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CUSTOMER-CENTRICITY EVOLUTION AS A FOUNDATION OF BANK'S COMPETITIVE STRATEGY

Abstract

During the last few decades the Polish banking market has changed remarkably. Despite the global tendencies as internationalization, globalization and technological progress there are some new tendencies which have already been observed but they probably will strengthen in the nearest future. Among them the most important are: the increase in use and access to banking services, the increase of sector concentration, the profit margin decrease and new market players. All that factors influence the Polish banking market directly and should be taken into account in the process of gaining competitive advantage.

The article presents how competitive landscape can influence bank's further market activity, factors which are crucial for maintaining customers satisfaction and loyalty and identifies what should be done to retain and expand bank's customer base in this challenging and increasingly sophisticated market.

Keywords: *customer-centricity orientation, bank's competitive strategy*.
JEL Classification: *G21*, *D81*, *L21*, *D23*.

Introduction

The turbulent changes in economic environment, increased competition in the Polish retail banking industry, internationalization and globalization, implementing new products, changes in consumer needs and technological progress caused Polish banks to revise their market policy. Strategies oriented towards defining the target mix of future consumers have become a routine topic of discussion. At the same time better product, convenience and lower fees are not enough to make the consumers to be loyal. Since the start of the economic crisis all organizations, and banks in particular, have experienced huge challenges in maintaining existing customer relationships. The crisis has directly affected customers' perceptions of their banks and the way that they interact with their providers. The emergence of a new post-crisis customer with a clear focus on brand integrity, value for money and quality of service can be observed. Banks now need to deliver a more efficient, customer--focused and innovative offering than ever before to reconnect with their customers. Putting consumer loyalty at the heart of growth requires new skills and competences of banks. They must learn to nurture the loyal core of their customer and develop skills for attracting the right new ones.

The paper presents the risks and opportunities facing retail banking sector today, analyses what is relevant to a successful banking relationship, so that banks can achieve and maintain customer satisfaction, identifies the key courses of action that banks must take to retain and expand their customer base in this challenging and increasingly sophisticated market.

1. The competitive landscape

Retail banking is a regional business directly influenced by local cultural drivers, so global trends are few and far between. There are huge differences between the customers of the developing world and those in the mature markets[1]. Nevertheless, as consumer behaviours are becoming more homogenized and banks starts to be interested in new markets, the opportunities to learn from the experiences of other economies appear. It is obvious that as banks consider ways to rebuild trust, improve service to meet customer expectations and reduce attrition, their efforts will need to be carefully tailored to the unique requirements of each domestic and regional market in which they operate.

Over the last decades situation of the banking sector in Poland has changed remarkably. Today the Polish banking sector is one of the most interesting financial market in Europe[2]. Despite the global financial crisis it generates increasing incomes. In 2011 net profit of banks in Poland was 15,7 milliard PLN with revenues over 90,9 milliard PLN what is the best result in the history. Furthermore the rate of equity (ROE) was 12% and capital adequacy ratio – 13%. The figures from 2010-2011 years show increasing volume of personal customers' deposits and credits. The interest rates were kept at relatively low level with concurrent decrease of customers' required reserves.

The main challenges facing the banking sector in Poland over the next few years are:

- financial standing of Polish banks' parent companies, especially the pace and way of reaching the capital adequacy ratios,
- implemented and announced regulations concerning consumer loans, mortgage credits denominated in foreign currencies and banks' long-term liquidity,
- the situation on global financial markets and the influence of public finance crisis on Polish economic situation,
- increasing competition of nonbanks as social media, telecom providers, peer-to-peer lending organizations, group purchase organizations, etc.

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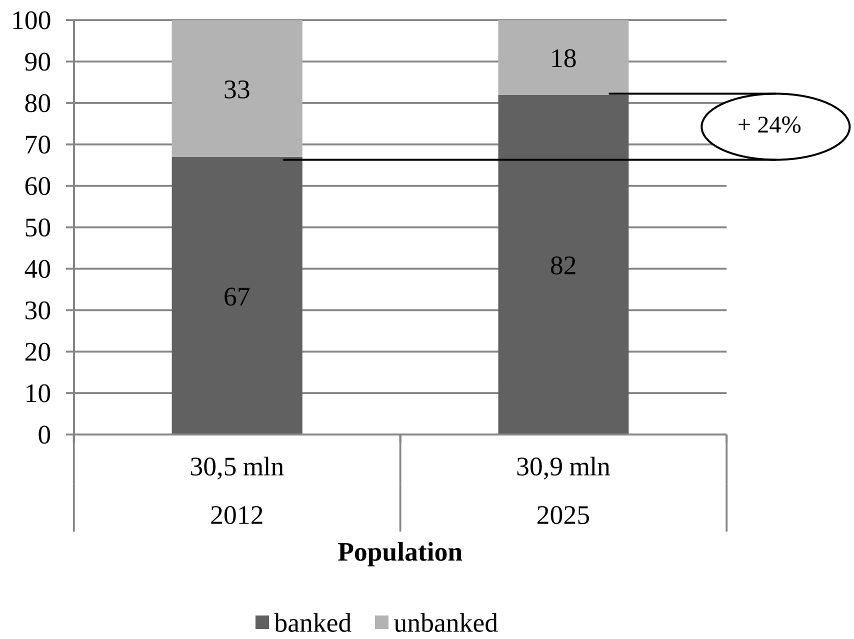
[1] *Global Consumer Banking Survey. A New Era of Customer Expectation*, Ernst & Young, London 2011, www.ey.com, p. 5.

[2] *Kurs na zmiany. Doświadczenie klienta w relacji z bankami w Polsce*, Deloitte, Warszawa 2012, p. 5.

There are few tendencies which have already been observed but they probably will strengthen in the nearest future. Among them the most important are: the increase in use and access to banking services, the increase of sector concentration, the profit margin decrease and new market players.

Comparing with other European countries the use of banking services is still low, thus it will be increasing significantly and systematically. It is estimated that in 2015 it will increase to 75%, in 2020 will reach the level of 78% and in 2025 – 82%. Today the use of banking services in Poland comes to 67%. In comparison, in Romania it comes to 40%, Slovakia – 66%, Hungary – 74% and Czech Republic – 75%. Over the next ten years despite the adverse demographic forecast the possibility of attracting new customers coming into the market is still unmistakable (Figure 1).

Figure 1. The use of banking services in Poland 2012-2025

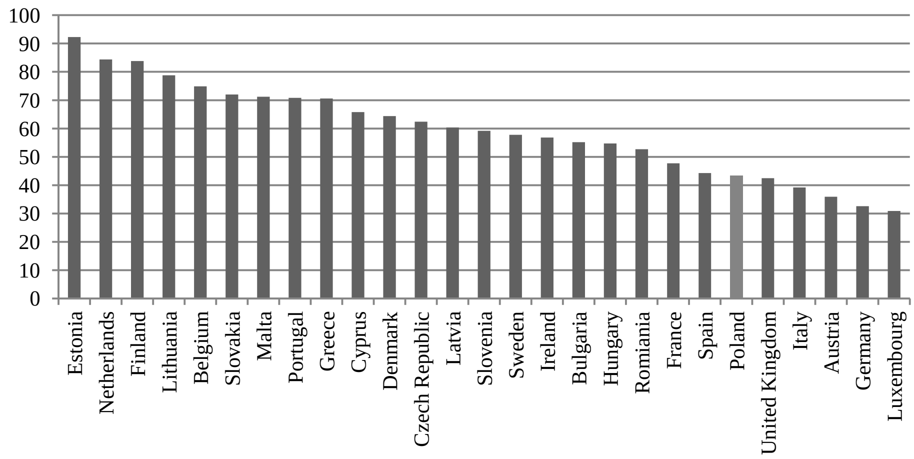


Source: *Global Consumer Banking Survey. A New Era of Customer Expectation*, Ernst & Young, London 2011, www.ey.com, p. 5.

The Polish banking sector's concentration is also quite low. Especially comparing with other Central European countries. The concentration ratio of Polish banking market is just 43% while in Romania it comes to 53%, Hungary

– 55%, Czech Republic – 62% and Slovakia – 72% (see Figure 2). That creates new perspectives on further consolidations. The financial markets' uncertainty seems to be the only one barrier of large-scale mergers and acquisitions today. As a economy of scale result they will influence the banks' efficiency as well as pricing policy.

Figure 2. European banking markets' concentration ratio (CR[5]) in 2010



Source: *Structural Indicators for EU Banking Sector 2011*, European Central Bank, Frankfurt am Main 2012, p. 1.

The next factor which influences banks' competitive behavior is the profit margin decrease. It is especially noticeable for banks which until recently have generated their revenues from mortgage credits denominated in foreign currencies. As a result of new regulations this group of credits are of marginal importance today. New regulations and decreasing Polish consumers' propensity to take out consumer credits, e.g. cash credits or credit cards, have also caused the increase of profit margin. At the same time the financing cost increase is making the process of generating profits much more difficult.

The importance of last factor – new market players, is still underestimated. They are still not thought to be crucial competitors for banks in Poland. According to banks' managers their main competitors are other banks[3]. Even if they have to compete with nonbank financial institutions they do not think them to be strong competitors.

[3] M. Klimontowicz, *Aktywa niematerialne jak źródło przewagi konkurencyjnej banku*, CeDeWu, Warszawa 2013, p. 145.

The crucial challenge for individual banks and for the industry as a whole, in particular across mature markets is to rebuilt trust because of its essential role in establishing and maintaining a long-term relationship between banks and their customers[4]. Negative customer perceptions of the disruption banks have caused to the wider economy, through the under-capitalized and over-leveraged practices that led to the credit crisis, continue to prevail. In recent years, we have seen that being profitable is not enough. The role that banks play in supporting the wider economy has been highlighted and a wide variety of stakeholders are now demanding a more responsible banking industry if there is to be a restoration of customer confidence. Fortunately customer confidence in the Polish banking industry has been largely unaffected by the credit crisis and customers' satisfaction with their main bank is the highest in Europe[5]. 59% responders said that their trust in banks had not changed in the past 12 months and 73% score their bank four or five out of five when asked about their degree of satisfaction. Globally, 44% of customers said their confidence in the banking industry had decreased in 2010. Within Europe, the UK (63%), Germany (61%) and Spain (58%) had seen the largest falls in customer confidence.

The sum of all changes which have appeared in market environment makes the banking sector to be highly competitive. It is well known from many research that enhancing individual customer relationships is critically important to future competitive success. Retail banks need to continually review their strategies, business models and routes to market to ensure that they are responding to customer expectations. Across the local retail banking markets, regardless of the differing challenges, banks will need to adopt an agile approach to keep the pace of change.

2. Enhancing Customers Satisfaction and Loyalty

Owing to increased competition in the banking service industry and other mentioned challenges banks find themselves faced with the necessity of specifying the factors of consumers satisfaction and loyalty. With the economic environment still challenging in many local banking markets, it is more critical than ever that institutions maintain strong relationships with their customers. The knowledge to what extent banks fulfill consumers' needs and expectations is crucial in the process of gaining competitive advantage, enriching bank's brands and protecting or increasing market share at a time when customer loyalty is no longer guaranteed.

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4 C. Moorman, R. Deshpande, G. Zaltmann, *Factors Affecting Trust in Market Research Relationships*, "Journal of Marketing" 1993, No. 57, pp. 81-101.

5 *Global Consumer…*, op. cit., pp. 5-49; O. Recklies, *Developing and Maintaining Trust in Retail Banking*, Warsaw School of Economics, Warsaw 2009, p. 20.

Research continually confirms a significant correlation between satisfaction and repeated buying, brand loyalty and spreading a positive opinion of the product. In the banking sector Loveman[6] found that higher customer satisfaction leads to increased cross-selling at the branch level. Customer satisfaction is thought to be a leading indicator of revenue and growth[7].

Most scientists agree that customer's overall satisfaction is rarely concerned with a single aspect of the service package but rather with many aspects[8]. It is closely determined by the satisfaction derived from each individual interaction. This interaction can occur in a number of ways, from seeing a teller face-to-face, using an Automated Teller Machine (ATM or conducting business online. There were many surveys focused on consumer satisfaction determinants (Table 1).

Table 1. Consumers' satisfaction determinants in selected surveys

Researcher	**Determinants of satisfaction**
Swan, Combs (1976) Maddox (1981)	• *instrumental* – the performance of the physical product • *expressive* – the psychological performance of the product
Hausknecht (1988)	• emotions interest, joy, and surprise
Bitner *et al.* (1990)	• employees' willingness to respond to a problem • employees' responsiveness to customer needs and requests • unsolicited employee actions
Johnston, Silvestro (1990)	• *hygiene* factors • *enhancing* factors • *dual* factors
Mersha, Adlakha (1992)	knowledge of the service, thoroughness, accuracy, consistency, reliability, reasonable cost, willingness to correct errors, timely and prompt service
Johnson (1995)	attentiveness, responsiveness, care and friendliness

Using consumers' satisfaction in the process of achieving competitive advantage requires form banks the comprehension of satisfaction concept. The consumer satisfaction category is based on the premise that the profit is made through the process of satisfying consumers' needs. It is associated with expressive outcomes above or equal to expectations. The dissatisfaction is related to performance below expectations for instrumental outcomes. The banking prod-

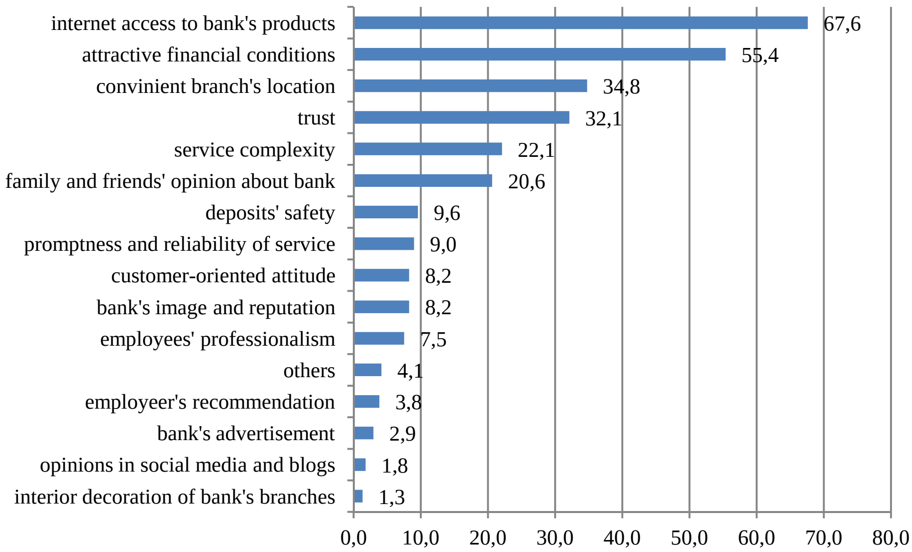
[6] G.W. Loveman, *Employee Satisfaction, Customer Loyalty and Financial Performance: An Empirical Examination of the Srvice Profit Chain in Retail Banking*, "Journal of Service Research" 1998, No. 1, pp. 18-31.

[7] C. Ittner, D.F. Larcker, *Are Non-Financial Measures Leading Indicators of Financial Performance? An Analysis of Customer Satisfaction*, "Journal of Accounting Research" 1998, No. 2, pp. 138-144.

[8] R. Johnson, *The Determinants of Service Quality: Satisfiers and Dissatisfiers*, "International Journal of Service Industry Management" 1995, Vol. 6, No. 5, pp. 53-67.

uct must meet expectations on both instrumental and expressive outcomes. The dissatisfaction may occur from either type of performance[9]. This is why it is very important to find out what factors are taken into account by customers when they are going to choose a bank. According to the author's research the most important for Polish consumers are: the access to products and services by Internet and mobile, attractive financial conditions of cooperation with bank, branch's location and trust (Figure 3). Banks' customers had not any problems with pointing them during the research. Surprisingly it was difficult for banks' managers. They were not able to indicate definitely what was important for customers and was the determinant of their decisions[10].

Figure 3. The factors of customers' decision concerning the selection of a bank



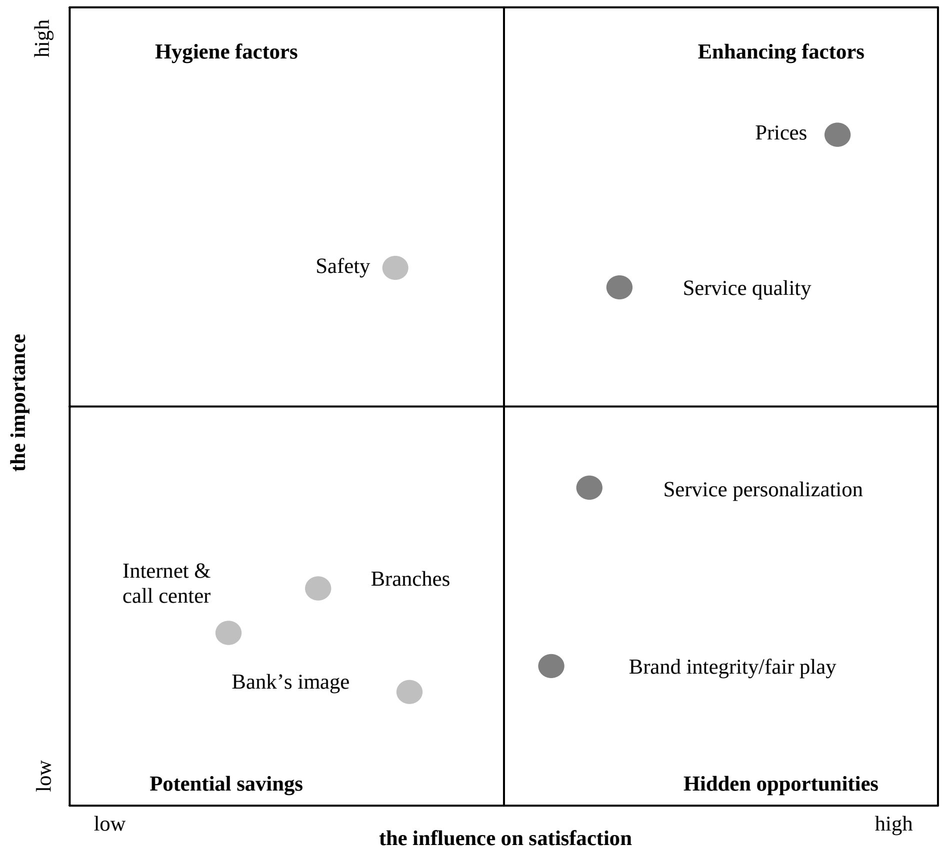
Source: Based on: M. Klimontowicz, *Aktywa niematerialne jak źródło przewagi konkurencyjnej banku*, CeDeWu, Warszawa 2013, p. 155.

Answering the question how to improve consumers' satisfaction is not as easy as it seems to be seemingly. Customer satisfaction is created through a combination of responsiveness to the customer's views and needs and continuous improvement of products or services, as well as continuous improvement of the

[9] Ibid.
[10] M. Klimontowicz, op. cit., pp. 155-158.

overall customer relationship[11]. Analyses show that the factors which are indicated by customers as very important are not always the same factors which are taken into account when the bank or banking product is chosen. They quite often differ from satisfaction's determinants. Understanding these differences is of crucial importance for creating bank's competitive strategy[12]. The Figure 4 shows the factors which influence customers' satisfaction and their importance declared by consumers.

Figure 4. The declared importance of customers' satisfaction factors and their real influence on satisfaction



Source: Based on: *Kurs na zmiany. Doświadczenie klienta w relacji z bankami w Polsce*, Deloitte, Warszawa 2012, p. 18.

[11] M. Zineldin, *Quality and Customer Relationship Management (CRM) as Competitive Strategy in the Swedish Banking Industry*, "The TQM Magazine" 2005, Vol. 17 No. 4.
[12] *Kurs na zmiany*…, op. cit.

For customers' satisfaction the most important are: prices, service quality, service personalization and brand integrity/fair play. Safety was also mentioned as an important decision factor, but its influence on satisfaction is rather low.

The importance of measuring consumers' expectations is paramount especially in the context of banking and financial services. Recent service developments, particularly with respect to the electronic delivery of these services, have resulted in a continuous increase in customer expectations and the consumer's subsequent demands as the quality of service improves. Any previous experience with traditional or electronic services, word-of-mouth, or advertising will have an influence on the expectations of the consumer.

A lot of programs concerning consumer satisfaction have already been implemented in banks in Poland. They include activities which are to attract different kind of clients. Unfortunately they have been probably based on managers' opinions only without taking into account factors which are really important for them and those which could be helpful in the process of building consumers' loyalty's. The knowledge to what extent banks fulfill consumers' needs and expectations should be the foundation for further market activity.

The Deloitte research shows the largest gap between consumers' expectations and banks' market behavior is in the following domains:
– offering/service personalization – Polish consumers expect banks to create mechanisms which will give them the possibility to adjust products nad services to their needs and specific situation while they must choose between standard offers,
– honesty and fair play which strictly influence the brand integrity – according to Polish consumers banks, as a public trust organization, should feel themselves responsible for customers' economic education and help them to understand the financial world meanwhile banks exploit customers' ignorance.

On the other hand there are some areas which exceed consumers' expectations, do not influence their satisfaction and loyalty and should be the inspiration for rethinking their investments. Among them are: the number and location of traditional distribution channels, bank's ATM network and mobile banking.

Despite an ever-increasing array of sophisticated demands, the good news for banks is that a significant number of customers around the globe – 63% – are satisfied with their main bank. However, this means that more than a third one of global customers are not currently satisfied with the service they are receiving from their banks. Customers in the US, Canada, China, India and Brazil are the most satisfied – an interesting mix of countries incorporating those that have been severely affected by a decrease in trust and those that have not. It is apparent that customers can remain satisfied with their individual banking provider regardless of the impact the credit crisis has had on their confidence and trust in the industry at a macro level. Across Europe, Polish, Hungarian, and Dutch customers are the most satisfied. The least satisfied with their main bank are customers from Germany, where 54% give their bank a low score of just one or two out of five. These levels of satisfaction suggest that efforts made by banks to improve customer satisfaction have had only limited success and that much more needs to be done to reward loyalty among customers and to focus on getting to know customers' needs to ensure that their satisfaction prevails. Banks should incentivize satisfied customers to access more products, and tailor their product offerings to create further customer advocates. Banks can also learn from their satisfied customers' experience through feedback to gain insights with the view toward increasing satisfaction across the entire customer base.

3. Customer-led bank

Banking in Poland has traditionally operated in a relatively stable environment for last decades. However, today it is facing a dramatically aggressive competition in a new deregulated environment. Setting out a clear bank's market strategy is becoming more difficult as regulatory and political intervention changes the market structure and banks are under enormous pressure to restore public confidence in the role that they play in society. As banks respond to these structural pressures across markets and strive to obtain a competitive advantage, the challenge remains to keep the customer experience and wider brand perceptions central to all strategic thinking.

It is especially important for guaranteeing that bank's value-creating processes and position will not be easily duplicated or imitated by other banks what is the condition of possessing a sustainable competitive advantage[13]. The maintenance of competitive advantage depends on two groups of firms' capability:

- distinctive capability – attributes which other not have and cannot duplicate, such as a structure of relational contacts within or around organization with employees and with customers and suppliers, reputation and innovation,
- reproducible capability – attributes which can be created (or purchased or leased) by any company with reasonable management skills, skills of observation and financial resources, thus by themselves cannot be a source of competitive advantage. Many technical, financial, and marketing capabilities are of this kind.

[13] M.E. Porter, *On Competition. Updated and Expanded Edition*, "Harvard Business Review Book" 2008.

Sustainable competitive advantage is achieved by continuously developing existing resources/capabilities and creating new ones in response to rapidly changing market conditions. Distinctive capabilities need to be supported by an appropriate set of complementary reproducible capabilities to enable a company to sell its distinctive capabilities in the market it operates. Among these resources and capabilities the ability to build the long-term relations with customers is the most important value-creating one.

Concerning value-creating processes it is particularly valuable for banks to understand the nature of the link between consumer needs' fulfillment and building strong relationships with customers. In the Bain benchmarking survey[14] banks acknowledge that managing the customer experience is the most important factor of success They admitted that there is still a lot to do. Loyalty leaders in that survey experienced better retail-consumer growth and far lower consumer defection rate. Their excess returns on equity were 50 percent higher than for the rest of the survey sample. They approach three customer elements simultaneously:

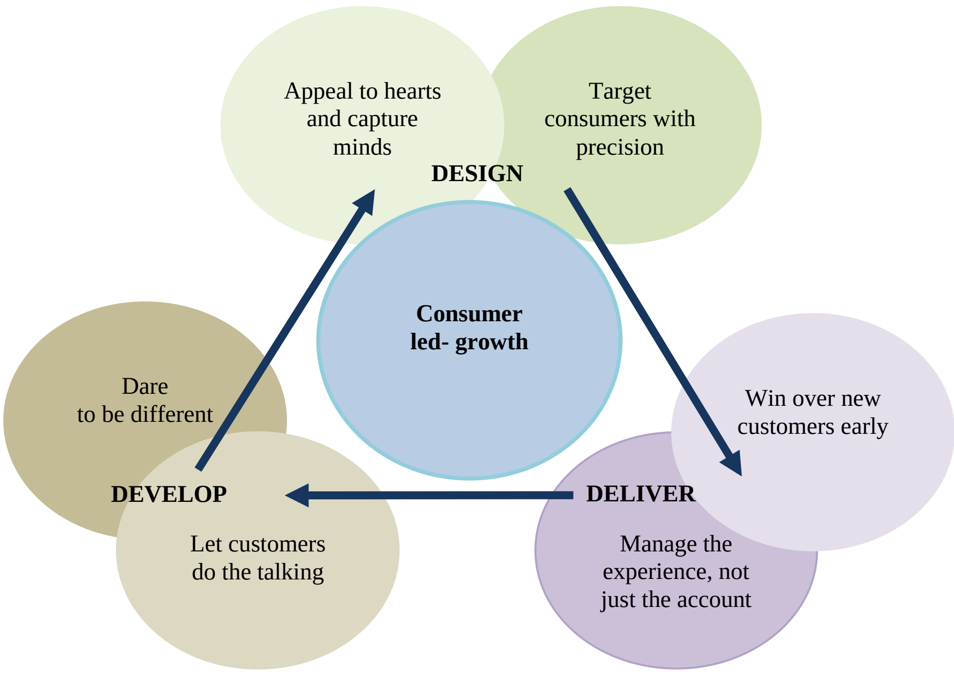
- They *design* the right propositions for the right customers, a task that involves identifying target segments of the market and crafting propositions and experiences to delight them what means designing products and services that offer a truly captivating value proposition and generate genuine customer enthusiasm. That ability requires understanding bank's target customer segments in detail and focus on them with precision. For them, it is not simply a question of attracting the greatest number of customers but landing the right ones.
- They *deliver* these propositions by focusing the entire company on them, from boardroom to front line, with an early and ongoing emphasis on cross-functional collaboration. Customer-led banks lay the foundation for a deeper relationship from the outset. Through a carefully crafted after-sale process, they capitalize on the enthusiasm new customers bring to their selection of product and provider by arranging an initial welcoming call in the first week and initiating a month-by-month follow-up program to help customers better understand account features. They monitor this ‘‘overinvestment’’ in new customers to determine how customers are using the bank's services and systematically track any potential problems that could cause a new customer to defect. Managing the customer relationship needs tracking how well bank delivers on promises what is the customers experience day by day in contacts they have with each branch office or call center.

[14] M. Symons, T. Wright, J. Ott, *The Customer-Led Bank: How to Retain Customers and Boost Top-Line Growth*, “Journal of Business Strategy” 2007, Vol. 28, No. 6.

- They continually *develop* their capabilities to delight customers again and again. That ability – the most difficult to realize, and the rarest – entails measures such as creating closed feedback loops that establish direct dialogue with the customer and accountability for the ongoing improvement of the customer experience based on that discipline by systematically gathering uncluttered feedback from customers on a continual basis, everyone in the organization – from front-line employees in the branches or call centers to the executive suite – is able to understand how customers experience the service they received at any branch, for any product, and from any employee. True customer-focused banks do not just take the pulse of customer opinion; they use the findings to correct shortcomings, fine-tune product and service offerings, and, by tying improvements to compensation, motivate employees.

Each of these ''Three D's'' reinforces the others. When wielded together, they can effectively transform a bank into an organization that is continually and profitably developing customers satisfaction and loyalty (Figure 5).

Figure 5. The model of the customer-led bank's creation



Most of Polish banks measure the market share, employee turnover, return on assets, billing errors, etc. Measures of customer loyalty will surely complement those standard financial benchmarks in the nearest future. It is worth to stress that widely used yardsticks like customer satisfaction scores do not yield insights that promote customer retention, customers' willingness to purchase additional products or upgrade to new ones, or customer referrals. Indeed, most customers who end up defecting had previously responded to such surveys by classifying themselves as ''satisfied''[15].

To deliver enhanced customer value, banks' approach to market strategy has to be customer-driven, and be clearly visible to customers through easier, faster, cheaper, or value-added services.

Conclusions

Globally, retail banks are entering a new era. Setting out a clear strategy is becoming more difficult as regulatory and political intervention changes the market structure, and banks are under enormous pressure to restore public confidence in the role that they play in society. As banks respond to these structural pressures across markets and strive to obtain a competitive advantage, the challenge remains to keep the customer experience and wider brand perceptions central to all strategic thinking.

Despite the fact that retail banking is a regional business directly influenced by local cultural drivers there are few global trends. Nevertheless, as consumer behaviors become more homogenized and banks look to new markets, there are opportunities to learn from the experiences of other economies. It is clear that as banks consider ways to rebuild trust, improve service to meet customer expectations, and reduce attrition, their efforts will need to be carefully tailored to the unique requirements of each domestic and regional market in which they operate. For banks to compete, differentiate and grow in this new customer era, they must swiftly accelerate their innovation around banking products and service offerings. Those banks that do so will enrich their brands, protect and increase market share at a time when customer loyalty is no longer guaranteed.

The key issues that need to be addressed as the retail banking industry of the future takes shape are: rebuilding trust by refocusing on the customer relationship, paying particular attention to clarity of language, transparency of pricing and simplicity of interaction, focusing on loyalty by building customer insights, tailoring offerings, incentivizing customers to access more products and

[15] Ibid., p. 10.

effectively responding to complaints and enhancing the customer experience by investing in branches, delivering personal attention across channels and combining customer insights with technology to improve offerings.

In the face of sharpening the competition on banking market creating the customer-led bank is becoming the necessity. During the forthcoming decade the competitive fight will focus on domination of long-term relations with customers. Banks in Poland still have quite strong position in this field, but they need not to win.

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