“Retail banking: the challenge of getting customer intimate”

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Retail banking: the challenge of getting customer intimate

Abstract

The financial services sector has recently undergone a series of disturbances and now is faced with more educated customers, who increasingly demand a personalized solution to their financial needs. As a result, to ensure the long-term profitability, financial service providers have to increase their attention towards customer relationship management aimed at satisfying and, consequently, retaining customers. This focus on customers rather than on operations is represented by customer intimacy, one of the three value disciplines developed by Treacy and Wiersema (1993). Following a customer intimate strategy implies segmenting and targeting markets as well as offering personalized products or services to match exactly the demands of those markets.

Keywords: retail banking, customer relationship banking, customer loyalty, customer intimacy, market segmentation.
JEL Classification: G20, G21, M3.

Introduction

Nowadays, people are increasingly seeking solutions for their financial needs, and retail banks are the institutions facing these demands in a competitive environment where each financial services providers have understood the need and the benefit of developing long-lasting relationships with their customers. In this context, many banks decided to shift their managerial focus on customers, whose acquisition, development and, most importantly, retention could improve the long-term profitability. Such focus on customers embedded throughout the entire organization has been consequently developed into the customer intimate strategy.

The aim of this paper is to discuss customer relationship management in the financial services sector, specifically retail banking, to elaborate on customer intimacy, its meaning and fundamental principles of this strategy. For this reason, the paper has been divided in sections. Section 1 outlines the evolution of the relationships with the customers and highlights the development of customer relationship management and it discusses customer behavior at all stages of the Engel-Kollat-Backwell model. Section 2, firstly, summarizes the literature about customer intimacy and ways to measure it. Then it is presented the framework of value disciplines developed by Treacy and Wiersema (1993) and highlighted the elements of a customer intimate strategy. In the conclusion the paper puts the attention on the main issues banks have to face in becoming truly customer intimate as well as presents some managerial implications.

1. Customer relationship management in retail banking

The financial services sector has recently experienced a series of disturbances, resulting in an environment characterized by a relatively mature market for retail banking, with little growth in primary demand beyond that generated by population growth and a depressed demand for many of the financial services offered. The proliferation of marketing waste, the high cost of serving a customer and the high number of dissatisfied customers are some of the issues the financial institutions have to face these days (Peppers et al., 2004). Furthermore, retail banks in both developed and emerging markets need to face the effects of globalization, increasing regulatory requirements, amplified customer expectations, technological progress in managing data and intense competition between banks and other financial institutions (DiVanna, 2004).

In this context, in order to maintain their business, retail banks need to adapt quickly to the dynamic market conditions and business needs, continue to seek additional revenue, and improve operational efficiency required by increasing transaction volumes.

Long time ago, retailers, banks and insurance companies had close relationships with their customers. As they invested in getting to know their customers individually, they attempted to understand their needs and tried to satisfy them through personalized service. Such practice increased the loyalty of the customers and resulted in committed and often inherited relationships between customers and their banks. Soon after realizing that such a system was inefficient and costly, even if subsidized effectively by customers through higher prices, and assuming that customers will remain loyal, the retail banks developed new marketing policies. These were product and transaction oriented, reactionary and focused on discrete rather than continuous activities (Murphy, 1996, p. 74). The philosophy of a mass market for the financial services was reflected in reduced variety of products and services offered, lower prices and an increased use of anonymity.

Today, banks cannot rely on committed relationships and need to use new targeted marketing techniques to attract and retain customers. The developments of the information and communication tech-

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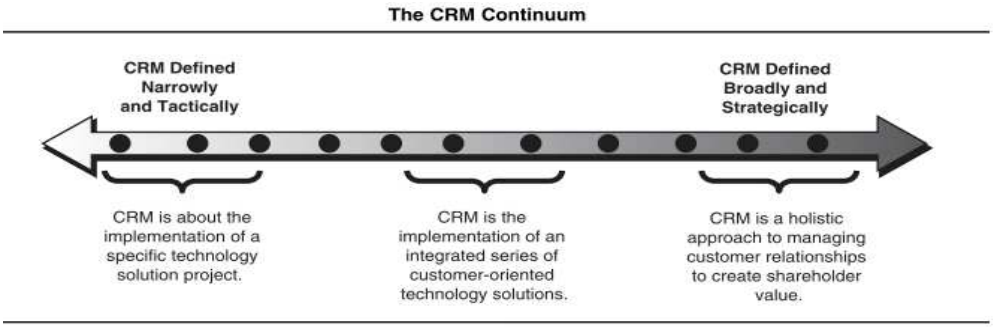
nology enable the financial institutions to offer their customer an increased variety of customized products and personalized services at lower prices. As a result, the development of one-to-one relationships, customer-value analysis and mass customization became possible (Peppard, 2000, p. 312). In addition, the strive for an enlarged geographical reach has pushed retail banks to introduce new elements in the distribution channels. The advent of Internet, digital TV, smart cards and GSM phones, ATM's lowered customers' dependence on the high-street branches and gave customers a non-stop access to services disregarding geographical barriers.

The benefiters of such changes in the environment of retail banking are the customers, who receive an increased degree of power and control mostly due to the tighter competition in the market place. Nowadays, the customers are no longer dependent on a single institution nor are ignorant in dealing with diverse financial issues. In contrast, they actively engage in the search for best deals, and are more and more discerning as well as demanding to be treated as individuals and to be given access to distribution channels from any place and at any time (Peppard, 2000). Murphy (1996, p. 74) states that the customer base of the financial institutions has become "sophisticated, knowledgeable and increasingly asserting its 'right' to high levels of service quality". The ability to satisfy customers is crucial because it is no longer difficult and heavily inconvenient for clients to switch to another bank, and because some competitors are only a 'click away' (Peppard, 2000, p. 319). The immediate implication is that financial institutions, particularly retail banks, must respond to the demands posed by their clients. Stone (2009) highlights the fact that some banks went as far as to allow customers to tell them precisely how their needs should be met. But, the practice of this customer-managed approach was not successful and banks were forced to take the relationship management under their control.

In this context, the main task of retail banks is to incorporate relationship marketing in the daily routine. Marketing should be no longer focused on developing, selling and delivering products and services, but should be concerned with the development and the maintenance of mutually satisfying long-term relationships with customers (Buttle, 1996, p. 1). This is exactly the goal of Customer Relationship Management (CRM). It combines the potential of relationship marketing strategies and information technology (IT) to create profitable, long-term relationships with customers and other key stakeholders. Moreover, CRM provides enhanced opportunities to use data and information to both understand customers and co-create value with them. The literature review done by Payne and Frow (2005) suggests that CRM can be defined from at least three perspectives: (1) narrowly and tactically, as a particular technology solution; (2) wide-ranging technology, designed to solve customer-oriented technology problems; and (3) broadly and strategically, fostering the organization to manage customer relationships in order to create shareholder value. These perspectives are portrayed as a continuum in Figure 1.



Source: Payne and Frow 2005, p.168

Fig. 1. The CRM continuum

The accepted definition significantly affects the way an entire organization accepts and practices CRM. From a strategic viewpoint, "CRM is not simply an IT solution that is used to acquire and grow a customer base; it involves a profound synthesis of strategic vision; a corporate understanding of the nature of customer value in a multichannel environment; the utilization of the appropriate information management and CRM applications; and high-quality operations, fulfillment, and service" (Payne and Frow, 2005, p. 168). Thus, for the long-term benefit of the organization CRM should be positioned in the broad strategic context of the third perspective, and its consistent use should be ensured throughout the entire organization.

Implementing CRM principles is the way to built closer and deeper relationships with customers, by "being willing and able to change your [the bank's] behavior toward an individual customer based on what the customer tells you and what else you know about the customer" (Peppers et al., 1999, cited in

Peppard, 2000, p. 321). The overall objective is to maximize the lifetime value, which is defined by Ryals (2005, p. 252) as the future lifetime stream of revenues from that customer or segment minus the future lifetime costs for a predictable relationship lifetime of a customer to the organization.

Implementing relationship management is especially fruitful in the financial services sector, because most transactions are characterized as complex, high-risk and long-term purchases, wherein relationship participation is central to service delivery. According to Zineldin (1995, p. 31), banking is an exclusive environment for relationship building, because four of its basic fundamentals significantly affect the nature of the relationship between a banker and a customer. Firstly, a banker is a fiduciary and his inventory belongs to his depositors. Secondly, banks are licensed by law to serve as repositories of people's funds and to use these funds for productive purposes. Thirdly, a banker is expected to minimize the risk before maximizing the return. And finally, banks must stand ready to serve their markets in bad times as well as good. Aimed at protecting the customer, mostly because of their continuous need for financial services, these element constrain retail banks in their strive to get profits from their activity.

The evidence of the beneficial consequences of customer relationship management is well documented. Peppard (2000, p. 321) summarizes the following benefits:

1. "[…] – relationship marketing increases retention. Research highlights that high levels of customer satisfaction are associated with increased retention of customers.
2. Relationships build more easily when there is two-way communication and where organizations set up feed-back loops, there is their potential to learn from customers.
3. Relationship behavior anticipates customer demands. By engaging in an interactive dialogue customer preferences can be determined.
4. Retained customers are inevitably more profitable. The research is clear that it costs much more to attract a new customer as it does to retain an existing customer; and that existing customers are more profitable. A knock-on effect is that the longer customers are retained, the greater is the opportunity for cross selling."

Essentially, individuals use retail banks for three primary functions: to make payments, save for the future and insure themselves against life's vicissitudes. Most generally said, people address a retail bank while searching for a solution to some monetary dilemma. As a result, the principal product of retail banks is "a solution that fulfills an individual's need or, more precisely, a set of integrated solutions that support the individual's lifestyle and financial responsibilities" (DiVanna, 2004, p. 20). Over time, retail banks have noted that social trends reshape customer attitudes and that retail banks' products are cyclical in nature, changing as result of modifications in the social attitudes and lifestyle that evolve to represent specific economic conditions of the people within a banking area (DiVanna, 2004, p. 22). These observations allowed banks to develop a wide range of products based on the information about various activities and transactions effectuated or completed by previous generations of banking customers. Simultaneously, banks realized the need to follow the technological developments and model products and services of higher quality, as well as to continuously be responsive to the new requests of the customers, that could be subsequently attractive for a larger customer base.

Most of the services offered by the banks (such as saving and checking accounts, mortgages, personal loans, debit cards, credit cards), are built on the main relationship between a bank and its customers, that has to do with a set of reciprocal duties (Pond 2009, p. 82). Considering the UK retail banking environment and the corresponding regulation, Pond (2009, p. 78) summarizes the main duties of the bank to its customer. He lists the following duties: to honor customer's checks to the credit balance on the account or to the agreed overdraft limit; to receive customer's money and cheques for collection and to credit its account with them; to repay credit balances on a current account on demand, made in accordance with agreed requirements; to be consistent and follow the usual course of business; to give reasonable notice to a customer when closing an account in credit; to provide a statement of account within a reasonable time and a statement of the balance on request; to maintain strict secrecy about customer's affairs subject to certain exceptions; to exercise proper care and diligence when giving advice, especially with regard to the payment and the collection of cheques; and to advice the customer immediately if and when the forgery is brought to the bank's attention.

On the other side, the customer has the duty to respect the following requirements: to take reasonable care when writing the cheques and when using a cheque card or cash card in order to prevent fraud and forgery, and to not mislead the bank; to demand repayment of a credit balance according to the specified procedure; to advice the bank immediately if she or he discovers that cheques are being forged; to ensure the sufficiency of the available funds on the account or of the leeway in the overdraft limit before signing a cheque; to repay an overdraft on demand; to pay reasonable interest and commission; and to reimburse the bank for any costs or losses from operating the account (Pond, 2009, p. 82).

However it is not just the mere respect of the duties that motivates the customer chose a bank and consequently remain loyal to it. Because, many banks can offer exactly the same services, the performance of the bank is assessed by customers mainly based on their cognitive perceptions of the overall experience. This observation highlights that the overall experience is getting more and more a key differentiator (CapGemini, World Retail Banking, 2011, p. 6). In the past banks have used to differentiate themselves – low prices and innovative products – but they are quickly losing their ability to provide an edge. Furthermore banks can no longer reduce prices in a competitive manner due to increased competition, new regulations, and heightened capital standards, all of which are putting retail banking margins under enormous pressure. At the same time, some financial products have been largely commoditized, limiting the impact of product innovation.

1.1. The unique features of financial service. The previous section highlights the required focus on service delivery and not only on the service offering. Therefore developing and managing customer relationships, retail banks have to keep in mind that their products, i.e., financial services, are first and foremost services, and thus different from the physical goods. This difference is underscored by the unique features of the services, which include the following:

1. Intangibility – the lack of physical form and the resulting inability of being seen, touched or displayed in advance of the purchase.
2. Inseparability – the simultaneous production and consumption of services.
3. Perishability – the inability of service providers to build and maintain a stock.
4. Heterogeneity – the variation in quality of the service caused by the difference in customers' service needs and in the requirement for the individual interaction between the customers and the producers.

Intangibility and inseparability make services low in search qualities (tangible attributes) and high in experience qualities, which can be only assessed after the consumption. This motivates customers to look for some signals of quality, such as place, people, communication and price, as subsequently forces service providers to make their offerings tangible in some ways to give signals about quality. Inseparability also leads to the co-creation of services, i.e., production of services is performed by the provider and the consumer together.

Financial services have been subsequently distinguished by other characteristics. McKechnie (1992, cited in Lindholm, 2008, p. 12) states that a peculiar feature of the financial services is the implicit fiduciary responsibility of the service provider over customers' funds. Customer entrust their financial well being to the organizations and rely on financial advices given. The development of trust and confidence takes place only after experience, and is crucial in maintaining the long-term relationship as it can create inertia in a customer-supplier relationship. Also McKechnie stresses the requirement for a two-way information flow, as financial services are rarely one-off purchases and are developed more efficiently as a result of the interaction between the customer and the service provider. The two-way information flow enables the banks to collect relevant customer information needed to enhance organization's relationship building capabilities.

In addition, Beckett (2000, cited in Lindholm, 2008, p. 12) marks three additional characteristics that distinguish financial services from other services: (1) transparency of performance, which refers to the availability of information presented by the bank, and consumers' ability to make evaluations based on that information; (2) uncertainty of outcome, marked by consumers' control over the uncertain external environment and by the process of co-creation during the production of services; and (3) poor comparability caused by the scarce number of identifiable attributes and the long-term maturity of the service offerings.

The specific features of financial services lead to specific behavior of the customers. Ennew and Waite (2007, p. 129) analyze consumer behavior during the purchase of financial services and describe consumers' actions and decisions at all stages of the decision-making process suggested by the Engel-Kollat-Backwell model (EKB model), outlined in Figure 2. They consider a highly rational approach to decision-making, especially suitable to the business-to-business environment, which might not be applicable to the same extent in the consumer domain. Generally, it is considered that in cases when customers get involved in purchasing simple and frequently used products, they might proceed directly from Problem Recognition to Purchase as could be familiar with the means to satisfy a given need. On the other hand, in cases of purchase of complex and infrequently demanded services customers are expected to thoroughly pass through all stages of the EKB model, even though evidence suggests that in practice consumers may actually make quite impulsive purchases.

Fig. 2. The Engel-Kollat-Blackwell model

Ennew and Waite (2007, p. 130) state that the lack of intrinsic appeal, the complexity of the range of financial services and the lack of transparency in marketing is discouraging consumers to actively get involved in Problem Recognition unless there is an urgent need. While engaging in the Information Search and Evaluation of Alternatives stages of the model, consumers gather relevant information either from their own memories or from an external source. As financial services are low in search qualities and high in experience and credence qualities (Zeithalm, 1981 cited in Ennew and Waite, 2007, p. 131), consumers are mostly comfortable to rely on their own prior experience of the product. However, having a personal experience of specific products offered is likely to be rare due to the long-term and/or continuous nature of the financial services or the individual customization of the product. As a result, there is a tendency to heavily rely on the experience of others expressed in the form of word-of-mouth recommendations, as well as on the credibility of the organization as a whole. Moreover, the evaluation of service is complex and tough even after the purchase, especially for the products that include a significant element of advice, require managing over the course of the life, or whose outcome strongly depends on uncertain future events.

In addition, the researchers highlight the high role of personal interaction between the sales staff and the customers during the purchase stage, mainly due to the inseparability of production and consumption of financial services. They state that the face-to-face interaction remains important even with the recent developments related to Internet and in ATMs and telephone sales. The post-purchase behavior is dependent on the evaluation of the personal experience of the customer and on the level cognitive dissonance generated. Important to note is that the establishment of a high degree of trust between the buyer and the seller can create a high degree of inertia, while the recognition of a high level of institutional reliability is likely to decrease the rate of customer defection.

1.2. A renew focus on customer retention. The analysis of consumer behavior together with the assessment of the high competitiveness of financial services sector leads banks and other financial institutions to realize that acquisition of new customers is greatly more expensive than their retention. Thus, together with the shift in attention to the long-term profitability of customer relations, banks have expressed a growing concern for customer retention, moving away from devoting high levels of marketing effort to acquiring new customers. The evidence in support for such a shift is impressive for retail banking. The Council on Financial Competition's report, *Perfecting Customer Retention and Recovery – Overview of Economics and Proven Strategies* (1995), shows that increasing customer retention by 5% adds more than 3 years to the average customer lifetime, and demonstrates that account usage per relationship increases over time. Similarly, Cumberland Bank's (USA) analysis of their branch customer base (cited in Murphy, 1996) reveals that the top 5% of customers generate 40% of total deposits, and calculates that a 5% increase in retention among top customers yields a 24% increase in profitability.

Exploiting the benefits of customer retention is crucial in the retail banking environment also because the average customer is effectively unprofitable for the first three years, taking up six years to break even and become a net profit contributor to the bank (Cram, 1994, p. 44, cited in Murphy 1996, p. 75). Moreover, the value of individual customers rises over time as they increase their holdings of other financial products available, contribute to the bank's understating of their needs and preferences, reduce operating costs by getting used to the service, organization, methods and procedures, and become a positive referral source.

Ennew and Waite (2007, p. 284) highlight a series of environmental factors that contributed to the greater attention being dedicated to customer retention. They stress the following: rising costs of customer acquisition, increasing focus on customer value, competition, consumerist pressures, technological innovation, recent regulation and legislation, and the development of relationship marketing in other sectors. They affirm that the rising costs of customer acquisition have been caused by the fact that the penetration rate of the market place or the market segment have risen and that the value of customers at the margins of the segment is generally lower than that of those already served. As the significance of the long-term individual customer value was realized, banks got motivated to focus more on customer profitability as opposed to product profitability, and the overall value of the business became assessed in reference to the aggregated customer worth. On the other hand, the increased competition, spurred by the fact that low entry barriers invited new entrants to the already highly penetrated market segments and that existing financial services organizations found it easy to diversify into new areas, highlighted the importance of the retention of the existing valuable customers as they could switch to the provider of a more attractive service.

The consumerist pressure was amplified with the establishment of organizations representing the customer interest, such as National Customer Council in the UK, Consumers Union in the US and Consumers Federation of Australia, which struggled to improve the way in which the financial services industry serves the interest of customers. These organizations tackled issues like product charges, the use of orphan funds, mortgage endowments, etc., and tried to eliminate

practices through which financial institutions caught the attention of new customers with attractive prepositions, only to be able to subject them to detriment once they have become customers. As a result, retail banks needed to develop more effective and sophisticated marketing policies and practices with regard to existing customers.

The regulatory and legislative developments have certainly increased the operating costs and introduced new criteria of compliance. The technological innovations in telecommunications, database management and worldwide web have stretched the techniques and applications of customer management, while the development of relationship marketing in other commercial sectors, especially the business-to-business sector, has provided techniques to be used in forging genuine banker-client relationships. As a consequence of the pressures mentioned above, financial service providers across the world are now expressing more interest for the development and the management of relationships with their clients.

In these circumstances, the attention of banks is placed not only on retention but also on cross-buying. Customer retention can be viewed as a measure of relationship continuation, and is a result of the decision that customers make on the basis of their previous experiences, while cross-buying, considered an extension or a development of relationships with existing customers, reflects current and anticipated future experiences. Liu and Wu (2007) showed that one-stop shopping convenience, firm reputation, and firm expertise are service attributes that significantly impact both customer retention and cross-buying. Still, the importance of these factors changes for different phases of the lifecycle of the relationship: at the beginning of the relationship, locational convenience is relevant, while later during the cycle, bank's reputation and expertise are powerful at strengthening customer retention and cross-buying, fact that highlights the idea that the competitive advantage of the banks is built over time.

At this stage, one of the main issue for retail banking is becoming the one of customer loyalty as a result of diverse programs of CRM. The concept of loyalty encompasses both attitudinal and behavioral aspects, and in the financial services sector is viewed in relation to the time length a customer has been with a provider, number of services used and frequency of the service use (Omarini 2004, 2005). More specifically it regards the "long-term intentional repurchase of services, high degree of customer preference, customers' recommendations and advocacy, customers' price indifference, low likelihood of switching and high potential of increasing volume of product use" (Lewis and Soureli, 2006, p. 16). The unique characteristics of the financial services make confidence and reliability play a great role in building and maintaining loyalty, and lead the customer to develop loyalty to the service provider rather than to the specific product/brand.

The benefits of high customer loyalty have been discussed in diverse studies. Summarizing these studies, Lewis and Soureli (2006, p. 15) mark that customer loyalty leads to increased and guaranteed income, is a determinant of market share and profitability, enables companies to reduce both operational and marketing costs, leads to price indifference, favorable word-of-mouth communication and cross sales, and builds resistance to competition. Because of that the service quality became an important factor in banking as it is the only relevant element which can be difficult to imitate and can provide the basis for a sustainable competitive edge (Grigoroudis et al., 2002, p. 600). Retail banks find it hard to compete by offering new products or new product features, as these can be easily copied by other financial institutions, thus delivering the service of high quality is the way to attract and retain customers. Parasuraman et al. (1988, cited Lewis and Soureli, 2006, p. 17), among others, defined service quality as a function of (a) the ability of the institution to deliver the promised service dependably and accurately; (b) the willingness to help customers and provide prompt service; (c) the knowledge and courtesy of employees and their ability to inspire trust and confidence; (d) the individualized attention the firm provides its customers; and (e) the physical facilities, equipment, and appearance of personnel.

Service quality is widely seen as a key predecessor to successful customer relationships, and is the main determinant of customer satisfaction, which in turn influences purchase intentions (Bloemer et al., 1998, cited in Grigoroudis et al., 2002). Offering a superior service which the competition cannot match provides consumers with a reason for selecting and remaining with a particular provider. Conversely, an inferior or indistinct service offer can lead to difficulties in attracting and retaining customers. Therefore, a high service quality can enhance loyalty, retention and business performance (Ennew and Binks, 1996) and will affect the relevant market shares and profitability in the banking sector (Anderson et al., 1994; Hallowell, 1996; Caruana and Pitt, 1997, cited in Grigoroudis et al., 2002).

Ennew and Waite (2007, p. 315) denote that even though the quality of products could be measured by some objective criteria, the quality of services is subjective, as it is based on the customers perception of how well the service matches their needs and expectations. As in retail banking customers need to interact with the service employees, their assessment of quality depends both on customer-firm interactions as well as customer-staff ones (Yim et al., 2008). Moreover, customers are inclined to evaluate the two overriding dimensions of service quality

identified by Parasuraman et al. (1991b, cited Levesque and McDougall, 1996): the core or outcome aspects of the service, such as reliability marked by accuracy and dependability; and the relational or process aspects of the service, such as tangibles, responsiveness, assurance and empathy.

Ennew and Waite (2007) describe diverse perspectives of service quality (Gronroos, 1988; Parasuraman et al., 1985 and 1988). They mention the following:

1. The Nordic perspective, developed by Gronroos (1988), is built on the idea that customers form an opinion about the service delivery in relation to both the functional quality (concerned with the way in which the service is delivered) and the technical one (concerned with the quality of the service outcome).
2. The North-American perspective, developed by Parasuraman et al. (1985, 1988), stresses that the evaluations of service quality are based on comparisons across five main areas: reliability, assurance, tangibles, empathy and responsiveness.
3. An integrated model of service quality, which combines the Nordic and North-American perspectives and proposes a hierarchical approach.
4. The well-known gap model of service delivery, according to which the gap between what customers expect and what they get, can be explained by four other gaps: misunderstanding expectations, wrong specifications, failure to deliver and over-promising.

Whatever way interpreted, the service quality is a central component of service value and affects the market share and profitability, thus its assessment should guide managers to identify the areas in which improvements should be made. Currently many retail banks are directing their strategies towards increasing customer satisfaction and loyalty through improved service quality (Levesque and McDougall, 1996). In their investigation in Greek retail banking, Lewis and Soureli (2006) looked for other antecedents of bank loyalty. Besides customer satisfaction and perceived service quality, their research identified factors as perceived value, service attributes, corporate image and trust: constructs that are interrelated and form a network of loyalty antecedents. Perceived value reflects the result of the customer's trade-off between perceived benefits and perceived sacrifices; the service attributes are the elements that characterize the bank or its functioning, but are not directly related to the service delivered; the corporate image refers to the customers preconception towards the service provider, developed based on continuous service experiences; and, trust is interpreted as the feeling of security and the believing in the favorable intentions and competence of the service provider. All of these elements should be taken care of when managing a financial institution dealing directly with consumers, because loyal customers are a prerequisite for the long-term profitability of a bank.

2. Being customer intimate

As seen in Section 1 retail banks and other financial institutions are realizing the importance and the power of their customers. Hence, they have agreed to invest in building long-term profitable relationships, which could be achieved by providing complete solutions to each customer's needs rather than by focusing on a product's superior features and benefits. Moreover, financial institutions have realized that not all service encounters have the potential to become relationships, and that in order to retain customers there is a need for 'extended, emotive and intimate' service encounters (Price et al., 1995, cited in O'Loughlin and Szmigin 2006, p. 118). The emotive contact is considered to stimulate a trusting environment and allow a deeper understanding of a specific customer's situation. For these reasons, customer intimacy may be interpreted as a requisite for establishing a relationship and is a relevant condition for mutually beneficial two-way communication between the service provider and the recipient.

The notion of customer intimacy was first mentioned and developed by Treacy and Wiersema in 1993. In their article, the authors explain the success of different companies by their ability to deliver value to customers. They consider that customers have changed their interpretation of value and don't treat it now as merely a combination of quality and price, but also judge other attributes of the product or the service, such as convenience of purchase, after-sale service, dependability, etc. In their attempt to deliver superior customer value, firms could follow one of the three value disciplines suggested by Treacy and Wiersema (1993): operational excellence mainly focused on operational competence, customer intimacy focused on customer responsivity, or product leadership focused on product differentiation (Hart and Sacasa, 2009, p. 3). The authors argue that leadership positions were achieved by companies that concentrated on delivering superior customer value and became champions in one of the value disciplines while meeting industry averages in the other two.

In this context, customer intimacy, the second value discipline, is defined as "segmenting and targeting markets precisely and then tailoring offerings to match exactly the demands of those niches" (Treacy and Wiersema, 1993, p. 84). The institutions that follow this strategy need to combine detailed customer knowledge with operational flexibility in a way that will enable them to respond quickly to any need of the customer, from customizing a product to

fulfilling special requests. This can be expensive, but customer intimate companies need to invest in building customer loyalty for the long term. Weirsema (1997, cited in DiVanna 2004, p. 136) argues that to become customer centric an organization must develop an in-depth understanding of the customer's experience cycle through a life-stage analysis and develop a hierarchy of customer needs, anticipate those needs and develop mechanisms that communicate them back to the organization.

Also, such institutions analyze the customer's lifetime value to the company instead of the value of any single transaction. Therefore, employees are strongly encouraged to satisfy, completely and exhaustingly, all the needs and requests of the customers irrespective of the initial cost. In the financial services sector it is especially important to understand that not all customers require the same level of service or will generate the same level of revenues. For this reason, the profitability of a financial institution is reliant on its ability to quickly and accurately differentiate between customers, based on both the required level of service and the potential revenue generation. The goal of such system is to identify the right customers, those that deserve a greater attention and an elevated level of service.

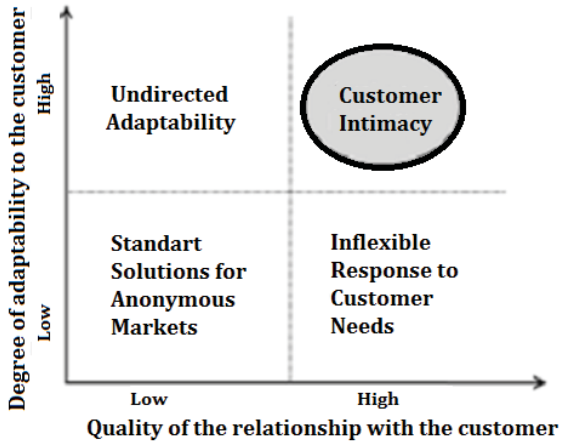
Following literature has widely supported such a view of customer intimacy and also suggested other important strategic elements that need to be considered. For example, Potgieter and Roodt (2004) support the idea that to be successful with the customer intimacy strategy, a company must align all its cultural elements with this strategy. The authors provide a framework to assess the customer intimate culture of an organization. This assessment is based on the analysis of the three value disciplines from the internal perspective and it compares their core organizational capability and the ten key people strategies (Table 1). Following their logic, the strength of the customer intimate culture of a financial organization depends on its ability to match all the dimensions listed.

Table 1. Key people strategies in the value disciplines

	Value disciplines		
	Operational excellence	Product leadership	Customer intimacy
Core organizational capability	Providing reliable products or services at competitive prices and delivered with minimal difficulty and inconvenience.	Providing leading services consistently enhancing the use of the product/service – making rivals' goods obsolete.	Segmenting and targeting markets precisely, and tailoring offerings to match exactly the demands of those niches. Customer sensitivity and flexibility.
Dimensions			
A: Personal strategy	Emphasize motivation and corporate spirit. Build teams that deliver cost-effective value, and high quality, user friendly products and services.	Provide a comfortable positive, creative environment. Provide basic needs. Remove them from HR policies and management concerns. Do not differentiate between people.	"Satisfied employees satisfy customers." Rely on values to shape culture and messages. Promote relationship building as priority.
B: Organizing	Teams: Project, process, product or customer based. Knowledge is shared. Best practice applications.	Product groupings based on creative structure – team or individual. Separate sales and creation functions.	Customer needs driven, but can be individual or team based. Strong focus on relationship building. All individuals constantly selling to customers – improving relations.
C: Personnel procurement (criteria)	Logical, efficient, cost conscious, resourceful, analytical, following procedures, initiating self-growth, short-term focus, systematic, team player, good communicator, detail oriented, problem solver.	Courage, innovation, creativity, high technological development, long-term focus, future focus, possibility focused, pride in being first in product quality, getting it right.	Highly responsive, excellent listening skills, empathetic, consultative, perceptive, flexible values driven. Good communication, technical skills. Able to assess needs. Spontaneous problem-solvers, understand motivation. Long-term relationship focus.
D: Development (emphasis on)	Methods learning, team behaviors, process management and control, product, time and quality control.	Technical and creative training. Research skills, product development and team processes.	Organizational values, relationship skills, communication skills, planning, knowledge sharing.
E: Achievement (measures)	Results, on time, on budget, project completion and quality, cost reduction. Peer feedback on team behaviors.	Contribution made to new and innovative product/service development. Revenues from new products, shipment statistics.	Relationship productive behaviors. New customers gained, customers retained and cross selling.
F: Remuneration	Strategic approach. Pay for performance individual and team basis, below market base plus incentives. Variable incentives based on organization, unit or team results. Profit sharing.	Rewards not used as a strategic tool, no direct differentiation. Rewards kept neutral. Salaries and benefits above market. Profit sharing – equal distribution. Defined benefit plans.	Rewards tied to values. Based on behavioral, subjective assessments. Profit sharing – individual contribution recognized. Broad benefit choices.
G: Strategy	Process and systems based.	Innovation, research and development based.	Relationship management based.
H: Core values	Reliability, accessibility, quality, market leadership.	Change sensitivity, focus on internal value adding.	Customer centricity and sensitivity to customer expectations.
I: Core abilities	Consistency in provision, follow up and support.	Market leadership and continuous benchmarking.	Customer relationship building and retention strategies.
J: Business model	Structured – process driven. Functional groupings.	Flexible – change sensitive. Project team groupings.	Flexible: people centered, "flat" organization.

Source: adjusted from Potgieter and Roodt (2004, p. 26).

For Habryn et al. (2010, p. 4), customer intimacy is "not only about having a high quality relationship with a customer: it is also about how an organization and its members are able to leverage the knowledge acquired through this relationship in order to shape the offering and to achieve a competitive advantage". Focusing on business-to-business service organizations, the authors highlight the importance of considering the co-creation view of services while creating models to measure customer intimacy. Moreover, they present customer intimacy on a two-dimensional diagram (Figure 3), which axis represent the quality of the relationship with the customer and the mutual willingness to create a partnership (x-axis); and the ability to leverage this relationship and to adapt the offering in order to better fulfill the individual needs of the customer (y-axis). Customer intimacy exists when both the relationship with the customer and the ability to adapt to the customer are high.



Source: Habryn et al. (2010, p. 4).

Fig. 3. The two dimensions of customer intimacy

Some authors attempted to identify a measure of customer intimacy from a subjective assessment of different attributes or characteristics of the firm culture. In a balance scorecard evaluation, Niven (2002, cited in Habryn 2010) proposes five attributes that can be used in order to measure customer intimacy. These are customer knowledge, diversity of solutions offered, penetration ability, culture of driving client success, and the presence of relationships for the long term. A combination of these characteristics influences the ability of the institution to respond to the customers' demands and preferences. However the detailed implementation of these attributes is not discussed in his empirical work.

Later, Tuominen et al. (2004) developed a six-layer approach for evaluating customer intimacy of the organization. They differentiate the institutions by checking if they (1) involve in the customer's planning process; (2) involved customers in their planning process; (3) partnered and jointly planned together with customers; (4) aligned each other's operating processes; (5) designed operational interfaces; and (6) formalized the system of joint decision making. They use this scale to correlate the degree of customer intimacy with the internal market intelligence capability of the organization, called market orientation. However, only a few suggestions are presented on how to actually measure these layers that merely focus on the organizational level. Also, considering the co-creation of services, the authors recognize the importance of partnership and collaboration in the development and the implementation of a customer intimacy strategy.

Later on, researchers have tried to use accounting numbers from sales or marketing departments to explain some tacit concepts, including customer intimacy. For example, evaluating the customer intimacy for an organization in the financial services industry, Cuganesan (2008) suggests two modes of calculation of customer intimacy: a sales calculation approach and a numeric calculation approach. These approaches are essentially focused on market intelligence data and customer penetration. Habryd et al. (2010) go even farther by providing a novel approach for measuring the degree of intimacy established with a customer, and suggest a performance indicator called Customer Intimacy Grade. This indicator depends both on the relationship quality, evaluated along three main criteria: communication, commitment and trust, and on the degree of adaptability, defined as a cultural trait of effective organizations which are driven by customers, take risks and learn from mistakes, in order to provide value for customers. Such interpretation of the customer intimacy is done separately for both the individual and organizational (team, business unit, or entire enterprise) levels.

In order to be correctly understood, it is important for banks to understand what intimacy means for customers and to what degree such intimacy is wanted by them. First of all, in order for a relationship to be present in the minds of these customers, there has to be an ongoing contact with the customers and the interaction would have to involve something more than mere transactions. Customers expect more of their financial services providers and are open to a closer long-term relationship. The research of Barnes (1997) proves the importance of emotion and of the affective side in building and maintaining relationships with the customers, and concludes with the idea that the emotional tone of the relationship is the best predictor of closeness, strength, and satisfaction experienced by the customers.

Nowadays, only few people see a bank only as a place to hold money temporarily; the majority considers a bank an institution responsible for their

ability to increase the quality of their lifestyle. Therefore, customers are increasingly expecting to receive a personalized service (Zineldin, 1995) and are strongly rejecting mass targeting in financial services (Stone, 2009, p. 117). Such personalization means for them the attempt of the banks to identify and meet their unique needs and is the main indicator of intimacy. Unfortunately, many customers are not satisfied in this respect. Recent research shows that almost 70% of customers don't feel valued by their retail banking institutions, and more than 50% of insurance policy holders said policies are not tailored to meet their needs (Hart and Sacasa, 2009, p. 3).

However, banks must realize that not all customers want a very close, intimate relationship or ask for the same level of service quality (Barnes, 1997). Some prefer to transact their business on a less personal level. This leads to the idea that closeness in the relationship does not always contribute to satisfaction. Thus, to satisfy customers with diverse intimacy preferences, bank marketers must be able to identify and differentiate those customers who would prefer a more arm's-length relationship from those who are quite satisfied being able to transact their business through ATMs or by telephone or computer link.

Conclusions and managerial implications

While customer relationship management is gaining greater importance in the financial services sector, leading managers are trying to shift their focus from products to customers in order to develop a strategy of customer intimacy. However, before pursuing this strategy, managers have to realize what it implies and under which circumstances it proves to be beneficial. Analyzing previous works on this topic, the paper discusses customer intimacy in the context of retail banking.

In the competitive environment of retail banking, where the financial products and services are hard to differentiate, a bank can build a competitive advantage by regulating its activities to efficiently address customer needs and preferences. As customers become more informed and demanding, delivering them the appropriate product and service offerings at a high service quality is crucial to motivate the clients to remain with the service provider.

Because of many and diverse interpretations of CRM and customer intimacy, it is possible that retail banks set different objectives and look to achieve them by various methods. For example some of them could address the strategy of customer intimacy in terms of technological advancements or on direct contact, others see it as a result of a combination of human, technical and business related activities. Some could decide to incorporate the customer intimacy culture at the enterprise level, others still implement it in some isolated functions. The execution of the planned activities is the final factor influencing the result, and any human or technological intervention might lead to a gap between the objectives set and the results achieved.

The literature overview highlighted the need for a close and emotive direct contact with the customers during the service encounters. Moreover, customers remain satisfied only if they receive a personalized solution to their individual needs. And even if they show a general sense of satisfaction, customers still lack trust and confidence in the banking industry. These lead to the emergence of a more customer-focused strategy, i.e., the strategy of customer intimacy, aimed at segmenting and targeting the market as well as delivering customized product and/or service offerings to the selected sub-segments of the market. Over the time the strategy of customer intimacy requires long-term investments in relationship building and development, and is likely to call for changes at the organization level, especially regarding the information systems, the production and delivery networks, the overall organization of the business and the measurement of performance. It is also important for the success of the strategy that the attention on customers is well embedded in the culture of the institution and customers' needs and preferences are considered in each department of the institution.

One of the main challenges for a bank to face is at the organizational level. This has an impact on the way a bank, according to its size, focuses itself and affects the strategy choice. Small banks and large banks are both motivated to develop a customer-intimate strategy but they will certainly act differently, along the same steps. More specifically, banks need to make extensive use of IT in order to get and manage data about the market, appropriately segment the market and identify the 'right' customers, develop customized value propositions, effectively manage delivery channels and educate customers.

Due to the fact that the required changes have to affect most activities, retail banks are ought to face a series of difficulties. These could include: inertia, historical distribution of decision-making power, inability of the marketing department to collect and manage the data about the market, inconsistency of the focus on customers, rigid division of responsibilities, etc. To overcome these difficulties, banks need to shift focus from product lines to customer relationships, to enhance internal coordination and integration, to align all organizational activities with the marketing department so to make customer insights a primary driver of marketing strategy. This

step requires gaining sufficient customer feedback and market research to identify what insights are needed, how to effectively collect them and how to act upon them to deliver more value to customers and ultimately to the business. At this stage it is extremely important that the whole organization shares the same goal of delivering superior value to customers and that this is aligned with the top-line goals and incentives. It is also important to continuously monitor customer insights in order to develop a holistic centered messaging, coordinate the activities at the delivery channels and control service delivery at the touch points.

Last, but not least an important challenge is the task of building a seamless and differentiated customer experience through different channels. The literature overview highlighted the need for a close and emotive direct contact with the customers during the service encounters. This requires for a bank to develop a clear understanding of customer experience, control the business processes that affect it and work on eliminating conflicts across customer facing channels, because of financial institutions have realized that not all service encounters have the potential to become relationships, and that in order to retain customers there is a need for 'extended, emotive and intimate' service encounters to stimulate a trusting environment and allow a deeper understanding of a specific customer's situation.

Furtheremore, as also outlined by Treacy and Weirsema (1993, p. 91) "the greatest challenge is to sustain the focus, to drive the strategy relentlessly through the organization, to develop the internal consistency, and to confront radical change". The customer intimate companies need to design operating models that allow them to address each customer or small segments of their market individually, controlling in such a way customer satisfaction and consequently company's profitability. The internal infrastructure must be built in a way that would facilitate multiple modes of producing and delivering products or services. Also, it is important to educate and motivate the employees to pursue a strategy of customer intimacy. As a consequence, from a managerial implications perspective, a retail bank must pay major attention to the following issues:

1. The business processes must be characterized by flexibility and responsiveness.
2. The information systems must efficiently collect, integrate and analyze data from many sources about customers and their behavior.
3. The organizational structure must encourage empowerment especially for people working close to customers, while the hiring and training programs must emphasize the importance of decision-making skills in satisfying individual customer needs.
4. The management systems must identify customer lifetime value and use the data to differentiate among customers.

In this challenge the IT system is instrumental and it is used to create a dialogue with customers through which information can be captured from them and sent to them. But it is also important that a bank avoids overusing technology and substituting machines for the direct contact with the clients.

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