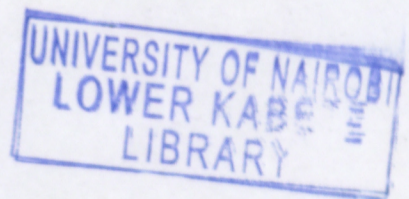


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CUSTOMER ATTRACTION AND RETENTION AS A SOURCE OF
COMPETITIVE ADVANTAGE AT CO-OPERATIVE BANK OF KENYA
LIMITED //

MWANGI | STEPHEN KIMANI

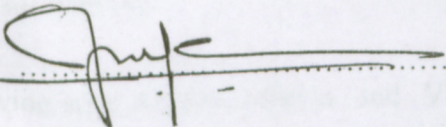


A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION (MBA), SCHOOL OF
BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2011

DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

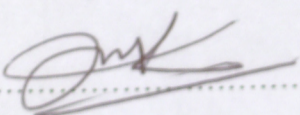
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This research project has been submitted for examination with my approval as University supervisor.

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I dedicate this project to both God and my family for the unfailing encouragement, strength and tenacious support. To those who stood with me as a family or friend, for walking this journey with me, and picking me up when I felt emotionally and physically drained and for burning the mid night oil with me.

To my loving sons Antony, Marvin and Victor, may this accomplishment be an inspiration to you in your pursuit of knowledge and excellence in the days to come. Always keep in mind that with God all things are possible and you can do it.

To my work mates for supporting me while pursuing this noble course. To all of you may the Almighty God bless you abundantly.

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I wish to thank most sincerely all those whose contributions have made this project a success. To my supervisor Mr Jeremiah Kagwe for his assistance and advice all through making this project a success. To my family for their support both morally and financially. Most of all I thank God for the gift of wisdom and strength to complete this project.

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ABSTRACT

Customer attraction and retention is an important element of banking strategy in today's increasingly competitive environment. Bank management must identify and improve upon factors that can limit customer attraction and retention so that they can gain competitively. Customer satisfaction is a customer's response, or a judgment to a product or service in terms of the extent to which consumption meets expectations. High customer expectations and intensifying fierce competition are environmental demands surrounding most businesses. These demands emphasize the need for high quality performance and service excellence in all aspects of the business. Such relationships should add value to both the producer and consumer, the decision to serve being based on a forecast of the economic lifetime value of the customer to the organization.

The objective of the study was to determine the use of customer attraction and retention as a source of competitive advantage at the Co-operative Bank of Kenya Limited. Towards the realization of the same objective, a case study research design was adopted for the study. The data collection tool was an interview guide while content analysis was used to analyze the qualitative primary data which had been collected by conducting interviews from the organization.

The study found out that the bank uses the outside-in approach strategy to attract and retain customers which results to competitive pricing and differentiation strategies whereby products are augmented well above the competitors thus enhancing brand equity. The factors which influences customer attraction and retention was efficient customer service, other strategies include heavy investment in ICT to enhance service delivery and turnaround time, quality staff, close monitoring of customer feedback, pricing and location to reach the un-banked. The bank

gained competitive advantage through; customer satisfaction, customer perceptions of value, corporate image, switching barriers, customer loyalty, consumers' behavioural intentions and complaint handling.

Acknowledgements

The conclusions from the study was that the bank should continue offering their customers more products and at an affordable price so that they derive value for banking with the bank. Customer satisfaction, corporate image and switching barriers influence the decision of customers to stay with or leave the bank. To ensure customer satisfaction, contact personnel could be empowered to deal effectively and courteously with problems when opportunities for service recovery arise.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

As the competitive environment becomes more turbulent, the most important issue the sellers face is no longer to provide excellent, good quality products or services, but also to keep loyal customers who will contribute long-term profit to organizations (Tseng, 2007). In today's fast-changing competitive environment, firms' competitive positions are constantly challenged by the emergence of new technologies, products, markets and competitors. Flexibility and adaptability have become key management concepts to develop a sustainable competitive advantage, and successful firms apply them in new organizational strategies that put into question many conventional tenets on organizations and their management (Saloner *et al.*, 2001). These strategies involve a decentralized and responsive work organization, based on co-operative relations not only within the firm but also in its relations with customers, suppliers and competitors. A large number of research studies have concluded that organizations that have adopted strategic management are likely to be more profitable and successful than those that do not (Fred, 1996).

Globalization, the force that has shaped the political and business world for most of people's working lives is now entering a new and more complex phase. It is no longer a concept exported to the emerging world by the traditionally dominant economies of the west (Accenture, 2010). Emerging economies have grasped globalization, packed it up, and are sending different versions of it back to the west. Today's global economy has created a dynamic environment in which most companies must learn to compete effectively for sustainable growth achievement (Deloitte,

2010). Organizations that strive towards satisfying customers should be a customer-centric organization. Service management is based on a customer-centered organization that makes the customer's needs and expectations the central focus of the business. Many managers realize that their businesses must deliver goods and services that really do meet with the rising expectations of their customers. Ultimately this will be achieved only when organizations develop a better understanding of customer needs and motivation. In recent years, increasing pressures have forced banks to reconsider and improve their efficiency to maintain their profitability and competitive nature (Cronje 2007). Winning customers and keeping them coming back are the most hard-fought elements of modern business. Customers are fought over because they are precious, and an organization's ability to win customers and keep customers coming back are indeed extremely precious attributes. When customers feel they are dealing with the right company or organization for their needs, they don't want to change. In fact, they want to be loyal (Robinson and Etherington 2006).

1.1.1 Customer Attraction and Retention

Customer attraction and retention is the act of attracting and keeping customers resulting from service quality and customer satisfaction. Stewart (1996:5) points out that customer attraction and retention should properly be regarded as a process rather than a task. Customer attraction and retention is the process by which an organization identifies and maintains a relationship with prime customer groups. Such relationships should add value to producer and consumer, the decision to serve being based on a forecast of the economic lifetime value of the customer to the organization. Brink and Berndt (2008) supports the above by confirming that the effect of long term relationships with customers has a positive impact on the profit of organizations.

Comparatively, customer acquisition and retention requires substantial skills in lead generation, lead qualification, and account conversion. Consequently, it is not enough to attract new customers; the company must keep them. Customer retention also depends on customer loyalty. It is important to identify the causes of perceived loyalty and argues that loyalty does not necessarily arise from customer satisfaction, as customers may seem to be loyal because of several reasons. The argument for customer attraction and retention is relatively straightforward. It is more economical to keep customers than to acquire new ones. The costs of acquiring customers to "replace" those who have been lost are high. This is because the expense of acquiring customers is incurred only in the beginning stages of the commercial relationship (Reichheld and Kenny, 1990). In addition, longer-term customers buy more and, if satisfied, may generate positive word-of-mouth promotion for the company. Additionally, long-term customers also take less of the company's time and are less sensitive to price changes. These findings highlight the opportunity for management to acquire referral business, as it is often of superior quality and inexpensive to obtain. Thus, it is believed that reducing customer defections by as little as five percent can double the profits (Healy, 1999). The key factors influencing customers' selection of an organization include the range of services, rates, fees and prices charged. It is apparent that superior service, alone, is not sufficient to satisfy customers. Prices are essential, if not more important than service and relationship quality. Furthermore, service excellence, meeting client needs, and providing innovative products are essential to succeed in the business industry.

1.1.2 Competitive Advantage

Achieving competitive advantage is presently recognized as the single most important goal of a firm (Porter, 1980). Porter (1988) further argues that the generic competitive strategies of cost leadership, differentiation, and focus (cost leadership or differentiation in a narrow market

segment) represent different strategic orientations available to a firm to compete and achieve competitive advantage in its industry. Thus, cost leadership and differentiation represent two fundamentally different means of achieving competitive advantage and superior performance. A firm that implements a cost leadership strategy achieves competitive advantage by becoming the lowest cost producer or service provider in the industry. A cost leadership strategy places emphasis on “aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on” (Porter, 1980, 35). A firm can, therefore, gain a competitive advantage over its rivals through achieving the lowest cost structure in an industry without ignoring other areas such as product and service quality (Porter, 1980). A differentiation strategy, on the other hand, focuses on developing a product or service that is unique or perceived to be unique in the minds of customers to create competitive advantage. The firm creates the perception that the firm or its products and services are superior to those of its competitors and also possess characteristics (e.g., design, quality, innovativeness) that are distinctive from those of its competitors (Miller; 1988).

A firm generates these perceptions through advertising programs, marketing techniques and methods, offering products with greater reliability, durability, features and aesthetics, and superior performance than their competitors (Johnson and Scholes (2002). The differentiation strategy is typically bolstered by heavy investment in research and development, marketing, and product and service innovation. Thus, organizations need to identify how to secure an advantageous competitive position where other players have not. Without achieving a competitive advantage, a firm will have few economic reasons for existing and finally will

wither away. Adding values for customers, employees, and owners has become a central theme in strategic management for service companies. To create values for these stakeholders, a firm should achieve a competitive advantage over its competitors by adapting itself to the uncertain industry environment, understanding the changing needs of customers, and responding to new market entries (Slater and Olson, 2001).

The ability of an organization to capture the opportunity that an industry gives depends on its core competency. Porter (1980) noted that a firm can gain its competitive advantage by producing value for its customers. Porter also stressed that a firm can gain its competitive advantage by performing the chain of strategically important activities (such as production, marketing, sales, service, human resource management, technology development, procurement activities) cheaply or better than its competitors. To gain competitive advantage over its rivals, a firm must either provides equal value to the customer, but performs activities more efficiently than its competitors (lower cost), or performs activities in a unique way that creates greater buyer value and commands a premium price (Olson *et al.*, 2005).

1.1.3 The Banking Industry in Kenya

The Banking industry in Kenya is governed by the Central Bank of Kenya Act cap 466 and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system (CBK Annual Report, 1996). There are several challenges that banking industry in Kenya currently face. These

have to do with the changes in the environment such as legal changes, political changes, and economic conditions such as recession, social factors and technological advancements.

According to the CBK Annual Report (2010), there are a total of 45 licensed commercial banks in the country and one mortgage finance company. Out of the 45 institutions, 32 are locally owned and 13 are foreign owned. The locally owned financial institution comprise 3 banks with significant shareholding by government and state corporations, 28 commercial banks and 1 mortgage finance institution. However out of all the banks only 10 of them are listed in the Nairobi stock exchange having met the conditions of listing and applied for the same. The (CBK, 2009) categorizes the financial institutions into three tiers; Large, Medium and Small in terms of net assets. Out of the 45 institutions, 13 were in the large peer group with aggregate net assets of over Ksh. 15 billion. The medium peer group comprise of 17 institutions with net assets ranging between Ksh. 5 billion and 15 billion, whereas the small peer group had 15 institutions with net assets of less than Ksh. 5 billion.

The Co-operative Bank of Kenya Limited was incorporated in Kenya under the Company's Act and licensed to do the business of banking under the Banking Act. The Bank was initially registered with the Co-operative Societies Act at the point of founding in 1965. This status was changed to limited liability June 1988 when the Bank's Special General Meeting resolved to incorporate under the Companies Act with a view to complying with the requirements for listing on the Nairobi Stock Exchange. A restructuring has been held by the Bank's shareholders to incorporate under the Companies Act with a view to complying with the requirements for listing on the Nairobi Stock Exchange. The Co-operative Bank of Kenya Limited which was established under the Co-operative Societies Act in 1965, was restructured to become a public limited liability company under the Companies Act in 1988. Over the last few years, the banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in East Africa community region as well as automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' products. The (CBK, 2009) emphasizes that the banking institutions will need to cope continuously with changing business environment and a continuous flood of new requirement via a robust ICT platform, while staying sufficiently agile. Consumers will continue to demand individualized services, and to demand them faster than ever. Hence banks will continue aggressively design new products that leverage on ICT to

remain competitive. Down streaming into the retail market segment will also be expected to continue particularly with the anticipated licensing of deposit taking Microfinance Institutions.

According to the CBK Annual Report (2009) diversification into other financial services is also expected as consumers increasingly seek “one stop financial supermarket.” These developments are expected to enhance banking products being offered and bring more Kenyans into the banking space. However, the main challenges facing the banking sector today include the Finance Act 2008, which took effect on 1 January 2009 that requires banks and mortgage firms to build a minimum core capital of Ksh 1 billion by December 2012 (CBK Annual Report, 2009). This requirement, it is hoped, will transform small banks into more stable organization. The implementation of this requirement poses a challenge to some of the existing banks and they may be forced to merge to comply. The other major challenge is declining interest margins.

1.1.4 The Cooperative Bank of Kenya Limited

The Co-operative Bank of Kenya Limited was incorporated in Kenya under the Company's Act and licensed to do the business of banking under the Banking Act. The Bank was initially registered under the Co-operative Societies Act at the point of founding in 1965. This status was retained up to and until June 27th 2008 when the Bank's Special General Meeting resolved to incorporate under the Companies Act with a view to complying with the requirements for listing on the Nairobi Stock Exchange (NSE). Shareholding has been held by the 3,805 co-operatives societies and unions were ring-fenced under Coop Holdings Co-operative Society Limited which became the strategic investor in the Bank with a 64.56% stake (Co-operative Bank of Kenya Annual Financial Report, 2010).

However by listing at the NSE, the banks shareholders grew to over 111,720 shareholders. Out of this, Coop Holdings Co-operative Society Limited owns 64.56%, with the rest held by other investors. The Bank runs three subsidiary companies, namely: Kingdom Securities Limited, a stock broking firm with the bank holding a controlling 60% stake; Co-op Trust Investment Services Limited, the fund management subsidiary wholly-owned by the bank; and Co-operative Consultancy Services (K) Limited, the corporate finance, financial advisory and capacity building subsidiary wholly-owned by the bank (Annual Report, 2010).

The bank has a branch network of 89 branches spread across the country and in the current 2009-2013 strategic plan; the bank has planned to open 20 more branches by the year 2012. A total of 401 ATMs are also spread across the country. In the meantime, the bank is in the final stages of meeting legal requirements of venturing into Southern Sudan. Based on its mission of offering value-added financial services to chosen market segments with special emphasis on the co-operative movement, it is hoped that the bank will be able to achieve more growth in the future. With the growth, the bank has faced several challenges in its business set up including intense competition from the same cooperative societies which have set up FOSAs to its members and thus cutting down to the banks customer base. In addition, the volatile political environment in the country over the last few years as also impacted on its operations as well as continued change of technology which has made the bank to continuously upgrade the banking system.

1.2 Research Problem

As the current environment becomes more competitive and introducing new brands becomes increasingly costly, companies must find new strategies to increase their capacity and competitiveness (Lipponen *et al.*, 2004). High customer expectations and intensifying fierce competition are environment demands surrounding most businesses. These demands emphasize

the need for high quality performance and service excellence in all aspects of the business. The enticements businesses usually employ to create and maintain loyalty are not effective as they may entice customers into a repeat visit, but they do not lead to true customer retention. Financial institutions face challenges as the introduction and expansion of the use of technological interfaces such as automated teller machines (ATMs), electronic banking and mobile banking affects relationships with clients and therefore banks need to know who they are serving, what their needs and problems are, and what their financial priorities are. It is therefore important for a bank to focus on the retention of customers because it is more profitable to retain a customer than to recruit a new customer.

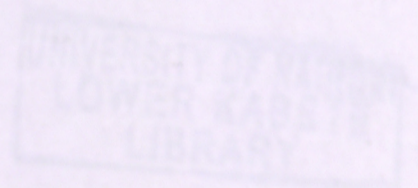
The banking industry is highly competitive, with banks not only competing among each other; but also with non-banks and other financial institutions. Most bank product developments are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves on the basis of price and quality. Therefore, customer attraction and retention is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment. The cooperative bank has created diverse products in an attempt to satisfy customers and be highly competitive and these has worked for the bank as it has been able to increase its customers from 100,000 in 2001 to the current number of 2.1 million. This has also had an effect on the profitability of the bank as it has been able to move from loss of shillings 2.1 billion loss in 2001 to billionaire league banks currently.

A number of studies have been done locally on customer attraction and retention. Siboe (2006) did customer retention strategies used by internet service providers in Kenya and established that internet service provider tried to retain customers through provision of quality service,

commitment to customer satisfaction, integration of customer satisfaction in a firm's goal and vision, being responsive to customer complaints, having a high and continuous level of interaction with customer keeping a record of company's loyal customers and having an efficient and effective complaint handling. Imbuga (2005) researched on determinants of customer satisfaction in supermarkets in Nairobi and found out that the customers in Nairobi are satisfied with the services offered by supermarkets. They were specifically they were satisfied with the store layout, cleanliness of the facilities, convenient operating hours and ease in finding things. Muturi (2005) researched on attitude of personal banking customers in Nairobi towards the repositioning strategy adopted by Kenya Commercial Bank limited and found out that the overall attitude of the customers towards KCB is very positive, since majority of the respondents trust in the banking services of the bank, feel that the bank is now more friendly and will continue to operate an account with the bank. All of the processes in an organization revolve around the customer. Customers must be identified and understood as they are a source of profit in the organization and will provide growth for the firm. The commercial bank has both depositors and borrowers, each group has different needs, but the bank must satisfy both to stay in business. The study was to determine customer attraction and retention as a source of competitive advantage and therefore answer the question; to what extent has Cooperative bank of Kenya Limited used customer attraction and retention as a source of competitive advantage?

1.3 Research Objectives

The objective of the study will be to determine the extent to which customer attraction and retention is a source of competitive advantage at Co-operative Bank of Kenya Limited.

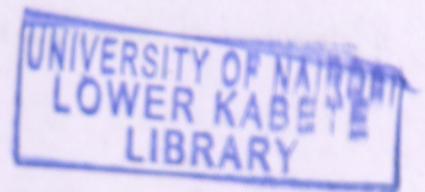


1.4 Value of the study

The management of the bank will understand the benefits of directing attention to customer attraction and retention further deepening the general appreciation and interest in the relevance of these concepts as vital tools in the decision-making process for the bank and the commercial banking sector in general. Apart from this general gain, Cooperative Bank of Kenya Limited will improve its efforts towards customer attraction and retention, service quality and development of customer relations through customer feedback on product and services rendered.

The banking fraternity in the country will obtain details on the benefits of customer attraction and retention in the face of numerous challenges facing the industry both from within and outside the industry. Adaptability of firm's strategies in the face of unpredictable business environment and the details of responses to the challenges will help the firms in the industry to reposition themselves and retain competitive edge in the market.

The government and regulators in the financial sector will also find invaluable information in how competitive advantage can be achieved through customer attraction and retention and as a result put in place policies that will guide and encourage other firms within and without the industry in attracting and retaining customers. For the academicians, this study will form the foundation upon which other related and replicated studies can be based on.. Investors will also gain an insight on the business and its strategic position within the environment, which can assist them in determining their viability of their investments.



CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter is concerned with the review of literature related to the study which is customer attraction and retention, determinants of customer attraction and retention, competitive advantage and customer attraction and retention as a source of competitive advantage.

2.2 Customer Attraction and Retention

It takes a great deal of time and money to attract every new customer (Murphy 2001). Yet, surprisingly few companies take equal trouble to retain existing customers (Brink and Berndt 2008). This is also true for many banks as they devote most of their resources and energy to attracting new customers, but few take the trouble to retain existing ones (Brink and Berndt 2008). Hence the need to retain these customers so that these resources would not be a waste. Ultimately, the concept of customer retention finds its roots in the concept of customer orientation or customer focused marketing, which calls for organizing the company towards the satisfaction of the customer needs. Ideally this entails that the offering, be it a good or service, should focus on the customer and his needs and/or expectations. Apart from this realization there is a general lack of focus on customers; profitability is still king (Ross 1995). Ross (1995) continues to argue that there is, of course, nothing wrong with a focus on cash flow and short-term profits, but long-term profit and market share require a base of satisfied customers that are retained by a focus on satisfaction.

Kotler (2000) argues that customer retention is an important phenomenon because it has a bearing on costs and profitability over time. They comparatively, customer acquisition requires substantial skills in lead generation, lead qualification, and account conversion. Consequently, it

is not enough to attract new customers; the company must keep them. According to Murdock et al (1986) managers are faced with the issue of attracting and retaining customers and base this effort on the service attributes of pricing of service, reputation of the organization, services offered, time convenience, location convenience, employee convenience, employee attitudes, ownership of institution, return on investment, security of deposits, physical appearance, and promotion efforts. The service marketers, in particular, must be sensitive not only to the various characteristics that may be evaluated but also to the unique needs of potential customers. That is to say, if perceived service falls below the expected service, the customers lose interest in the provider (Kotler 1989). On the other hand, if the perceived service meets or exceeds the customer's expectations they are apt to use the provider again.

2.3 Determinants of Customer Attraction and Retention

In the aftermath of globalization, the operating environment of the banking industry has become more dynamic and competitive. In search of competitive advantage, banks are placing more focus on customer attraction and retention. As the banks compete in the market place with generally undifferentiated products, service quality becomes a primary competitive weapon (Kumar, Kee and Charles 2010). As evident that globalization is also present in the financial institution and to be more specific in the banking industry, any bank that wants to compete in this global industry must offer services that create customer satisfaction.

2.3.1 Customer Satisfaction

Customer satisfaction is the degree of fit between customers' expectations of service quality and the service as perceived by the customer (Brown *et al.*, 1991). It is the customers' fulfillment response to a customer experience, or some part thereof. Customer satisfaction is a pleasant

fulfillment response. In businesses where the underlying products have become commodity-like, quality of service depends heavily on the quality of its personnel. According to Leeds (1992), approximately 40 percent of customers switched banks because of what they considered to be poor service. Leeds further argued that nearly three-quarters of the banking customers mentioned teller courtesy as a prime consideration in choosing a bank.

Indeed, customer satisfaction has for many years been perceived as key in determining why customers leave or stay with an organization. Organizations need to know how to keep their customers, even if they appear to be satisfied. Reichheld (1996) suggests that unsatisfied customers may choose not to defect, because they do not expect to receive better service elsewhere. Additionally, satisfied customers may look for other providers because they believe they might receive better service elsewhere. However, keeping customers is also dependent on a number of other factors. These include a wider range of product choices, greater convenience, better prices, and enhanced income (Storbacka et al., 1994).

Overall satisfaction or cumulative satisfaction is an overall evaluation based on the total purchase and consumption experience with a good or service over time (Anderson, Fornell, and Lehman 1994). In this way, cumulative satisfaction can be differentiated from transaction specific customer satisfaction, which is an immediate post purchase evaluation (Oliver 1993). Kottler (2000) argues that companies should aim for high customer satisfaction because customers who are just satisfied find it easy to switch when a better offer comes along. High satisfaction creates an emotional bond with a brand not just a rational preference for the product or service. Parasuraman et al (1985) further argues that expectation formation is based on past

buying experience, friends and associates' advice and marketers' and competitors' information and promises.

2.3.2 Customer Perceptions of Value

Today, customers are more value oriented in their consumption of services because they have alternative choices (Slater, 1997). Gale and Wood (1994) explained how customers make purchase decisions between competing providers. The customers buy on value; they do not simply buy products as customers learn to think objectively about value in the form of preferred attributes, attribute performance, and consequences from using a product in a use situation (Woodruff, 1997). Thus, banks must be able to provide "up-close" personal service for customers who come with high expectations. For customers who value convenience most, banks must offer the latest product such as electronic banking, touch-tone phone account access and internet banking. Clearly, customer value can be a strong driver of customer retention.

Reidenbach (1995) argued that customer value is a more viable element than customer satisfaction because it includes not only the usual benefits that most banks focus on but also a consideration of the price that the customer pays. Customer value is a dynamic that must be managed. Customer satisfaction is merely a response to the value proposition offered in specific products/markets (Reidenbach, 1995). Banks must determine how customers define value in order to provide added-value services.

2.3.3 Corporate Image

Today's consumers have more choices for their financial needs than ever before. Technology, globalization, increased competition and increased consumer mobility have dramatically changed the way people bank (Harwood, 2002). Many financial institutions are looking at branding

techniques to differentiate themselves. Harwood (2002) argued that branding, as a tool to build image, is critical in the banking industry where all firms offer about the same kinds of products. Hence, it is critical that banks have a comprehensive knowledge of customers' values, attitudes, needs and perceptions of various services the bank offers and the image which customers have of the bank itself (Kaynak, 1986a). Accordingly, bankers must be able to build and manage their bank's image in order to clearly define the differences between their bank and its competitors. Bharadwaj et al. (1993) argue that services are highly intangible and are, therefore, high in experience and credence qualities. As a consequence, brand reputation is important as a potential competitive advantage.

According to Alvarez (2001) logic is no longer enough to sell the benefits of an intangible product or service, especially with commodity products and skeptical consumers. This situation calls for emotion or image to change the perception of the audience in any real or profound way. Most companies today are geared toward embellishing their brands based on the assumption that sales will follow. To be successful over time, however, firms must focus on maximizing customer lifetime value. In other words, firms must focus on customer equity and the relationship rather than just brand equity and the transaction. Although brand equity is an important component of customer equity, concentrating on brand equity alone is not necessarily acting in the best interests of customer equity. A customer might grow tired of a brand, or more captivated, independent of the response of other customers. Therefore assigning an average value to brand equity is dangerous because it obscures the fact that brand equity is actually customer-specific, and varies among customers.

2.3.4 Switching Barriers

Switching barriers have been used as marketing strategies to make it costly for customers to switch to another organization. Such barriers include search costs, transaction costs, learning costs, loyal customer discounts and emotional costs (Fornell, 1992). These barriers provide disincentives for the customer to leave the current organization. Customer satisfaction does not predict the continuation of the relationship. High switching costs are an important factor binding the customer to the service organization. Even with relatively low levels of satisfaction, the customer continues to patronize the service provider because repurchasing is easier and more cost effective than searching for a new provider or sampling the services of an unknown provider (Curasi and Kennedy, 2002).

Other than switching costs, cross-selling is another critical variable driving customer retention. Cross-selling is the bank's effort to sell as many different products and services as they can to a particular customer (Daniell, 2000). One aspect of loyalty is the impact of cross-selling, which forms a critical element in increasing revenue. Profitability could, as a consequence, be threatened not only by loss of market share but also by diminished opportunities for cross-selling. Furthermore, the more products or services you sell to a customer, the less likely it is that they will sever the relationship (Daniell, 2000). Relationship equity is the tendency of the customer to stick with the brand, above and beyond the customer's objective and subjective assessments of the brand, based on corporate efforts to build and reinforce the relationship. It focuses on switching costs tying the customer to the firm, based upon the actions taken by the firm and by the customer to establish, build and maintain a relationship. Relationship programs should maximize the likelihood that the customer returns for future purchases, maximize the size

of the future purchases and maximize the likelihood that the customer will purchase from a competitor. Relationship equity matters most when the benefits the customer associates with the loyalty program are significantly greater than the actual benefits, when the community associated with the product or service is as important as the product or service, when the learning relationship created between the firm and the customer becomes as important as the provision of the product or service and when customer action is required to discontinue the service.

2.3.5 Consumers' Behavioural Intentions

To compete successfully in today's competitive marketplace, banks must focus on understanding the needs, attitudes, satisfactions and behavioural patterns of the market (Kaynak and Kucukemiroglu, 1992). Consumers evaluate a number of criteria when choosing a bank. However, the prioritization and use of these criteria differs across countries, and thus cannot be generalised. According to Kaynak and Kucukemiroglu's (1992) the choice of banking market discovered that customers choose their banks because of convenience, long association, recommendations of friends and relatives, parental influence with respect to the status of the bank and accessibility to credit.

Social and technological change has had a dramatic impact on banking. These developments, such as internationalization and unification of money markets and the application of new technologies in information and communications systems to banking, have forced banks to adopt strategic marketing practices. These have included offering extended services, diversification of products, entry into new markets, and emphasizing electronic banking (Mylonakis *et al.*, 1998). This greater range of services and products, along with improvements in communications efficiency, could have a significant impact on customer satisfaction and consequent behavioural

intentions. As changes in the broad financial fields accelerate and business activities converge (the offering of insurance, financial planning, and share brokerage by a bank), it is imperative to differentiate banking products from other similar or complementary ones that are offered by bank affiliates or non-banks (Mylonakis *et al.*, 1998).

2.3.6 Customer Loyalty

Winning customers and keeping them coming back are the most hard-fought elements of modern business. Customers are fought over because they are precious, and an organization's ability to win customers and keep customers coming back are indeed extremely precious attributes. When customers feel they are dealing with the right company or organization for their needs, they don't want to change. A loyal customer is one who feels great about dealing with you. Their needs were met and/or exceeded. The delivery was great, the service was great. The experience was great. They are ecstatic with their purchase. They will proactively talk about the experience; they will proactively refer someone to you. Their overall feeling about the organization is wonderful and their experiences with organization have been memorable (Gitomer 1998).

Brink and Berndt (2008:41) stated that customer loyalty means that customers are committed to purchasing products and services from a specific organization, and will resist the activities of companies attempting to attract their patronage. They have a bond with the organization, and the bond is based on more than a positive feeling about the organization. It is an emotional and attitude-based preference resulting in the behaviour of spontaneous personal recommendation and / or purchase. Customer attraction and retention improves profitability principally by reducing costs incurred in acquiring new customers. A prime objective of retention strategies must therefore be "zero defections of profitable customers" (Reichheld, 1996a). Truly loyal customers are usually

portrayed as being less price-sensitive and more inclined to increase the number and/or frequency of purchases. They may become advocates of the organization concerned and play a role in the decision making of their peers or family. Satisfaction with a bank's products and services thus also plays a role in generating loyalty that might be absent in the retention situation (Colgate et al., 1996).

2.3.7 Complaint Handling

Complaint handling refers to the strategies firms use to resolve and learn from service failures in order to establish the organizations reliability in the eyes of the customer (Hart, Heskett and Sasser 1990). From a process perspective complaint handling can be viewed as a sequence of events in which a procedure, beginning with communicating the complaint, generates a process of interaction through which a decision and outcomes occur. Effective complaint handling can have a dramatic impact on the customer retention rate, deflect the spread of damaging word of mouth, and improve the bottom line performance (Kelley, Hoffman and Davis 1993). Effective resolution of customer problems and relationship marketing are linked closely in terms of their mutual interest in customer satisfaction, trust and commitment (Achrol 1991).

Complaint handling strategies are important particularly in managing relationships in service businesses. Challenges in managing quality, combined with important role played by customers in the service production process and evidence that customer loyalty drives profitability make complaint handling a critical moment of truth (Berry and Parasuraman 1991). A complaint is viewed as a conflict between the customer and the organization in which the fairness of the resolution procedure, the interpersonal communication and the outcomes are principle evaluative criteria of the customer. Complaint data are key in quality management efforts because they can

be used to correct problems with service design and delivery, which makes it more likely that performance will be done right the first time (Lovelock 1994).

2.4 Competitive Advantage

In a highly competitive market, the shortest route to differentiation is through the development of brands and active promotion to both intermediaries and final consumers (Parasuraman, 1997). In the long run, however, branding, targeting and positioning would all be much more effective if the supplier had some tangible advantage to offer consumers. This is evident in the banking industry, where many banks are providing more or less the identical products for nearly the same price. Unless a bank can extend its product quality beyond the core service with additional and potential service features and value, it is unlikely to gain a sustainable competitive advantage. Thus, the most likely way to both retain customers and improve profitability is by adding value via a strategy of differentiation while increasing margins through higher prices.

Today's customers do not just buy core quality products or services; they also buy a variety of added value or benefits. This forces the service providers such as banks to adopt a market orientation approach that identifies consumer needs and designs new products and redesigns current ones (Woodruff, 1997). Further, competitive pressures then push other financial service firms to actively target consumer segments by integrating service quality, brand loyalty, and customer retention strategies. Competitive strategies have been classified into three types: cost reduction, innovation and quality-enhancement. It has been argued that all three strategy types can be used simultaneously to gain domestic and international competitive advantage, regardless of industry. Others argue that there is only one essential factor in determining a competitive advantage – i.e. the ease with which competitors can enter or expand in a given market (Greenwald and Kahn, 2005). If a company can erect strong barriers to entry, through customer

captivity, lower production costs, or economies of scale, it can manage these advantages, anticipate competitors' moves, or achieve stability through bargaining and cooperation. It is claimed that addressing barriers to entry is by far the most important activity in business strategy, and avoiding competition is the only way to escape an open playing field in which only the best survive and prosper.

2.5 Customer Attraction and Retention as a Source of Competitive Advantage

Today's businesses are facing fierce and aggressive competition while operating in both domestic and global markets. Most managers and marketers would of course agree that establishing long term relationships are about development and survival. According to Woodruff (1997) the world has never been so interdependent. All trends point to cooperation as fundamental, growing force in business. Marketing is also about how to integrate into the design of product/services and how to design a systematic for the interaction that will create a substance in relationships. In a competitive world, companies have to work hard to gain any added value. They have to work with customers to discover the new ways of running the business more efficiently for themselves and more effectively for the customers. A brand is emotional, has a personality, and captures the hearts and minds of its customers. Great brands survive attacks from competitors and market trends because of the strong connections they forge with customers (Kotler and Pfoertsch, 2007). Organizations can use this knowledge to ensure competitive advantage with the right talent at low costs. Corporate brands can increase the firm's visibility, recognition and reputation to a greater extent, they furthermore offer more chances for strategic or brand alliances, and play an important role in the recruitment and retention of valuable employees.

Customer service is a strategic tool for increasing customer satisfaction and sales (Berkowitz et al 1989). Customer service is the ability of a system to satisfy users in terms of time, dependability, communication relations, and convenience. Customer service is industry specific. In the case of banking services, customer service can be seen as the performance of core services, provision of support services, complaint handling, and interpersonal communication by service providers. The key to generating high customer loyalty is to deliver high customer value. According to Lanning (1989), a company must develop a competitively superior value proposition and a superior delivery system. A company's value proposition is much more than its positioning on a single attribute; it is a statement about the resulting experience customers will have from the total resulting experience that customers can expect. Whether the promise is kept depends on the company's ability to manage its delivery system. The value system includes all the communication and channel experiences the customers will have on the way to obtaining the offering. Customer value is the judgment by a customer of the worth of a product or service relative to substitutes that satisfy the same needs (Berkowitz et al 1989). Kotler (2000) argues that customer's estimate which offer will deliver the most value. In turn customers are value maximizers, within the bounds of search costs and limited mobility and income. Customers form an expectation of value and act upon it; whether or not the offer lives up to the value expectations affects both satisfaction and repurchase probability (Kotler).

Customer satisfaction is the result of company processes/operations, company employees who deliver the product and service that is consistent with customer expectations. Thus the effectiveness of the three-part system is a function of how well these three factors are integrated. The key to generating high customer loyalty is to deliver high customer value. According to

Lanning (1989), a company must develop a competitively superior value proposition and a superior delivery system. A company's value proposition is much more than its positioning on a single attribute; it is a statement about the resulting experience customers will have from the total resulting experience that customers can expect. Whether the promise is kept depends on the company's ability to manage its delivery system. The value system includes all the communication and channel experiences the customers will have on the way to obtaining the offering. Customer value is the judgement by a customer of the worth of a product or service relative to substitutes that satisfy the same needs (Berkowitz et al 1989:286). Kotler (2000) argues that customer's estimate which offer will deliver the most value. In turn customers are value maximizers, within the bounds of search costs and limited mobility and income. Customers form an expectation of value and act upon it; whether or not the offer lives up to the value expectations affects both satisfaction and repurchase probability.

Ioanna (2002) further proposed that product differentiation is impossible in a competitive environment like the banking industry. Banks everywhere are delivering the same products. Bank prices are fixed and driven by the marketplace. Thus, bank management tends to differentiate their firm from competitors through service quality. Service quality is an imperative element impacting customers' satisfaction level in the banking industry. In banking, quality is a multi-variable concept, which includes differing types of convenience, reliability, services portfolio, and critically, the staff delivering the service.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the proposed research design, data collection and the techniques for data analysis.

3.2 Research Design

The research design was a case study. Cooper and Schinder (2005), states that case studies place more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. The merit of using a case study was that it allows an in-depth understanding of the behavior pattern of the concerned unit. Additionally a case study allows a researcher to use one or more of the several research methods depending on the circumstances. The primary purpose of a case study was to determine factors and relationships among the factors that have resulted in the behavior under study. The research study was adopted in this particular study since not all the target population of the study was knowledgeable of the customer attraction and retention as a source of competitive advantage at Co-operative bank of Kenya. In light of this therefore, a case study design was deemed the best design to fulfill the objective of the study as the results were expected to provide an insight in understanding how the organization gains competitive advantage out of attracting and retaining customers.

3.3 Data Collection

The study made use of both primary data. Primary data was collected using an interview guide. An interview guide is a set of questions that the interviewer asks when interviewing (Mugenda and Mugenda, 2003). The respondents interviewed were the functional heads in charge of finance, risk management, information technology and operations, human resources, marketing

and research division, and public affairs and communication division. This made it possible to obtain data required to meet specific objectives of the study. The results were expected to provide an insight in understanding how the company gains competitive advantage by attracting and retaining customers. The researcher believes that this made it possible to obtain data required to meet specific objectives of the study.

3.4 Data Analysis

The data obtained from the interview guide was analyzed qualitatively. Qualitative data analysis makes general statements on how categories or themes of data are related. The qualitative analysis is adopted in this study because the researcher was able to describe, interpret and at the same time criticize the subject matter of the research since it was difficult to do so numerically. The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It involves observation and detailed description of objects, items or things that comprise the object of study. The theme (variables) that was used in the analysis was the customer attraction and retention as a source of competitive advantage at Co-operative bank of Kenya Limited.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The research objective was to establish customer attraction and retention as a source of competitive advantage at Co-operative Bank of Kenya Limited. This chapter presents the analysis and findings with regard to the objective and discussion of the same.

4.2 Respondents Profile

This section of the interview guide wished to establish the targeted respondent's academic as well as professional qualifications. In addition, their work experiences were also to be established. From their academic qualification backgrounds as well as work experience, the researcher will be able to assess their capacity to answer questions on customer attraction and retention as a source of competitive advantage at Co-operative Bank of Kenya Limited. The respondents comprised the managers of different departments in Co-operative Bank of Kenya Limited. In total; the researcher interviewed all the eight targeted respondents. All the respondents interviewed had university degrees with six of them having a Masters degree as well. With such academic and professional background the respondents were deemed to be capable to analyse and critically identify and respond appropriately to the use of role of customer attraction and retention as a source of competitive advantage at Co-operative Bank of Kenya Limited.

The work experience for the respondents ranged from six to fifteen years both within the organization and without. The job description of these respondents ranged from manager finance and planning division in charge of corporate strategy, manager marketing division, manager

human resources division, manager operations division, manager risk division, manager research department and customer service department. Having worked in the bank for such a period, the researcher believes that the respondents will have firsthand experience on the role of customer attraction and retention as a source of competitive advantage at Co-operative Bank of Kenya Limited. With this solid background, it was felt that the respondents were knowledgeable enough on the research subject matter and thus of help in the realization of the research objective.

4.3 Customer Attraction and Retention

This section of the interview guide aimed at establishing from the respondents the strategies which they have put in place in order to attract and retain customers. The respondents noted that the bank has strategies which are in use to attract and retain customers. In terms of attraction the bank keenly uses an outside-in approach whereby the bank listens to customers through customer feedback analysis and then structures products that suit customer specific needs while at the same time studying competitor trends. The bank does this through research and developing products that address the requisite needs. In order to create awareness the bank uses aggressive and professional consumer promotions and networking through referrals to attract numbers. In terms of how the bank attracts customers, the respondents indicated that the bank uses competitive pricing and differentiation strategies whereby products are augmented well above the competitors thus enhancing brand equity. A good example is the Jumbo Junior account which has been rated as the best product by Consumer Research for many consecutive years since its introduction to the market in 1997. It has over 400,000 customers making it a flag carrier product out of the 2.1 million accounts that the bank currently has. The product is structured in such a way that it effectively attracts many parents to open accounts for their children as they inculcate a saving culture in them. Other products structured this way include the Bizwise loan which

lends money to the small and medium enterprise sector up to KES 50 million at very favorable terms.

In order to enhance its customer service and manage attrition as competition grips the market, the bank has embarked on a journey of opening regional offices across the nation and this approach releases the branch managers from handling issues that require urgent attention and allowing them to concentrate on business growth. In terms of retention the bank has a fully fledged relationship management department that offers dedicated relationship management to customers. The staff in the department ensure that the customers' issues are attended to promptly and efficiently.

In terms of both customer attraction and retention the bank has established a niche for itself after effectively ring fencing the co-operative movement in the country who now own the bank. This is a focus strategy which largely ensures that the co-operative movement is given appropriate attention in terms of their banking needs. This has been successful with ninety percent of all the co-operative movement currently banking with it. The segment enjoys a fully automated platform where they can access their accounts at all bank Automatic Teller Machine using a Sacco link card.

On whether the bank takes into consideration the needs of both existing and potential customers, the respondents unanimously agreed that this is done. The bank looks at the emerging needs of both the existing and potential relationships depending on the dynamics of business and appropriately adjusts the product features appropriately as the changes in the market have been very sharp and constant. This has called for innovative thinking and staying close to the client as the bank literally walks with the customer in their business environments. For the existing clients

the bank walks hand in hand with the customer to assist and build capacity where necessary through offering advisory services while monitoring projects that it has funded. For potential customers, the bank has benefited heavily from referral and reciprocal business from satisfied customers who talk well about its services and products. While addressing the needs of potential customers the bank listens to them first before taking them on board to ensure they are well taken care of. The bank therefore adopts and implements an adaptability and flexible strategy where customer needs are addressed from a knowledge point of view while striving to maintain a competitive edge over competition.

The respondents were in agreement that the costs of acquiring customers to replace those who have been lost are high as a customer who is with the bank and is brand loyal may not be bothered about pricing as long as the service is good and if his needs are met, however losing such a customer means that you will need to use expensive strategies to attract others either by way of price reduction which will affect the profit margins or through expensive consumer promotions. Moreover building customer confidence may take time. Customer loss means less transaction activity and therefore reduced profitability. This can lead to shareholder attrition as the shareholders are keen on the return. This spiral can easily lead to an exit from the market as other players in the market compete for a slice of the market share. This is a critical area for the bank. The bank has therefore put in place several strategies to cushion itself against such costs by ensuring that it's always on top of what the customers want. As such the bank has invested heavily in ICT to enhance service delivery and turnaround time, quality staff, coupled with close monitoring of customer feedback through research and strategy implementation to ensure that the bank is always in tabs with what is happening in its business environment. The bank is also keen on corporate governance to ensure accountability while protecting its reputation.

There are several factors which influence customer attraction and retention, however the most distinguishing feature was customer service which is critical as customers are either working class or business people who value time. As such speedy and friendly delivery with zero error percentage is critical for the bank. Owing to competition and considering the state of the economy in terms of inflation among other challenges which has eroded the purchasing power of the population, pricing is becoming a key determinant of who banks with the bank. This calls for a careful analysis of the cost of funds amid high expectations from the shareholders considering that the bank is listed at the stock exchange. Further, location or presence of the banking infrastructure is critical in attracting customers. Automated teller machines have helped the bank to manage the good problem of long queues in the banking hall while enhancing delivery efficiency. The bank is also using expansion strategy to reach the un-banked as owing to various infrastructural challenges, security and preferences, customers are banking with those banks within their precincts. The bank has therefore discovered this as a new factor and is therefore using innovative and alternative delivery channels including agency banking, mobile banking solutions and branch expansion in order to attract and retain customers.

Customer needs come on top of every bank. In order to attract customers a wide product range with enhanced features has been developed to attract more clients. The bank uses products like micro credit loans, medium and corporate loans, a link to the global market through latest automated infrastructure to access foreign exchange, equity and fixed income markets as well as global transfer of funds, easy borrowing terms in both local and hard currencies, super saving solutions with full advisory to enhance saving culture and also ensuring customers take advantage of any arbitrage opportunities particularly in international trade Kenya being a major importer. These innovative factors have endeared customers to the bank.

4.4 Customer Attraction and Retention as a Source of Competitive Advantage

The respondents indicated that the bank ensures that the services they offer their customers suit them as the bank uses an outside-in approach to develop products. This is done through a careful and systematic enquiry through reputable research agencies and bank's internal experts to study and appraise customer needs before rolling out products. The bank allocates adequate resources to research, innovation and development both in terms of product development and mode of delivery. Heavy investments have been done to ensure turnaround time is achieved. The bank also uses customer feedback questionnaires that are assessed weekly and reports shared with management and product drivers'. This feedback is then disseminated to the relevant business lines for full implementation and if issues raised are addressable at the service point, they are resolved immediately while those requiring policy framework decision are escalated. This helps in addressing challenges and also maintaining high and effective customer objection, resolution or embracing new business ideas. All customer objections or requests are retained in the customer relationship system for 48 hours after which they are dropped through resolution.

In order to satisfy the customers, the bank prefers to under promise but over deliver and this has worked well in that the bank has ensured that customer expectation is over met at all times. Also the bank uses a Service Level Agreement (SLA) method for all products to ensure service delivery is within expectation. This is a method whereby every deliverable is allocated a time frame within which it should be closed and this is measured through customer service feedback forms to sustain effectiveness. The customers are the greatest asset that a bank can have and in order to ensure that their customers become comfortable the bank builds brand equity in the market which is achieved through customer accounts confidentiality at all times whereby the employees sign off to observe customer confidentially through their career. In order to enhance

security further, the bank has a fully fledged department handling security matters on a daily basis. This department is fully equipped with ICT savvy staff who can track ICT related frauds or thefts among others by ensuring that the customers are treated equally throughout the network. In addition the bank has an effective corporate governance policy.

The respondents indicated that the bank has determined how customers define value in order to provide value added services through feedback from service points. The bank describes value as quality service that addresses customer specific need and that is delivered at the time its needed in the most efficient and cost effective way. This incorporates certain attributes through the value chain. The bank has a department that constantly looks at the transaction flow from end to end. Re-engineering of the transaction flow is applied where bottlenecks are seen. The bank constantly re-engineers its delivery channels through careful studies on the feedback received from customers on a daily basis. This business change management method ensures that non-competitive practices within the transaction chain are either dropped or improved. The results indicate that the bank has employed a dedicated relationship management method of managing its customers. At the branch level all customer facing staff are thoroughly trained on customer handling skills. Enhancing customer service skills are done through on- site trainers every week to ensure consistency and improvement. Staffs facing customers are advised to under promise and over deliver. This is a very special skill where one must give customer full confidence of meeting expectation but delivering much more.

The respondents indicated that in order to gain competitive advantage over its competitors on flexible banking policies, the bank has introduced longer banking hours across its network thus enabling its customers access the bank for more hours. This trend is in line with the vision 2030 where the country wants to fully introduce a 24 hour economy. The bank also has executive

banking services that open more hours. Through innovative ICT platforms the bank has rolled out various solutions that can make the customers access accounts and pay for utilities like electricity and water at the palm of their hands or through the internet where transaction volumes are higher. The bank also negotiates its pricing with customers on most negotiable product lines giving it a sharp competitive edge over competition where most charges are fixed like the Treasury related products like foreign exchange deals and loans.

Branding is a key differentiation factor to the bank's products and corporate image as it helps in positioning of the bank and its products to the customer. Visibility is critical in designing branding. As such choice of color schemes is very important in branding for the bank. The banks corporate colours include a combination of forest green and white. Each product is also branded to have a unique and appealing appearance and to differentiate it from similar competitor products. Branding has certainly helped the bank by positioning some of the strongest products in the market including the Jumbo Junior account, Biz Wise account and the Good Home mortgage product that have done extremely well in the market. Branding also includes the logo and the slogan or tag line. 'We are you' tag line is well known in the market and is well associated with the bank. Using animals for instance to brand some of the bank products has been received well in the market for example, the elephant in your wallet for the credit card among others.

The results on reliability of services in the bank were that, the bank has been using the reliability of its services to gain a competitive edge over the years. For the bank reliability means that the product can specifically address the customer need for as long as the customer partners with the bank. It also includes consistency in the high quality of service the bank provides to their clients. It is the bank policy to re-engineer processes and procedures and policies that impede efficiency

in service delivery. The bank has gone through various challenges over the years and particularly after the terrorist attack that rocked the country in 1998. Despite the threat of losing clients to competitors the bank remained intact with only a small number of customers moving business to competition and who have since come back. The bank ably weathered the storm by exhibiting one of the strongest financial stamina and confidence ever seen in corporate Kenya. This outcome strongly contributed in enhancing the confidence the customers had on the bank and proving to the market its stability and ability to withstand uncertainties and threats in the market and the bank currently stands as the fourth largest bank in the country.

Regarding the satisfaction of customers in order to discourage them from switching to other banks, the respondents indicated that the bank listens to the customers and provide them exactly what the customer wants at a competitive cost and this has helped and made it easier for the bank to strategically design its products that specifically meets customer needs. This has helped and made it easier for the bank to strategically design its products that specifically meets customer needs. In this regard the bank has invested heavily in technology having acquired an overall industry award of being the most innovative in the market. The effort here is to ensure that the bank remains on top of the competition in terms of service quality. A dedicated relationship management right from the branch level has endeared customers to it meaning building such a rapport with another bank becomes extremely difficult for a client as this would take time to achieve equivalent results.

The switching of banks by the customers was viewed as being disruptive as building trust and understanding even where customers appear to be doing well in their business takes time. The respondents indicated that for the customers to have the right relationship managers who pick their request at any time of the day and sort out their issues takes a long time to build and this has

worked very well for the bank as evidenced by increased customer numbers and minimal customer attrition rate. Customers identify with banks that meet their specific needs in the most cost effective way. The bank is committed to this achievement and that's why customers see little need to switch banks.

The bank has made great stride to ensure that their customers do not switch to other banks by valuing them. This value proposition has been inculcated in the staff through various training programmes where the bank culture is defined to the staff. The bank also uses performance based feedback to reward and retain staff. The bank also has put in place elaborate customer feedback lines where at the branch level there is customer feedback forms that are given to the customers to fill in response to the service offered. This information is then fed in a Customer Relation Management Module that disseminates this feedback to the product owners at Head Office. Resolution of key issues is supposed to be done within 48 hours to allow space where issues require policy attention. Issues that can be solved immediately are attended to on the spot. Customers who are not satisfied with the service offered have access to all management levels as well as 24 hours ,7 days a week call centre where issues can be logged in and solutions given online where possible.

The respondents noted that there is no bank today that can survive in this volatile environment if they are not willing to quickly discern and appropriately design products that suit their clientele. The bank keeps close tabs with the economic developments in the country and scouts for opportunities available. On many occasions the bank has been appointed by the government to disburse various project funds on its behalf .This certainly means the bank is keen on the developments in the market being a key economic driver. The bank therefore keeps very close touch with both the customer and the various project drivers including donor funded ones to

ensure that customer needs are met. This is done through careful research and systematic enquiry in what is happening both locally and abroad. The bank then designs products that suit the needs of the clients.

The respondents indicated that the prices which the bank charges are competitive as they are reviewed regularly by the pricing committee that comprises various senior managers from all the business lines. This review is done to keep pace with the strategy of the bank and competitor trends. However the bank fights on service deliver front rather than on pricing alone. However, the Central Bank of Kenya occasionally publishes charges that banks levy to their customers in the local dailies. The bank has over the years featured among the most competitive. The bank has a niche in the co-operative movement that largely serves the common mwananchi. This calls for appropriate pricing in order to have a competitive advantage.

The location of branches is crucial for customer attraction and the bank has been undertaking aggressive expansion policy with more than 20 branches expected to have opened doors by the turn of the year. This strategy is in line with the developments in the market where customers prefer banks that are within their precincts putting into view time taken to go to distant banks, security concerns among others. A thorough feasibility study is conducted before planting a branch. This has ensured that the bank's presence is conveniently located. Perhaps it will be good to mention that the bank is among the biggest banks in Kenya that have never closed a branch owing to lack of business since its inception.

Due to complicated nature of the operating environment in which the banks operate the bank uses consumer promotional strategy heavily. A budget is set aside every year to cater for professional promotional activities in the year to include road shows, print, electronic and public

relations related activities like corporate social responsibility. The competition in the banking industry has made the banks to leave nothing to chance and therefore the bank ensure that the staffs have excellent relationship with customers through rigorous and effective customer handling courses in order to enhance their skills in this area. Customer being the employer for the bank remains a key focus in all aspect of strategy building. A careful vetting is done at entry level to ensure correct staffs are engaged on board. The bank also ensures that close monitoring is done on staff relationships with customers. This is important for the bank as it checks the attrition rate for the customers. The bank uses a performance method to appraise and retain the most industrious and well rounded and good behaved staff. The performance appraisal document for the staff which uses the balance score card method prominently features the customer pillar with customer facing staff taking the highest weighting. This ensures accountability on the part of the staff to maintain and sustain good customer relationship.

The respondents indicated that the bank ensure that they are responsive to customer needs by having an elaborate customer relation management module being the best known way of capturing customer issues where objections and requests are logged and addressed immediately or within set service level agreements. The bank also requires every branch to have a meeting every week to collate all customer issues and upload them in the system for attention through the business lines. At all levels the bank uses an open door policy where customers can approach any office for an answer or solution. Regular meetings are also held at all business levels to ensure issues are addressed within expected time frames. The bank relies heavily on referrals. The easiest way to grow numbers is thorough networking for referrals. The phenomenal growth of the customer numbers has heavily been driven by satisfied customers who always give referrals by introducing friends and other business customers known to them.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

In summary, the study shows that the respondents are aware of importance of customer attraction and retention as a way of gaining competitive advantage over its competitors. The knowledge about the operations of the institution was exhibited by the internal respondents by virtue of all of them having worked in the institution for more than six years on average and also due to the fact that all of the interviewees were engaged in the day-to-day management and operations of the various arms of the bank. In addition, the respondents were found to be well versed with the subject matter of the study and had all solid academic background having attained a first degree.

The findings from the study was that in order to attract and retain customers the bank uses outside-in approach whereby the bank listens to customers through customer feedback analysis and then structures products that suit customer specific needs while at the same time studying competitor trends and this would result to the bank coming up with strategies which other banks do not have. The bank also uses aggressive and professional consumer promotions, networking through referrals to attract numbers, competitive pricing and differentiation strategies whereby products are augmented well above the competitors thus enhancing brand equity and existence of a relationship management department that offers dedicated relationship management to customers. The cooperative movement in the country is the largest market which the bank has been able to ring fence by enabling the Sacco members to access their accounts at all bank Automatic Teller Machine using a Sacco link card.

The cost of acquiring new customers are high and therefore the bank in order to retain the customers, the bank has put in place strategies to ensure they do not lose any customer. The strategies include heavy investment in ICT to enhance service delivery and turnaround time, quality staff, close monitoring of customer feedback, efficient customer service, pricing and location to reach the un-banked. The bank prefers to under promise but over deliver the services in order to attract customers and in order to ensure the security of customers information the bank employees sign off to observe customer confidentially through their career and with the help of ICT savvy staff they can track ICT related frauds or thefts.

The results indicate that the bank ensures that the customers are satisfied in order to discourage them from switching to other banks by offering them what they need at a competitive cost and these has been achieved by the bank inculcating its staff the value of customers through training, performance based feedback to reward and retain staff and prompt action on what the customer needs. The prices which the bank charges are frequently analyzed so that they can remain competitive relative to what other banks charges at the same time the bank ensures that they ensured that their customers remain loyal by using promotional activities while the staff undergoes rigorous training so that they enhance their skills on customer service.

5.2 Conclusions

From the research findings, some conclusions can be made about the study:

Customer attraction and retention is vital to any organization in order to gain any competitive advantage over its competitors. From the findings it was established that the bank uses various strategies to attract and retain and retain its customers with the outside-in approach being the most preferred mode. Since the customers are the employers of the bank, then the bank should

maintain a relationship with them by offering the customers sufficient products and valuing customer service such that they do not spend a lot of time waiting to be served. Customer satisfaction, corporate image and switching barriers influences the decision of customers to stay with or leave the bank and the managers should do all that they can to improve customer retention in today's competitive banking environment.

The customer's wants value for their loyalty and banking with the bank and therefore the bank it is paramount that the bank monitors the changing financial environment, and responds with products that add value to customer's accounts since if the bank offers new or refines current products in a proactive manner it will enhance its customer relationships. The management of the bank should bear in mind that delivering superior service is not enough. In effect, they should deliver services that are better than consumers' expectations in order to enhance satisfaction and maintain a positive image. To ensure customer satisfaction, contact personnel could be empowered to deal effectively and courteously with problems when opportunities for service recovery arise. For the business, service recovery represents an opportunity to know the customer better and is a chance to impress them. If bank is able to solve the problems customers face, then customers would derive more value from the service and thus will be more loyal to the bank.

5.3 Recommendations

From the research findings the study recommends that:

5.3.1 Recommendations With Policy Implication

Foremost the study found out that the bank appreciates its customers by offering various products and constantly reviewing the prices which they charge for various services thus the

customers do not switch to other banks although the other banks could be providing better services as the customers feels that that they would be no better off from switching. It is recommended therefore that the bank should make an effort to distinguish itself from competitors through the generation of sustainable competitive advantage and distinctive bank image. The prices charged by the bank were also rated as being as a result of thorough consultation. Thus it is recommended that it should be pegged at competitive rates.

The study found out that the bank values customer service and it is recommended that the bank should ensure that all its customer service points are manned by employees who have the requisite knowledge of the banks activities so that they can serve the customers promptly and if they cannot, then there should be a mechanism which will ensure that the issues raised by the customers are addressed adequately within a short time.

Finally, the study found out that the bank has put in place policies which will ensure that they gain competitive advantage. It is recommended that the management of the bank should ensure that the policies which they put in place are easy to be implemented so that it does not complicates the implementation of the policies by the employees and if possible they should involve the employees in designing the strategies. The government also should play its role of coming up with a guide on the policies which the banks can adopt to gain advantage in order to ensure that the banks adopts only policies which are favourable as competition may lead to adoption of all manner of policies in order to gain competitive advantage.

5.3.2 Recommendations For Further Research

The study confined itself to customer attraction and retention as a source of competitive advantage at Co-operative Bank of Kenya. While this study found that customer satisfaction is

effective in building customer loyalty thus gaining competitive advantage, future research may attempt to explore the "unexplored" constructs that consumers would value most. For example, are consumers more concerned about the convenience issue such as location of branches, or the use of technology? Or are consumers more focused on how bank staff delivers services? Given the importance of employee competence, future research should also examine the impact of employees' behaviour that could affect customer retention.

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APPENDICES

APPENDIX I : LETTER OF INTRODUCTION

University of Nairobi

School of Business

Department of Strategic Management

P. O. Box 30197

Nairobi

2nd September, 2011

Dear Respondent,

RE: COLLECTION OF SURVEY DATA

I am a postgraduate student at the University of Nairobi, at the School of Business. In order to fulfill the degree requirement, I am undertaking a management research project on the extent to which the Co-operative bank of Kenya Limited uses customer attraction and retention as sources of competitive advantage.

You have been selected to form part of this study. This is to kindly request you to assist me collect the data by filling out the accompanying questionnaire. The information/ data you provide will be exclusively for academic purposes. My supervisor and I assure you that the information you will give will be treated with strict confidence. At no time will you or your organization's name appear in my report.

Mwangi Stephen Kimani

Student No: D61/70566/2007

Mr. Jeremiah Kagwe

Supervisor

APPENDIX II: INTERVIEW GUIDE

The interview guide will seek to achieve the following objective;

1. To determine customer attraction and retention as a source of competitive advantage at Co-operative Bank of Kenya Limited

Customer Attraction and Retention –FINANCE AND PLANNING DIVISION IN CHARGE OF CORPORATE STRATEGY

1. Has the bank developed strategies to attract and retain customers? What strategies are they?
2. Do you take into consideration the needs of both existing and potential customers to attract and maintain customers?
3. Do you agree with the statement that 'the costs of acquiring customers to "replace" those who have been lost are high'? If yes, what steps has the bank undertaken to cushion itself against such costs?
4. What factors influence customers' attraction and retention in your bank ?

Customer Attraction and Retention as a Source of Competitive Advantage

Customer Satisfaction-MARKETING ,PR AND RESEARCH DIVISION

1. Does the bank ensure that the services they offer their customers suit them in order to have a competitive advantage?
2. How does the bank deliver on promises in order to satisfy customers?
3. What does the bank do to ensure that their customers become comfortable in doing business with them?
4. What measures has the bank taken to ensure that the customers feel comfortable doing business in order to gain competitive advantage?
5. Has the bank ensured that the customers have access to electronic transactions in order to have competitive advantage?

HUMAN RESOURCES DIVISION

6. Has the bank ensured that the employees become sincere to the customers in solving problems in order to gain competitive advantage?

Customer Perceptions of Value- OPERATIONS DIVISION/CUSTOMER SERVICE DEPARTMENT

1. Has the bank determined how customers define value in order to provide added-value services to them thus having a competitive advantage?
2. How has the bank ensured that the customers get value for banking with them in order to gain competitive advantage?
3. How does the bank provide "up-close" personal service to customers who come with high expectations?
4. Does the bank have flexible banking policies which they use as a competitive advantage?

Corporate Image-MARKETING , PR AND RESEARCH DEPARMENT

1. How has the bank taken measures to brand itself in order to differentiate itself from competitors so as to achieve competitive advantage?
2. How has the bank used the reliability of its services in order to attract and retain customers?
3. Has the stability of the bank enabled it to have competitive advantage over it's competitors?
4. What steps has the bank taken to focus on customer equity and the relationship rather than just brand equity and the transaction in order to gain competitive advantage?

Switching Barriers-RISK DIVISION

1. How has the bank provided the customers with products and services they need in order to discourage them from switching thus having competitive advantage?
2. Do the bank customers view the switching to other banks to be too disruptive thus giving the bank a competitive advantage?
3. Does the bank see little advantage in switching to other banks thus giving competitive advantage to the bank?
4. How has the bank ensured that they have good relationships with their customers to the extent that they do not want to switch to other banks?

Consumers' Behavioural Intentions-RESEARCH DEPARTMENT

1. How has the bank ensured that they are able to meet consumer's changing needs in order to attract and maintain customers thus resulting to competitive advantage?
2. Are the prices which the bank charges for the services, acceptable to attract and retain customers?
3. Does the bank have convenient branch locations in order to attract and retain customers thus gaining competitive advantage?
4. Does the bank offer a variety of products of superior service quality in order to have competitive advantage?

Customer Loyalty- CUSTOMER SERVICE DEPARTMENT

1. Does the bank offer loyalty promotions/programmes which attracts and retains customers thus gaining competitive advantage?
2. Does the bank ensure that the staffs have excellent relationship with customers thus gaining competitively?
3. How has the bank ensured that they are responsive to customer needs in order to attract and retain them?
4. Does the bank's customers recommend others to the bank?

Complaint Handling- CUSTOMER SERVICE DEPARTMENT

1. Does the bank have strategies which handle complaints from the customers?
2. Has the bank exploited efficiency in complaints handling in order to attract and retain customers?
3. Does the bank have a complaint database for use in correcting problems with service design and delivery?