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Customer Attraction and Loyalty Programmes for Improving Bank's Market Share in Kenya

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Abstract
Marketers keep placing increased strategic importance on developing relationships with clients while capitalizing on customer attraction and loyalty programmes. Offering a high quality service is one observable way in which a bank can compare itself with its competitors and that creating strong customer-focused relationships enhanced market share growth. The study established that attracting and creating strong customer-focused relationships enhance market share of banks. However, relationship between customer loyalty and banks profitability was found to be neutral.

***Key words**: Customer, attraction, loyalty, market, share*

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I. Background of the Study

The traditional transactional foundations of marketing involved use of market segmentation, target market selection and strategy development for the 8Ps for competitive advantage. Lately, there is a dynamic shift to human and relationship founded models embracing Customer Relationship Marketing for sustainable competitiveness.

The core purpose of any business especially banking services is to deliver customer value for a profit to itself. Note, loyal customers are both scarce and a source of value (Stefanou, 2013). Thus, to grow and maintain a market share banks must be managed in such a manner that both the client and the bank gets value mutually. It is important to understand and meet customer expectations so as to maintain a profitable market share (Richards&Jones, 2008).

The experience from Malaysia in retail banking sector to increase their bank outlook and attract more loyal customers explained that banks must adequately monitor their customer loyalty programs and have knowledge in influencers of customer loyalty (Jumaev, Kumar & Hanaysha, 2012). In Europe, the structure of the European banking markets has been shaped over time by policies that encourage the provision of financial services at personalized levels (Mercieca, Schaeck & Wolfe, 2007). Consequently, there was significant growth of relationship banking in small banks in Europe. In South Korea, service quality has become an increasingly important factor for success and growth in the banking sector. Offering high-quality service helps in fulfilling many requirements such as customer satisfaction and the resulting loyalty and market share, conviction of new customers, financial performance and eventual profitability for the banks (Cui, Lewis, & Park, 2003).

The growth of retail banking services has been exponential in the last 2015 years in Kenya. All these banks are competing for the same market giving a cardinal reasons for adopting CRM as a means for competitiveness. Thus, banks will have to attract and create loyal customers by building lasting relationships that will satisfy the clients and maintain a profitable market share.

1.2 Statement of the problem

It cannot be over emphasized that in the service delivery system, it is the client that makes the most differences. Even with similar product and services, appeal from customers greatly vary depending on number of variables. Therefore, there is the need for a unified service marketing approach that will seek to deliver a customer-centred services. The question is how banks could differentiate themselves from the competitors, attract and create loyal customers which will in turn improve the banks market share. Consequently, the contribution of customer attraction and customer loyalty as an element of CRM needed to be understood scientifically. Hence, the research sought to establish effect of CRM customer attraction and loyalty programs on market share of commercial banks in Meru County, Kenya.

1.3 Objectives of the study

i. To determine the effect of customer attraction and loyalty programs on market share of commercial banks in Meru County, Kenya

1.4 Research Question

i. What is the effect of customer attraction and loyalty programs on market share of commercial banks in Meru County, Kenya?

II. Theoretical Framework: Social Exchange Theory

This research was founded on Social Exchange Theory. According to this theory, the value received from an exchange relationship determines a persons' attitude and behavior towards that relationship. In this research value refers to the perceived ratio of benefits to costs, which are intangible elements in the context of services. Notably, psychological costs and benefits associated with acquiring and consuming service play an important role (Cropanzano & Mitchell, 2005). Social exchange theory also contends that partners in an exchange relationship create value for each other over time where positive sentiments like trust, loyalty and commitment getting derived.

This theory is important to this research since the value received by both customers and the firm out of their relationship can determine the level of loyalty attached by the customers to a specific firm. A relationship which does not yield any value means that the customers would be dissatisfied and if not addressed then they defect to other firms where they seek to be served better.

2.1 Empirical Review: Customer Attraction, Customer Loyalty and Market Share

Customer attraction as a main influencers of banking business is attributed to the cost of customer acquisition being high due to the marketing, advertising and promotions costs (Alsaggaf and Althonayan, 2018 & Anani, 2010). Customer attraction approaches that have been used include opening of new branches, ATM facilities and extension of Mobile and internet banking services to increase accessibility of bank services even in remote areas (Amin, 2015; Estrella-Ramon et al., 2016). The spread of the banking services is purposed to attract customers and offer them convenience so as to retain them. Other attraction approaches like credit cards, mortgages and flexible loan rates have been identified as being used in different economies and banks to attract and retain customers (Lam et al., 2004).

Customer attraction can be founded on financial, technology or social factors. Consequently, social relations that are highly treasured may form a basis of attraction that can result into a business relationship. Understanding the part of attraction in a customer's commitment decision is the main issue that little attention has been given in the service-marketing area (Grönroos, 2007). A bank can build trust by means of gestures like warranty, reputation, service quality (investments on quality and technology) or advertising and promotions that are sent to the market (Ellegaard & Ritter, 2006).

The use of loyalty programs tools in relationship marketing is becoming popular to encourage customer loyalty because successfully onboarding new customers is more expensive than keeping existing ones. Singh & Imran (2012) estimated that approximately, online sellers lose 25% of their customers every year whereas a slight increase in customer retention can increase profits by more than 25%.

The loyalty programs are designed for publicizing efforts which reward and encourage loyal behavior. It has been observed that loyalty program customers show variations in repeat-purchase which is not evident amongst non-program customers. Reduced switching to non-program brands and increased repeat purchase rates have also been documented (Gneiser, 2010)

To uphold customer loyalty, a company must improve all four features of relationship viz, trust, commitment, satisfaction and service quality. Precisely, to boost customer's trust, a company should encourage the customer's trust in them. In an effort to stress commitment, a company should pay attention to constructing affective aspects of commitment more than calculative aspects. Satisfaction seem to be an important factor in preserving purchase intentions though service quality will greatly boost both purchase intentions and attitude loyalty (Uncles, Dowling & Hammond, 2003).

High market share converts into higher profits which is achieved through aggressive strategies to improve the company's position in the market (Sarkissian, 2010). A higher market share means greater sales, less effort to sell more and a strong barrier to entry for competitors. A higher market share also means that if the market grows the leader's expansions are more than that of the competition. Using the same mark, a market leader - as defined by the market share - has to keep enlarging the market, for its own profitability and growth. There is combination of strategies used to increase the market share including increasing advertisements, adjusting prices, classification of products into groups and directing them to a specific clientele and also making complementary products (Ong'ong'a, 2014).

Market share is a key gauge of market competitiveness and how much better a firm is doing as compared to its competitors. This metric, enhanced by variations in sales income, helps managers assess both primary and selective demand in their market. It assists them to judge both total market growth or decline and the trends in customers' choices among competitors. Normally, sales growth caused by primary demand (total market growth) is less costly and of higher profitability than that achieved by capturing share from competitors.

The company's market share is important for investors, since it gives them a better idea of its competitiveness. Those firms with larger shares are often more likely to give investors a better Return on Investment (ROI) than those with less shares, though other variables may intervene.

III. Research Methods

A descriptive research method was used to describe means of data collection, analysis, discussion and presentation in order to investigate the current conditions, terms or relationships concerning the problem understudy as prescribed by (Kothari, 2004). The effect of customer attraction was measured through solid reputation, user friendly technology, service quality while and customer loyalty programs was determined through discounts, free products and fidelity cards.

Simple random sampling technique was applied to select the sample of 137 middle and low level managers. Data was collected using validated questionnaire. Secondary data was also used to supplement the primary information. The questionnaire was piloted with 20 respondents for validity. The validity of questionnaire content and form was ascertained. The reliability of the questionnaire was assessed by issuing the instrument to the pilot group. Reliability was measured through Cronbach's Alpha (Cronbach's Alpha = 0.7)
Data analysis employed a multiple regression so as to determine the effects of each of the independent variables. The regression equation used is: $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \varepsilon$
Where: Y = Market share
β_0 = Constant
X_1 = Customer attraction
X_2 = Customer loyalty programs
ε = Error Term
The coefficient of determination (R^2) was used to measure the extent to which the variation in market share is explained by the variations in its determinants.

IV. Findings and Discussion

4.1 Customer Attraction Programs

The study sought general effects of customer attraction on the operational performance of commercial banks in Meru County. Mmajority of the respondents (83.9%) feel to a great and very great extent customer attraction affected market share of commercial banks as shown in table 4.1

Table 4.1: Extent to which customer attraction affects market share of commercial banks

	Frequency	Percent
Not at all	0	0.0
Low extent	2	2.1
Moderate extent	13	14.0
great extent	41	44.1
Very great extent	37	39.8
Total	**93**	**100.0**

Further, different aspects of customer attractions were isolated and subjected to the respondents' tests as shown in table 4.2

Table 4.2: Extent to which the following aspects of customer attraction affected the operational performance of commercial banks

	No extent at all		Low extent		Moderate extent		Great extent		Very great extent	
	F	%	F	%	F	%	F	%	F	%
Solid reputation	1	1.1	9	9.7	27	29	43	46.2	13	14
User friendly technology	2	2.2	7	7.5	17	18.3	40	43	27	29
Service quality	1	1.1	11	11.8	28	30.1	40	43	12	14
Active interaction	0	0	7	7.5	31	33.3	38	40.9	17	18.3

All the respondents feel that all the aspects of customer attractions had rating of `greater extent` with slight variations. The indication by the respondents show that all the isolated aspects of customer attraction are key result areas for emphasis by the bank management.

On whether banks that offer superior service can charge high rate and still enjoy a large market share, the respondents agreed with a mean of 3.8602 and a standard deviation of 0.82872. Further, banks that offer high quality services increases its visibility compared to its competitors (mean of 3.7204 and a standard deviation of 0.83881). Creating strong customer-focused relationships (mean of 3.6344 and a standard deviation of 0.92999) was found to influence market share of banks.

The research established that majority of the respondents (45.1%) indicated that customer loyalty programs affected market share of commercial banks to a very great extent while 40.9% indicated to a great extent. The research further sought to establish the extent to which the following aspects of customer loyalty programs affect the operational performance of commercial banks as shown in table 4.3

Table 4.3: Extent to which the following aspects of customer loyalty programs affect the operational performance of commercial banks

	No extent at all		Low extent		Moderate extent		Great extent		Very great extent	
	F	%	F	%	F	%	F	%	F	%
Fidelity cards	1	1.1	9	9.7	27	29	43	46.2	13	14
Free products	2	2.2	4	7.5	17	18.3	43	46.2	27	29
Discount	1	1.1	11	11.8	12	14	40	43	28	30.1

The study established that the three (3) fidelity cards, free products and discounts faired to great extent having influence on operational performance of commercial banks.

The study affirms that it is more profitable holding on to existing customers than winning new customers, that loyalty program enhances repeat-purchase, raises profitability and costs less. The same is also supported by Ellegaard and Ritter (2006), Ossel et al (2003) and Lewis (2004). The results are shown in Table 4.4

Table 4.4: level of agreement with the following statements on customer loyalty programs

Statements	Mean	Std. Deviation
It is more profitable holding on to existing customers than winning new customers	3.4602	0.72872
Loyalty program customers show changes in repeat-purchase	3.7204	0.83881
Loyalty programs lead to increased repeat purchase rates	3.7882	0.83671
Loyalty programs raises profitability	3.3344	0.92789
Loyal customers cost less to serve	3.8433	0.81761

4.2 Regression Analysis

The study carried out a multiple regression analysis to test relationship among variables (customer attraction & customer loyalty programs) on the market share of commercial banks in Meru County. The model had an average adjusted coefficient of determination (R^2) of 0.632 and which implied that 63.2% of the variations in market share of commercial banks in Meru county are explained by the independent variables understudy (customer attraction & customer loyalty programs).

In addition, the study used the coefficient table to determine the study model as shown in table 4.5

Table 4.5: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	STDV. Error	Beta		
(Constant)	1.176	.317		0.555	.002
Customer attraction	.526	.143	.670	4.168	.001
Customer loyalty programs	.569	.118	.394	4.822	.000

Given the equation ($\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon}$) becomes:

$Y = 1.176 + 0.526X_1 + 0.569X_2$

Thus, with the market share of commercial banks in Meru county being 1.176, a unit change in customer attraction would lead to an increment in market share of commercial banks in Meru County by a factor of 0.526. According to Taherpor & Tayebi Toolo (2010), CRM support better performance of industries and companies through improvement of communications. Thus banks consider CRM as an undeniable requirement.

There is a great dependence between suppliers and buyers and companies need technology to create new inventions to attract customers.

Similarly, a unit change in customer loyalty programs would lead to a 0.596 increase in market share of commercial banks in Meru county. The results echo a study by Roking (2005) that indicate that loyalty programs can lead to benefits of both customers and companies. In addition, Hassan, Nawaz, Lashari, and Zafar (2015) stated that CRM has an important effect on the customer satisfaction. The increase and maintained customer fulfillment levels influences their decision to re-visit use or experience the company's products and services, which results into increased sales, market share and eventually an increase in profitability.

V. Conclusion and Recommendations

The research concluded that customer attraction affects market shares of commercial banks to a great extent. Specifically, solid reputation; service quality and user friendly technology affect the operational performance of the commercial banks significantly. Thus, the banks that offer superior service can charge high and still enjoy a large market share; Customer attraction mechanisms increases more visibility compared to competitors and hence creating strong customer-focused relationships leading to increased market share of the banks. In addition, customer loyalty programs affected market share of commercial banks to a very great extent. However, the study could not conclude whether it is more profitable holding on to existing customers than winning new customers. Nevertheless, loyalty program customers showed changes in repeat-purchase that led to increased sales turnover there by improving the banks market share

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