who dance away with someone else at the slightest enticement*". Reichheld argues that there are some customers who do not desire a durable relationship with the firm. In contrast, there are others who desire a lasting relationship with the organization and as a result buy frequently, are ready to pay premium promptly and it costs less to serve them. To be successful in keeping customers, a firm should implement a combination of strategies such as defining and measuring relation through surveys, attracting the right customers from the right places, employing creative filtering to reduce the selection of unwanted customers, giving sales people incentives to retain customers not just by acquiring new ones and rewarding long-time relationships to customers.

Reichheld (1996) further contends that the foremost goal of retention strategy is keeping employees and customers on a long-term basis. This means that firms need investors who share this long term view of customers. Short term investors' core interest is short term high annual returns on investment. Reichheld's (1996) view is inimical to the development of lasting relationships with customers. This is because the firm is handicapped as to the amount of profit it can reinvest to produce high quality and innovative products for customer as well as the extent to which it can offer attractive incentive packages.

In summary, as markets grow and become increasingly competitive, institutions are more likely to endeavor to uphold their market share by concentrating on retaining existing customers. Customer retention has been encouraged as a simpler and more unswerving source of dominance. In addition, based on studies by Bain & Company (2000:7), “the companies with the highest customers’ retention rates, earn the best profit. A customer retention strategy that delivers a combination of superior, unique and one that satisfies the customer when compared with competition will achieve a high level of customer loyalty. To avoid imitation by the competition, a customer retention strategy should embrace total customer and lock in systems (Reichheld, 2003).

The service on which the customer retention strategy should be based, must be suitable to what the customer needs, before claims on quality are made. Quality is only one among several factors that would influence a customer retention. This is because people are motivated to buy or accept a service and cling on to it, not because of its quality but because of the solution it offers to the customer’s problem. A company therefore should offer specific solution solving service to its customers (Tracy, 1996).

According to Mullins (2003), the baseline of business success is retaining the existing customers while acquiring new ones continues. Effective and responsive customer service is a key ingredient in doing so. Savvy marketers know that customer retention is a competitive necessity. To achieve high level loyalty hence retention of its customers, a company needs to retain an equally high number of its customers. Towards this end, the company has to keep monitoring the ever and fast changing market dynamics that affect as well as influence its customers, a winning customers retention strategy has to embrace all these factors.

2.3 Customer Relationship Management and customer retention

Firms are stressing on customer relationship management to the extent that it has been made an integral component of a firms’ business plan (Samat, Ramayah & Norizan, 2006). Similarly, it has been acknowledged as one of the important factors in retaining customers. In keeping with Tu et al (2011), perceived service quality through CRM is the gap between the expected customer service and the actual customer service from the firm. Venetis and Ghauri (2004) have emphasized that quality of services rendered affects the future repurchase decision and firms that have demonstrated excellent pre and post customer

assistance are able to preserve their customers. Therefore, it is highly plausible to retain customers when they perceive firms to offer good quality services (Venetis & Ghauri, 2004).

Customer retention is highly dependent on customer relationship management (CRM) (Omar, Musa & Nazri, 2007). Customer relationship management essentially encompasses any efforts by firms to carry out activities focused on relationship building where these activities can be carried out traditionally or by electronic means (Feinberg & Kadam, 2002). CRM and electronic CRM are widely associated with effective service recovery processes particularly targeted at dissatisfied customers (Ndubisi2007). Moreover, Yunus (2009) has pointed out that e-CRM activities include fostering pleasant and enjoyable rapport with customers by communicating the latest promotions and updates to them which will in turn satisfy them. Consequently, such impressive CRM activities would lead to success in the firm's customer retention practice (Omar et al. 2007; Yunus 2009). The customer service is viewed as the customers' opinion of a firm based on certain visible features namely the surroundings, location and the mood inflicted on the customer in comparison with other firms (Razak, Chong & Lin, 2007).

CRM service is considered an important weapon to retain a firm's customers (Al-Eisa & Alhemoud, 2009). Voon (2011) has ascertained that a customers' decision to stay with a firm is greatly influenced by the physical amenities and surroundings of a firm such as noise, music, lighting, temperature, store layout, arrangement of furniture and equipment, decor and signage. Furthermore, customers' resolution to stay retained with a firm is also built on the store appearance as firm's unique ambience would be difficult to emulate Eliwa (2006). On the other hand, Vesel and Zabkar (2010) have ascertained that customers judge the quality of customer service based on a few encounters. Delighted customers are normally able to tolerate unpleasant customer service encounters if they happen once in a blue moon (Bolton et al. 2000). Thus, it could be concluded that retaining customers is achievable with the above average customer service offered by firms (Eliwa, 2006; Al-Eisa & Alhemoud, 2009; Voon, 2011).

Ramakrishna (2006) suggested that customer retention stemmed from a consumer devoted to the store by an explicit and broad decision-making procedure. Customer satisfaction is often operated as a cognizant assessment of the price/quality ratio or the disposition to pay exceptional price, or otherwise price triviality.

Cronin and Taylor (2001) studied the causative relationships amongst CRM service quality, customer retention and buying intent. Every variable was measured by an element. There were 659 operational questionnaires randomly collected from customers of four types of businesses in the southeastern United States: banking, pest control, dry cleaning, and fast food. The findings of correlation examination recommended that (1) service quality was precursor of consumer retention; (2) service quality had less influence on buying intents than did consumer satisfaction and (3) consumer satisfaction had a substantial influence on purchase intentions. All these were reported to be significant towards customer retention and organization performance.

A study by Dabholkar (2000) also established that customer retention was strappingly arbitrated due to the impact of proper management of customers on interactive objectives. Assessment of cogency revealed that the construct of service quality was similar to the construct of customer retention. The outcome regression analysis in operational equations modeling reinforced their proposition that customer retention had a stouter effect due to behavioral intents than service quality did.

Customer Relationship Management literature showed that incidence of high service quality and extraordinary customer retention rates resulted in a high level of purchase intentions. Rowley and Dawes (2000) reported that customer retention was impacted by product quality, service quality, and retailer appearance. They also found out and reported that quality of product and service is openly linked to customer retention. Customer retention literature showed that the relationship between service qualities depended on the type of manager and what she/he perceives as good services provision. The constructive influence of evident satisfaction on customer allegiance was sturdier than that of dormant satisfaction on customer devotion Rowley and Dawes (2000). Firms are stressing on customer relationship management to the extent that it has been made an integral component of a firms' business plan. Similarly, it has been acknowledged as one of the important factors in retaining customers (Samat, Ramayah & Norizan, 2006).

According to Rowley and Dawes (2000), firms learn from familiarity of service repossession when they may not be able to foil service botch. Berry and Parasuraman (2004) supposed that firms should not repute service letdown as a problem but as a chance to generate satisfied

customers. Hence, reclamation strategies have a dramatic effect on a firm's returns and profitability. Service recovery literature has revealed that determining customer problems has a strong effect on customer retention. Dabholkar (2000) also found that customer behavioral intentions are more auspicious when customers trust that firms steadily implement service recovery when failures happen. Furthermore, the study established that properly managed service recovery strongly impacts customer intentions to re-purchase and stay in a given organization.

2.4 Perceived Pricing tactic and customer retention

Perceived price tactic is the monetary price of something is what is foregone to acquire a product or a service. Thus, studies on price have frequently been abstracted and distinct as a sacrifice (Sweeney, et.al, 2003). The three constituents to the model of price are objective price, perceived non-monetary price and sacrifice. The objective monetary price (*simply put, the amount of money paid for product*) is not comparable to the perceived price (*that is, the price as assumed and documented in the mind of the consumer*) since consumers do not always know or remember the authentic price paid for a product. Instead, they encode the price in a way that it is meaningful to them.

Price is an important tool in retaining customers (Dawes, 2009). Customers are seen as value maximizers (Kotler & Keller 2006) who normally perceive that the price of a service signifies value for money and believe in tradeoff between price and quality (Yuksel & Yuksel 2003; Wang, 2010). Satisfaction of retained customers is conditional on the distinguishable value for money (Voon, 2011) as attractive prices mirror the perceived quality of the service by the consumers (Jin, Lee & Huffman, 2011). Therefore, the competitive price of services set by a firm facilitates the practice of customer retention (Dawes, 2009; Polo et al, 2011).

With regard to the relationship between retention and price, research has indicated that price is one of the determinants of customer retention (Zeithaml & Bitner, 2000). When customers were queried on the value of services offered, they considered the price charged for the service. In cases where consumers did not view price in forming their decisions about the quality of service, it was by and large because they were short of reference price (Zeithaml & Bitner, 2000). Still, though, this group categorized price as a vital factor when it came to their overall satisfaction. The theoretical development of price discernment in services remains largely uncharted (Varki & Colgate, 2001). The study hence proposes that the

discernment of price plays an important role in customer retention. The perception of fairness hangs on the gain-loss ratio stroked by both partners in the exchange. From the consumer's view, the gain is the product being received, while the loss is the money to be paid.

When a consumer pays a higher price than others do, or when a consumer receives a lesser product than anticipated (either in terms of quantity or quality), apparent negative price inequity occurs. Then again, perceived positive price inequity may result from either receiving high quality product than others, who paid the same price, or paying a lower price but getting the same product. Price perception should have an influence on customer retention and on behavioral intentions (Varki & Colgate, 2001). This study, then, suggests that the perceived fairness of price influences customer loyalty, and subsequently customer retention. Likewise, Polo, Sese and Verhoef (2011) stressed on the importance of setting rational prices for services offered by firms in order to entice and retain customers in the long run.

2.5 Relationship Marketing and customer retention

Relationship marketing is an important tool that fosters interactive interaction or better known as two way communication with customers (Roberts, Varki & Brodie, 2003). Customer retention is known for its reliance on the extent of firm's two-ways communication in maintaining relationship with its customers (Reinartz & Kumar, 2003). Firms' frequent interaction and inclination to obtain feedback from customers besides maintaining continuous contact with customers are the key instruments to foster retention rates (Gupta, et al. 2004). For this reason, it has been identified that interactive sessions with customers of a firm enables customer retention (Reinartz & Kumar, 2003; Gupta et al., 2004; Bassey et al., 2011).

In addition, membership-relation programs influence customer retention rates as it provides opportunities for firms to interact with their customers on a regular basis besides learning about them. The membership card provides vital information regarding the customer namely income, spending patterns, likes, dislikes, and preferred mode of payment (Arnold, Fang & Palamtier, 2011). In addition, Currah and Wrigley (2004) ascertained that customers' personal information obtained from the membership program's database would facilitate firm's marketing communication efforts and retention practice in the long run. Card members usually feel a sense of attachment with firms when they are awarded vouchers and

this satisfies them (Bolton, Kannan & Bramlett2000). To sum, membership programs indeed facilitate customer retention by the firm (Bolton et al, 2000; Currah & Wrigley, 2004).

It is perceived that retaining customers is feasible due to the reluctance of customers to bear the total swapping cost (Ranaweera & Prabhu2003; Steven et al 2012). Swapping cost can be described as the total cost experienced by consumers when they switch to other firms (Gustafson, Johnson & Roos, 2005). Moreover, Seo, Ranganathan and Babad (2008) perceived switching cost could be incurred in terms of time loss to source for a new retailer, monetary loss in the searching process and other hidden cost. Customers are also normally reluctant to change service providers due to their concerns over the loss of the membership points (Steven, Dong & Dresner, 2012). Relationship marketing therefore serves to increase switching costs and enhance customer retention (Ranaweera & Prabhu, 2003).

Consumer retention is a firm's ability of managing customers from moving to competition. A firm's performance encompasses the real output or results as measured against its intended outputs (or goals and objectives). In the recent years, many firms have attempted to manage organizational performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions such as: customer satisfaction, social responsibility (corporate citizenship, community outreach) and employee stewardship (Herman & Renz, 2008). The performance of the firms according to Renz (2008), have been measures using increase of customer base and customer satisfaction measured using decreased number of complaints. Lombard (2009) adds that, if the number of complaints have decreased and the level of transactions have increased, the output is improved customer satisfaction which translates to customer retention. Organization Performance in recent times has been measured through customer satisfaction, price satisfaction, meeting client's needs, and product development which translate to customer retention (Lombard 2009).

Customer retention has an influence on customer lifetime worth which is a more profitable arena for firms that strive for growth and endurance or those that strive to guard themselves against market contraction resulting from a contracting economy (Gee, 2008). In favour of this view, Lombard (2009) avows that today the pressure on institutions to maintain customers is driven by the market where customer acquisition is sluggish. Customer retention is normally essential when loyalty is diminishing and sales cycles are aggravating

the organization environment. Under these settings to lose a vital customer to a competitor would impact expressively on the organization's profitability and growth.

In a bank setting, the capacity to generate sustainable profitability must emanate from effective retention of customers geared towards the overall performance. Depositors therefore need to be treated well in efforts of retaining their relationship with the bank. These views need to be taken into account by market participants (analysts, rating agencies, consultants and supervisors) when looking at ways of measuring bank performance that meet their needs. For this, each different group of market participants has its own preferred set of indicators (Lombard, 2009).

Previous studies have recognized the benefits that customer retention offers to an organisation (Colgate, 2000). Storbacka et al. (2006) reported that the longer a customer commits to an organisation the more utility the customer produces. This was a result of various factors relating to the time the customer spends with the organisation. These comprise the high preliminary costs of introducing and appealing to a new customer, upsurges in both the value and number of purchases, the customer's better understanding of the organisation and positive oral promotion.

Besides the gains that the prolonged existence of customers may bring, results from numerous studies recommend that the costs of customer retention activities are less than the costs of obtaining new customers. For example, Varki and Colgate (2001) found out that the financial repercussions of charming new customers may be five times as costly as keeping existing customers. Nonetheless, to uphold high levels of satisfaction will not be by itself but also ensuring customer loyalty. Banks will continuously lose satisfied customers who have moved, retired, or no longer need certain services. Retaining customers becomes a priority. Previous research however shows that longevity does not automatically lead to profitability (Varki & Colgate, 2001).

Conversely, Beckett, et al. (2000) derives tentative deductions as to why consumers appear to remain loyal to the same financial provider, even though in many instances they hold less favourable views toward these service providers. For example, many consumers appear to perceive little differentiation between financial providers, making any change essentially worthless. Secondly, consumers appear to be motivated by convenience or inertia. Finally,

consumers associate changing banks with high switching costs in terms of the potential sacrifice and effort involved.

2.8 Summary on Key Issues

The literature related to customer retention strategies used in firms has been examined. Three main retention strategies used in the services industry have been established. These are customer relationship management, relationship marketing and perceived pricing tactic (Dawkins & Reichheld 2003; Page, et al 1996; Fisher 2001; Heskett et al 2002; Zeithaml & Bitner 2000; Sweeney et.al 2003; Cronin & Taylor 2001). However, for an industry like the banking industry why products and services are essentially undifferentiated the nature of retention strategies varies. The focus on the customer and customer service becomes increasingly important as institutions compete in order to retain and not loose existing customers to competition (Osenton, 2004).

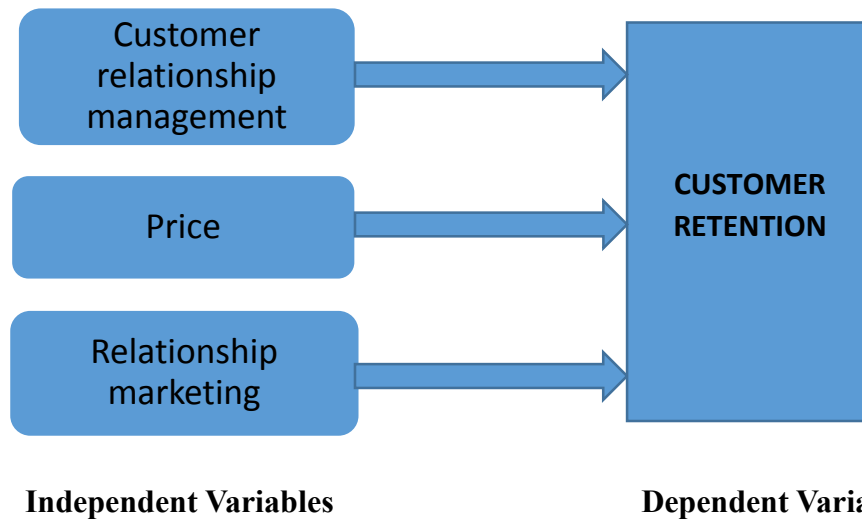
In addition, customer retention is an area that firms need to understand, strategize and execute in order to achieve the desired goal of retention. Retention can only be achieved if customers' needs and voice are understood. Price perceived tactic is a retention strategy that works for industries whose prices are not regulated but offer similar products and services. By understanding the customers' need and behavioural pattern, it results to either price satisfaction or dissatisfaction. Relationship marketing is a strategy that if well implemented, presents a strong pillar of retention. Relationship marketing study conducted by Jerono (2008) pointed the strategy as a strong pillar for customer acquisition and retention.

Therefore, this study aimed to examine how customer relationship management, relationship marketing and perceived price tactic affects customer retention in banks in Kenya. It examines the main strategies used in banks and their effects on customer retention from a customer relationship managers' perspective.

2.9 Conceptual Framework

This study focused on three main strategies—customer relationship management, perceived pricing tactic and relationship marketing as the independent variables, and customer retention is the dependent variable (Dawkins & Reichheld, 2003; Page, et al 1996; Fisher 2001).

Figure 2.1: Conceptual Framework



Source: Researcher (2014)

2.9.1 Operation of Variables

This outlines how the variables were measured.

Customer Relationship Management

Customer Relationship Management was measured using the Likert scale. The scale enabled proper analysis of perception responses obtained from customer relationship managers on knowledge of the CRM systems in the bank, perception of customer relationship managers on adequate resources to implement the CRM systems and perception on organizational culture of managing customers by feedback obtained from survey research and perception of having bank staff doing the things right from the start. (Feinberg & Kadam, 2002).

Perceived Price Tactic

Perceived pricing tactic was measured by assessing the perception of customer relationship managers as to whether price is an indicator of quality of service or product being offered, whether the prices offered are competitive in the market in order to retain customers and whether cheap products offered could be used to retain customers (Zeithaml & Bitner, 2000).

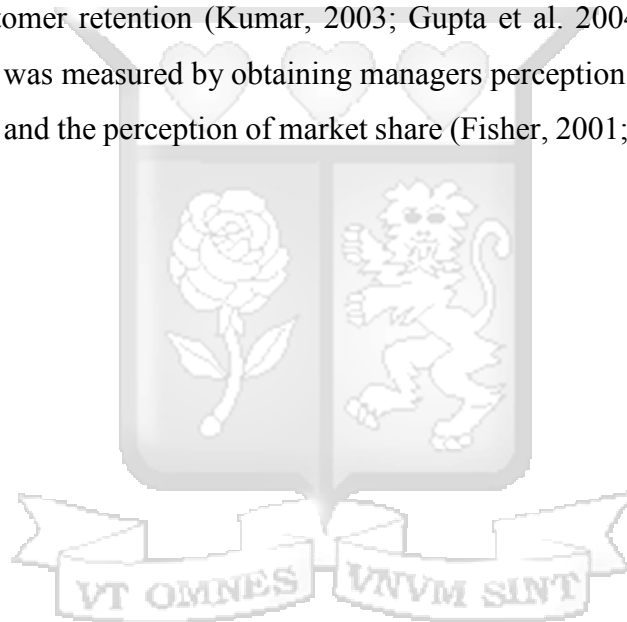
Relationship Marketing

Relationship Marketing was measured by obtaining the customer relationship managers' perception on customization of products to determine if this strategy led to customer retention. Data on management's actions based on views from customers (customers' input)

were also sought. Thirdly, perceptions of “Know Your Customer” procedures were sought to find out whether these procedures were undertaken and well implemented to understand customers better (Reinartz & Kumar, 2003; Gupta et al. 2004; Bassey et al. 2011; Brodie, 2003).

Customer retention

Customer retention is known for its reliance on the extent of firm’s two-way communication in maintaining relationship with its customers (Reinartz & Kumar, 2003). Firms’ frequent interaction and inclination to obtain feedback from customers besides maintaining continuous contact with customers are the key instruments to foster retention rates (Gupta et al. 2004). For this reason, it has been identified that interactive sessions with customers of a firm enables customer retention (Kumar, 2003; Gupta et al. 2004; Bassey et al. 2011). Customer retention was measured by obtaining managers perception on the banks’ action to retain its customers and the perception of market share (Fisher, 2001; Lombard, 2009; Renz, 2008).



CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology adopted for the study. It covers the following aspects: research design, population and sampling, data collection, and data analysis. It concludes by discussing research quality, ethical considerations and limitations of the study.

3.2 Research Design

The study used descriptive design approach to elucidate how the three customer retention strategies, which are, relationship marketing, customer relationship management and pricing tactic affect customer retention of banks in Kenya. Descriptive research involved gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection (Mugenda & Mugenda, 2003).

The study entailed collection of information and demonstrated how the three strategies are related to customer retention. It is through descriptive research methodology that relationships between various elements are demonstrated and their relationships outlined. According to Brickman and Roy (1998) a descriptive design explains relationships between variables. In this study, customer retention is dependent on the strategies of relationship marketing, pricing tactic and customer relationship management.

3.3 Population and Sampling

According to Ngechu (2004) a population is a well-defined set of people, services, elements, and events, group of things or households that are being investigated. The target population of this study is all the 43 banks in Kenya (CBK Report 2014). The respondents were all the heads of customer relationship management in the commercial banks in Kenya, all of whom are located in Nairobi. These respondents were chosen since they are knowledgeable about the strategies put in place to retain customers of their respective banks. Given the small size of the population there was no sampling, hence a census approach was employed to pick 43 customer relations managers. The approach of 43 respondents was by dropping the questionnaires at the banks' head office which had a representative of one manager.

3.4 Data Collection methods and Procedures

Qualitative data was collected through questionnaires sent to the customer relations managers in Kenyan banks. The questionnaires were designed in a structured manner which captured all the variables under study. In this case, closed ended questions were framed which allowed for various responses by the respondents. The questionnaires were administered through drop and pick method to the respondents. The questionnaires were ideal because the researcher gave the respondents an opportunity to respond at their convenience. Each questionnaire required duration of 15 minutes to fill but respondents who wanted to submit later were given a maximum of two-three days to avoid delay in undertaking the data analysis process. Both primary and secondary data was obtained. Whereby, primary data focused on current situation on variables under study whereas secondary data focused on perceived information on performance.

A pilot study of two respondents was carried out.

3.5 Data Analysis and Presentation

The collected data were sorted according to different categories. Before processing the responses, the completed questionnaires were edited for completeness and consistency. The raw data from questionnaires were checked for completeness, errors, and coded for analysis using Statistical Package for Social Sciences (SPSS). Descriptive approaches were used to explain the analysed data and all quantitative data was presented using frequency distribution tables, graphs, pie charts and figures as appropriate.

Besides descriptive statistics, inferential statistics (regression and correlations) were used in order to establish the relationships between the variables. This means that the relationship between independent variables (customer relationship management, perceived price tactic and relationship marketing) and the dependent variable, performance, was established and guided by the following regression equation;

$$Y = \kappa + \kappa_1 X_1 + \kappa_2 X_2 + \kappa_3 X_3 + \epsilon$$

Where;

Y = Customer retention

X_1 = Customer Relationship Management

X_2 = Perceived pricing tactic

X_3 = Relationship Marketing

κ = Coefficients to the Regression Equation

ϵ = Error term

3.6 Validity and Reliability of the Instruments

3.6.1 Validity of the Instruments

Mugenda and Mugenda (2003) define validity as the accuracy and meaningfulness of inferences, which are based on the research results. In other words, validity is the degree to which results obtained from the analysis of the data actually represents the phenomena under study. According to Borg and Gall (2001) validity of an instrument is improved through expert judgment. This study used content validity because it measures the degree to which the sample of the items represents the content that the test is designed to measure. The validity of the research questionnaire in this study was achieved by testing its usefulness in measuring through a pilot study.

External validity represents the extent to which a study's results can be generalized or applied to other people or settings (Isaac & Michael, 2005). External validity therefore addressed the ability to generalize a study to other people and other situations. To establish the validity of the research instrument the researcher sought opinions of experts in the field.

3.6.2 Reliability of the Instruments

Borg and Gall (2001) define reliability of a research instrument as its level of internal consistency or stability over time. A reliable instrument therefore is one that constantly produces the expected results when used more than once to collect data from two samples randomly drawn from the same population. To test the reliability of the research tools in this study, the researcher randomly selected ten commercial banks of the 43 banks under study and gave the questionnaires to customer relationship managers to be filled in and verify if the results were the expected outcomes. The results of this study were not included in the final report but led to the computation of Pearson Correlation Co-efficient (r) the test for reliability is the Cronbach's alpha between the scores of the two halves of the test of the dependent and independent variables (x and y) Mugenda (2003). A correlation coefficient of above 0.7 would deem that the instrument is reliable. A correlation value of 0.86 was obtained hence deemed appropriate.

3.7 Limitations of the Study

Data collection posed a challenge since the turnaround time of collecting the data differed from one manager to another, and frequent follow-ups were necessary to gather the required data. Data collection therefore took a very long time. Second, on perceptions on customer retention could be gathered. The customer relationship managers were not able to provide data on the actual retention rates of their clients.



CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the data and analysis of findings on the effect of customer retention strategies on organizational performance. The data presentation is based on the study objectives which were to examine three customer retention strategies, that is; customer relationship management, relationship marketing and perceived pricing and their effect on organizational performance in the Kenyan banking sector.

4.2 Response Rate

Of the 43 banks targeted for the study, 41 responded giving a response rate of 95% which was adequate according to Mugenda and Mugenda (2003).

4.3 Years of experience as a Customer Relations Manager

The respondents were asked to indicate their years of experience as customer relationship manager. Their responses are indicated in Table 4.1 below.

Table 4.1: Years of experience as a Customer Relations Manager

	Frequency	Percentage
0-5 years	7	17
6-10 years	15	37
11-15 years	14	34
Above 15 years	5	12
Total	41	100

As shown above, most of the respondents were experienced staff and 83% of them had more than 5 years' experience as customer relations managers.

4.4 Perceptions on Customer Retention

Customer retention was measured using the following dimensions: customer satisfaction, product development, increase of product and price satisfaction.

Table 4.2: Customer retention strategies

Item	Strongly Agree- 5	Agree 4	Somewhat Agree 3	Disagree 2	Strongly Disagree 1	Mean score	Std. dev.
This bank has been efficient in its operations which has resulted to customer satisfaction.	(3) 7%	(38) 92%	(0) 0%	(0) 0%	(0) 0%	4.07	0.26
The bank has managed to implement product development over the last five years.	(5) 12%	(34) 82%	(0) 0%	(1) 2%	(1) 2%	4	0.67
I am satisfied with the clients' response on price satisfaction.	(4) 9%	(32) 78%	(3) 7%	(1) 2%	(1) 2%	3.9	0.70
I believe this bank has done all that is required to retain customers.	(4) 9%	(31) 75%	(3) 7%	(1) 2%	(2) 4%	3.8	0.83
The bank has been able to control dissatisfied clients due to regulated prices.	(13) 31%	(23) 56%	(4) 9%	(1) 2%	(0) 0%	4.1	0.70
The bank has managed to increase its products in the recent years hence enabling it to retain customers.	(16) 39%	(22) 53%	(0) 0%	(2) 4%	(1) 2%	4.2	0.88

Source: Research Data (2014)

Most of the mean scores are above 4.0 suggesting that, on average, respondents agreed that their banks customer retention strategies had been effective. The efficiency of operations, product development, and product pricing and increased product range have been the main contributors of customer retention. The statement, 'the bank has done all that is required to retain customers' had the lowest score, suggesting that the respondents are in agreement that more can be done to enhance customer retention. Improvements in the other areas identified may contributed to higher levels of retention.

4.5 Customer Relationship management

The customer relationship management strategies under study were: knowledge of CRM system, implementation of CRM system, analysis of information obtained from the system and doing right the first time.

Table 4.3 Customer Relationship Management and customer retention

Statements on Customer Relationship Management influence customer retention in the bank	Strongly agree -5	Agree -4	Somewhat Agree -3	Disagree -2	Strongly disagree -1	Mean score	Std. deviation
Bank staff have sufficient knowledge on the operation of CRM system in provision of management report, sound advice and guidance to both potential and current customers	(12) 29%	(24) 58%	(4) 19%	(1) 10%	(0)	4.12	0.78
The bank has knowledgeable resources to implement CRM system	(8) 19%	(28) 68%	(5) 29%	(0) 0	(0)	4.07	0.57
It is the bank's organizational culture to analyse and manage customers through customer survey research in efforts to improve services in the bank	(18) 43%	(18) 60%	(4) 34%	(1) 10%	(0)	4.29	0.75
The management always ensures that customer relationship management are performed right the first time and every time	(1) 17%	(18) 43%	(22) 63%	(0)	(0)	3.49	0.55

Source: Research Data (2014)

The question that asked respondents whether management always ensures that CRM is performed right the first time and all the time recorded a mean of 3.49 with only 46% either strongly agreeing or agreeing. The remaining 54% of respondents gave a neutral response. In contrast, the other three questions all garnered a mean score above 4 with approximately 88% of survey respondents either strongly agreeing or agreeing with those questions.

These results indicate that respondents see room for improvement in terms of managements role in ensuring that CRM is done well the first time and every time. Note that more than half of the respondents were not satisfied with managements' role on this.

4.6 Perceived Price tactic

Perceived price tactic was measured by value for money, price satisfaction and affordable prices and rates offered.

Table 4.4: Perceived Price Tactic

Statements on perceived price fairness	Strongly Agree 5	Agree 4	Somewhat Agree -3	Disagree 2	Strongly disagree 1	Mean	Std. Dev
I am satisfied with the prices offered to customers by my bank. It is true representative of total service cost	(16) 37 %	(10) 23 %	(8) 18%	(7) 16 %	0	3.85	1.13
Price is an indicator of the quality of service in this bank and the industry standards	(10) 23 %	(20) 46 %	(10) 23%	(1) 2%	0	3.95	0.77
My bank offers cheap and affordable products/services as compared to other banking institutions based on market demand	(23) 53 %	(10) 23 %	(8) 18%	0	0	4.37	0.80

Source: Research Data (2014)

The question that garnered the highest mean score was the question that asked respondents whether they thought that their banks offered cheap and affordable products as compared to other banking institutions. This question recorded a mean score of 4.37 with 76% of respondents either agreeing or strongly agreeing. The question that asked whether respondents were satisfied with prices offered to customers recorded the lowest mean score of 3.85, with 60% of respondents either strongly agreed or agreed with this question.

These results mean that there is dissatisfaction amongst a sizeable proportion of the respondents regarding the prices offered by their banks when compared with the cost of providing those services. However from the survey questions, it is not possible to tell whether those that disagreed did so because they thought that the prices charged by their banks were too high or too low. It is noted that the prices of certain products are regulated by the Central Bank hence banks may not have much latitude to vary them.

4.7 Relationship Marketing

Relationship Marketing was measured by obtaining information on how well the banks conduct the “Know Your Customer” procedure, rewarding customer input and product customization and development.

Table 4.5: Relationship Marketing

Statements related to Relationship Marketing influence performance in the bank	Strongly agree 5	Agree 4	Somewhat Agree 3	Disagree 2	Strongly disagree 1	Mean	Std. Dev
The bank has satisfactorily undertaken Know Your Customer procedure on its clients to serve and understand them more better	(10) 24%	(27) 66%	(2) 4%	(1) 3%	(1) 3%	4.07	0.79
The bank management always makes every effort to reward customer inputs in improving services.	(2) 6%	(22) 54%	(9) 23%	(4) 10%	(3) 7%	3.46	0.92
The bank has sufficiently been able to customize their products to meet the needs of their clients.	(4) 10%	(16) 40%	(11) 26%	(9) 23%	(1) 1%	3.32	1.01

Source: Research Data (2014)

The question that asked whether the banks had satisfactorily undertaken KYC procedures on their clients recorded a mean of 4.07 which was the highest amongst the three survey questions in this section. Ninety per cent of respondents either strongly agreed or agreed with this. The responses for the other two questions were however less favourable.

On the question as to whether bank management always made efforts to incorporate customer input to improve services, respondents mean score was 3.46, with 60% of respondents either strongly agreeing or agreeing. On the question as to whether the bank has been sufficiently able to customize its products to meet client needs, the mean score was 3.32 with 50% of respondents either strongly agreeing or agreeing.

4.8 Inferential Statistics Analysis

Table 4.6: Correlation Analysis

	Customer retention	CRM	Price	Relationship Marketing
Customer retention	1			
CRM	0.63685	1		
Price	0.27645	0.43213	1	
Relationship Marketing	0.03910	0.01458	0.01510	1

Source: Research Data (2014)

Table 4.6 presents correlation analysis between the 4 variables included in the study. It shows that the dependent variable, customer retention, is positively correlated with the independent variables. There is a moderately strong positive correlation between customer retention and

CRM. The relationships between customer retention and price as well as relationship marketing, while positive are weak.

In addition, the study conducted a multiple regression analysis so as to determine the effect of customer retention strategies on customer retention of commercial banks.

Table 4.7: Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of e Estimate
1	0.6375	0.4065	0.3583	0.3887

Source: Research Data (2014)

Predictors: (Constant), Customer Relationship Management, perceived pricing tactic and relationship marketing.

Coefficient of determination explains the extent to which the change in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (customer retention of commercial banks) that is explained by all the three independent variables (Customer Relationship Management, Perceived Price Tactic and Relationship Marketing). The three independent variables that were studied, explain only 35.8% of customer retention as represented by the adjusted R². This therefore means that the three independent variables contribute about 35.8% to customer retention of commercial banks, while other strategies not studied in this research contribute 64.2%.

Table 4.8: Regression Coefficients

Model		Coefficients		T
		B	Std. Error	
1	(Constant)	1.23404	0.69367	1.77899
	Customer Relationship Management	0.67690	0.14951	4.52753
	Perceived price	0.00092	0.10708	0.00862
	Relationship Marketing	0.02665	0.11325	0.23535

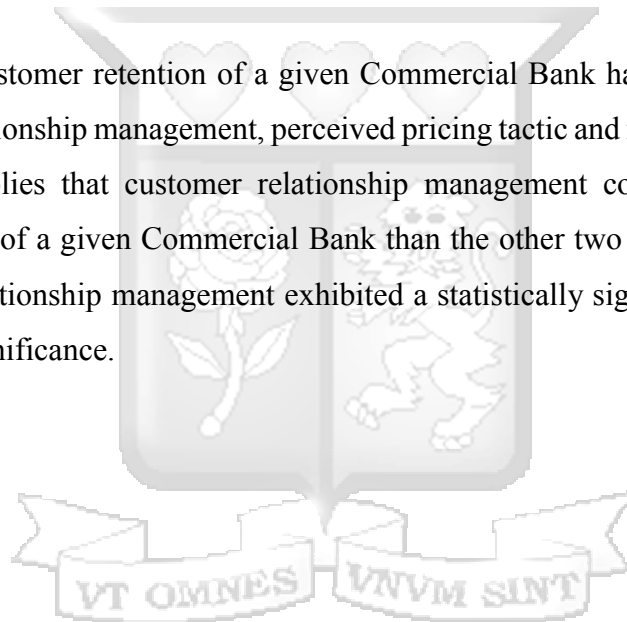
Source: Research Data (2014).

The figures in the above table 4.8 were generated through the use of SPSS data analysis and established the following regression equation;

$$Y = 1.2340 + 0.6769X_1 + 0.0009X_2 + 0.02665X_3$$

The study found that when customer relationship management, perceived pricing tactic and relationship marketing were kept constant at zero, customer retention in commercial banks will be at 1.2340. A unit increase in Customer Relationship Management will lead to an increase in customer retention by a factor of 0.6769 while a unit increase in perceived pricing tactic will lead to an increase in customer retention by a factor of 0.0009. Further a unit increase in Relationship Marketing will lead to an increase in customer retention by a factor of 0.02665.

This shows that customer retention of a given Commercial Bank has positive relationship with customer relationship management, perceived pricing tactic and relationship marketing. The data also implies that customer relationship management contributes more to the customer retention of a given Commercial Bank than the other two independent variables. Only customer relationship management exhibited a statistically significant relationship at the 5% level of significance.



CHAPTER FIVE: DISCUSSIONS, CONCLUSIONS & RECOMMENDATIONS

5.1 Introduction

This chapter discusses the major findings, conclusions and recommendations based on the study objective which was to establish out the effect of customer retention strategies on customer retention in the Kenyan banking sector. More specifically, the study was aimed at establishing perception of customer relationship managers on customer relationship management, perceived pricing tactic and relationship marketing and their effect towards customer retention in the banking industry in Kenya.

5.2 Discussions

5.2.1 Customer Relationship Management and Customer Retention

The level of agreement with statements relating to customer relationship management suggested that staff were knowledgeable on the operations of their CRM system and had the right organizational culture for good CRM. However the results indicate that respondents see room for improvement in terms of management's role in ensuring that CRM is done well the first time and every time, as more than half of the respondents were not satisfied with the current managements' role on this. There was a moderately strong positive correlation of 0.637 between CRM and customer retention. This element is important to both large and small commercial banks. Without CRM, commercial banks in Kenya will not retain customers within the banks and will lose customers to competitors.

The findings of this study support Samayat, Ramayah and Norzan (2006), who acknowledge CRM as an important factor in retaining customers. They also support Omar, Musa and Nazri (2007) who affirm that customer retention is highly dependent on good customer relationship management.

5.2.2 Perceived Price Tactic and Customer Retention

From the study, price plays a positive role ($R= 0.27645$) in customer retention. On the factor of price, customers have no much control since some of the prices such as interest rates are regulated hence a customer will not move from one bank to another hoping to find a better rate but to accept what the bank offers. Perceived price tactic alone will not be effective to customer retention. From the study, this is supported by the statistical analysis, whereby,

there is a weak positive relationship of price tactic as a retention strategy. However, from the research, it was not possible to tell whether those that disagreed on the importance of price did so because they thought that the prices charged by their banks were too high or too low. Nonetheless, owing to the rather regulated pricing of financial products, it may be argued that if a commercial bank implemented CRM and relationship marketing, customers may still be retained, in that there is a perception that they are receiving value on the services offered.

The study findings support an argument by Polo, Sese and Verhoef (2011) found that when a consumer pays a higher price than others do, or when a consumer receives a lesser product than anticipated (either in terms of quantity or quality), apparent negative price inequity occurs. Then again, perceived positive price inequity may result from either receiving high quality product than others, who paid the same price, or paying a lower price but getting the same product. The discernment of price therefore plays an important role in customers' retention. Polo, Sese and Verhoef (2011) stressed on the importance of setting rational prices for services offered by firms in order to entice and retain customers in the long run.

5.2.3 Relationship Marketing and Customer Retention

There was a weak positive relationship between relationship marketing and customer retention ($R = 0.03910$). This relationship is quite weak given the arguments presented in previous studies. Reinartz and Kumar (2003), Gupta et al. (2004) and Bassey et al. (2011), for example, support the assertion that relationship marketing is an important interactive strategy with customers of a firm that enhances customer retention. Roberts, Varki and Brodie (2003), stressed on the importance of relationship marketing is an important tool that fosters interaction or two way communication with customers. Customer retention is known for its reliance on the extent of a firm's two-way communication in maintaining relationship with its customers (Reinartz & Kumar, 2003).

Customers are also normally reluctant to change service providers due to their concerns over the loss of the membership points (Steven, Dong & Dresner, 2012). Relationship marketing therefore serves to increase switching costs and enhance customer retention (Ranaweera & Prabhu, 2003).

The weak positive relationship identified in this study could be attributed to the fact that respondents viewed banking products are standard, with not much flexibility to meet customer needs. When customers provide valuable feedback on how banks may serve them better, many of the respondents are of the view that this feedback is not taken on board by the banks in order to improve the customer experience. As such, relationship marketing tends to be weak in the banking sector as a whole.

5.3 Conclusions

5.3.1 Customer Relationship Management and Customer Retention

The study concludes that there is a moderately strong positive and significant relationship between customer relationship management and customer retention in commercial banks in Kenya. We can deduce that majority of bank staff have sufficient knowledge on the operation of CRM systems in provision of management report and offer sound advice and guidance to both potential and current customers. It is through this system that customers' views, complaints are reviewed and acted upon. If the bank did not have the right skills, implementation of such system would be a challenge.

It can also be deduced from the study that banks can make further performance improvements by ensuring that CRM is done right the first time and all the time. Without customer relationship management, there will be low customer retention. It is therefore important for firms in competitive sectors such as the banking sector to implement the CRM.

If customer relationship management is done right the first time, customers will be satisfied with the bank and the likelihood of retention increased. In addition, it is of importance to have bank staff trained on handling customer information through the CRM system, since this opens a channel of communication in order to obtain feedback from the customer. More needs to be done to ensure CRM is done right at first time from product selling, turnaround time and execution of instruction.

5.3.2 Perceived Price tactic and Customer Retention

This study concludes that perceived price tactic has a weak positive relationship with customer retention. When clients are able to afford a product or service, retention rates remain high. However, from the study, it is clear that customer relationship managers are not very satisfied with the prices charged to customers. This is as a result of prices that are

regulated such as interest rates and fixed deposit rates. Due to this, customers may remain in a bank, not because they are satisfied with the prices, but because there is not sufficient variability in the market to justify shifting service providers.

5.3.3 Relationship Marketing and Customer Retention

This study concludes that relationship marketing has a weak relationship to customer retention. Under relationship management, the commercial banks have adopted “Know Your Customer” procedures in order to better relate to and handle customers. This has enabled banks to get to understand their clients and not only to learn about them but also build a rapport with them. However, there is a weak relationship between customization of product in relationship marketing and retention in the study. If banks are able to reward customer input, continue having a rapport with the customers, their needs will be identified, hence this will provide insight on products to be developed to suit the needs of the client. Through better relationship retention strategy, banks can secure a wider customer base while retaining the existing one.

5.4 Recommendations

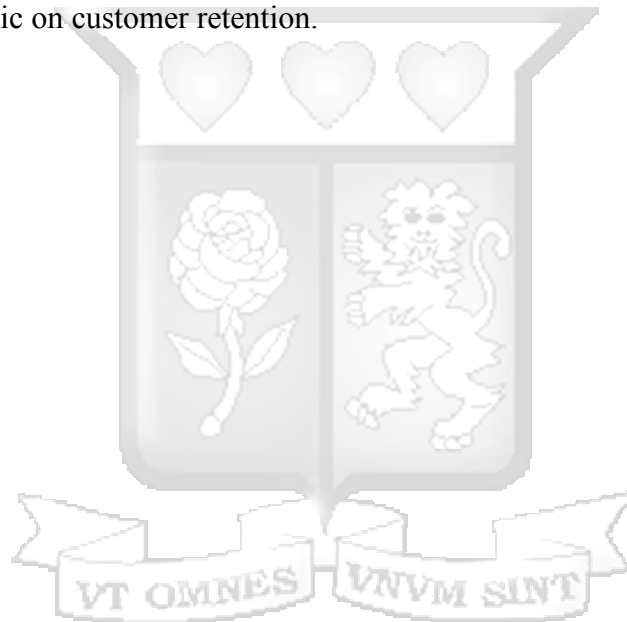
This study recommends that the management of commercial banks continue with the objective of embracing customer relationship management, relationship marketing and perceived price tactic in all the services they provide since it enhances customer retention of their institutions. The banking industry in Kenya is very competitive and banks are on the edge to retain the customers and to fight for new customers to come on board. Banks need to structure price with product, in order to fulfil a clients’ needs better. If possible, banks should come up with competitive products that add more value than existing products. In this way clients will feel that they are getting better value for their money.

Product development is highly recommended. This can only be achieved if the needs of the costumer are well understood. Products can be increased but if not well structured, it results to dissatisfaction and loss of customers. In addition, it is recommended that management analyses and act on feedback obtained from customers on issues related to service and products. This will increase the chances of customer retention since products will be tailor made to fit customer needs. Since CRM tool has appeared to be a strong retention strategy, the study recommends that banks should implement the tool and train their staff to utilize the feedback obtained to improve on service.

5.5 Areas for Further Research

From the current study, CRM, pricing tactic and relationship marketing explained 35.8% of customer retention. Therefore, further research should be conducted to investigate the other factors that contribute to customer retention. Relationship marketing had the weakest positive correlation to customer retention (contrary to previous studies). There is therefore need for further research in the banking industry to determine challenges faced by firms in using relationship marketing has a retention strategy.

This study recommends that further studies be conducted involving different industries in Kenya to establish the role of customer relationship management, relationship marketing and price perceived tactic on customer retention.



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Appendix 1: Letter of Introduction

Dear Respondent,

I am a student at Strathmore University undertaking a Master's Degree in Commerce. As part of the requirements in my in programs, am carrying out a study on **'examining the perception of customer relationship managers on the impact of customer retention strategies on organizational performance: A Case of the Banking Industry in Kenya'**.

To achieve this, you are invited to participate in this academic research study being conducted. You are part of a carefully selected group that has been asked to participate in this academic research study and I greatly appreciate your assistance.

Please note that;

1. The responses are anonymous and confidential;
2. Approximately 15 minutes will be required to complete the questionnaire
3. Participation in the study is voluntary and important;
4. Your responses will be used for academic purposes only;
5. The findings can be availed on request only;
6. Should you have any difficulties in responding, please contact me at the e-mail address; peggie.kaguri@gmail.com or call me at +254738178775

Please sign the form to indicate that;

1. You read the information and
2. You have given your consent.

Thank you for your participation

Respondent's signature:..... Date:.....

The bank has managed to increase its asset base over the last 5 years					
I am satisfied with the profitability levels over the last 5 years					

B: CUSTOMER RETENTION STRATEGIES ON CUSTOMER RETENTION: A CASE OF THE BANKING INDUSTRY IN KENYA

1. Customer Relationship Management

i. Customer Relationship Management is a possible customer retention strategy affecting organizations performance. In your experience, to what extent do you agree with this statement?

Strongly agree [] Agree [] Moderately agree [] Disagree []
 Strongly disagree []

ii. *Indicate your level of agreement on the following statements related to Customer Relationship Management? Rate where 1= Strongly Agree, 2 = Agree, 3= Moderately agree, 4= disagree, 5= Strongly Disagree*

Statements on customer relationship management influence performance in the bank	1	2	3	4	5
Every bank staff have sufficient knowledge on the operation of CRM system in provision of management report, sound advice and guidance to both potential and current customers					
The bank has satisfactory Information Technological resources to implement CRM system					
It's the bank's organizational culture to analyze and manage customers through customer survey research in efforts to improve services in the bank					
The management always ensures that customer relationship management are performed right the first time and every time					

2. Perceived pricing tactic

i. Perceived pricing tactic is a possible customer retention strategy affecting organizations performance. In your experience, to what extent do you agree with this statement?

Strongly agree [] Agree [] Moderately agree []
 Disagree [] Strongly disagree []

ii. *Indicate your level of agreement with the following statements that relate to price affects and its effect on customer retention by the bank? Rate where 1= Strongly Agree, 2 = Agree, 3= Moderately agree, 4= disagree, 5= Strongly Disagree*

Statements on perceived price tactic	1	2	3	4	5
I am totally satisfied with the prices offered to customers by my bank					
Price is an indicator of the quality of service in this bank					
My bank offers cheap and affordable products/services as compared to other banking institutions					

iii. Has price of products in this bank influenced customer retention in your bank?
 Yes [] No [] Not Sure []

3. Relationship Marketing

Rate the level of customer satisfaction in your bank?

Very high [] High [] Average [] Low [] very low []

2. To what extent are you satisfied on the way customers are treated in this bank?

Very large extent [] Large extent []

Moderate extent [] Less extent []

No extent []

3. What is your level of agreement on the following statements related to customer satisfaction in the bank? Rate where 1= Strongly Agree, 2 = Agree, 3= Moderately agree, 4= disagree, 5= Strongly Disagree

Statements related to relationship marketing influence customer retention in the bank	1	2	3	4	5
The bank has satisfactorily undertaken Know Your Customer procedure on its clients to serve and understand them more better					
The bank management always makes every effort to reward customer inputs in improving services.					
The bank has sufficiently been able to customize their products to meet the needs of their clients.					

C: EFFECT OF CUSTOMER RETENTION STRATEGIES ON CUSTOMER RETENTION

4. Respondents' level of agreement with the statements related to customer retention.

Statements on customer retention	1	2	3	4	5
This bank offers low product prices, hence the market share is big enough					
Through service quality improvement, this bank has managed to secure a good customer base within my region					
There are more profits realized whenever customers in this bank are well served					
The relationship between the staff and customers has enhanced the financial performance of this bank					
Customer satisfaction efforts by staff in this bank has increased the company's reputation					
The staff turnover is tandem with the increasing application of right approaches to consumer retention in this organization.					
There is an increase in the number of shareholders in the recent years.					
Return on assets has increased greatly enhancing the introduction of more branches of this bank					

THANK YOU FOR YOUR CONTRIBUTION