Customer retention in the credit card market in South Africa

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ABSTRACT

Regulatory, structural and technological factors have significantly changed the credit card environment throughout the world during the past two decades. Increased competition in the credit cards market and the arrival of non-traditional credit card providers like retailers and airlines has not made the situation any easier for banks, who are the main players. This has resulted in a decrease in customer loyalty and higher customer churn. The retention of customers has become the ultimate determinant of the survival of any organisation and each company has to continuously improve its service offerings to ensure that it can retain its customers. It is critical that organisations understand and completely satisfy their customers' needs in order to retain them.

The purpose of this research was to explore the challenges that the South African credit card organisations face in their attempts to retain customers. More importantly, this study explored the challenges that are distinctive to South African credit card issuers, as perceived by the banks. In-depth, semi-structured interviews were used to obtain the views of customer retention analysts and practitioners, credit card associations (VISA and MasterCard), senior managers and executives involved in the credit card environment.

The main findings were that the credit card organisations would not be able to retain customers unless they provided a consistent quality of service and continually attempted to satisfy their customers' needs. The loyalty programmes that were in place generally didn't help to retain customers even though customers complained in instances where there was none. The competition in the South African credit card market was found to be not strong enough to result in a huge exodus of customers from one company to another. The high turnover of frontline employees was found to have a very negative impact on customer retention rates.

This report will assist credit card managers and executives that are involved in customer retention activities to appreciate the challenges that arise when implementing different customer retention strategies. With that insight, they will be in a better position to either refine their strategies or find other ways of mitigating these challenges.

DECLARATION

I, Abel Mudau, hereby declare that this research report is my own, unaided work. It is submitted in partial fulfilment of the requirements of the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination purposes in any other university.

Abel Mudau

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DEDICATION

To my wife, Tselane, your love and support, patience and understanding has sustained me through all the challenges of completing the MBA degree.

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1 CHAPTER ONE: INTRODUCTION TO RESEARCH

1.1 Purpose of study

The purpose of this research was to explore the challenges that the South African credit card organisations face in their attempts to retain customers, as perceived by the banks. More specifically, the intent is to identify and analyse these challenges.

1.2 Context of study

The credit card market in South Africa is dominated by four major retail banks, namely First National Bank, Amalgamated Banks of South Africa, Nedbank and the Standard Bank of South Africa. There are a few other small banks that offer credit cards services. There has been, however, a proliferation of new credit cards on the market which have been granted to people in the lower- and middle-income groups from a variety of sources. The big four banks still accounted for over 95% of the credit card transactions by volume and it was estimated that by end of 2007, the number of credit card transactions would have increased by close to 100 million (from 2005) with an increased value of around 40 billion in the same period (Anonymous, 2006).

The strength of the South African economy in the early to mid-2000 resulted in a period of general economic stability for the majority of South Africans. This has resulted in increased disposable income for many South Africans, leading up to a period of sustained consumer confidence and a credit market boom. Barely a month went by without a new credit card being launched. The new cards on the market include Vodacom, MTN, Virgin Money, Clicks, SAA Voyager, Kulula.com, Metropolitan and

African Bank. Other recent entrants to the credit card market include Edcon, Woolworths and Discovery. Standard Bank is the market leader with 36% of the market share followed by ABSA and then FNB. Standard Bank backs the MTN, Edcon and Bluebean cards.

Regulatory, structural and technological factors have significantly changed the banking environment throughout the world during the past two decades (Angur *et al*., 1999). This has resulted in a decrease in customer loyalty and higher customer churn. The retention of customers has become the ultimate determinant of the survival of any organisation and each company has to continuously improve its service offerings to ensure that it can retain its customers (Proxenos, 1997). Proxenos (1997) argues that in South Africa, customers do not complain but merely switch service providers, thus making it difficult for companies to understand the specific contributory factors that lead to customer loss. The gap between what the providers promise to the customers and what the customer experiences is something that has also caused a huge loss of customers by many financial services organisations (Ahmad and Buttle, 2001).

The increased competition in the credit cards market and the arrival of non-traditional credit card providers, like retailers and airlines, has not made the situation any easier for the banks, who are the main players (Yavas *et al*., 2003). It is critical that organisations understand and completely satisfy what their customers really need in order to retain them. Customer satisfaction, being merely a perception on the part of the customer, needs to be closely monitored and understood (Proxenos, 1997).

1.3 Problem statement

The purpose of this research was to explore the challenges that the South African credit card organisations face in their attempts to retain customers, as perceived by the banks. More specifically, the intent is to identify and analyse these challenges.

1.4 Significance of study

This research has attempted to fill the gap. Much had been published on the challenges of customer retention in other countries and in other sectors (Ahmad and Buttle, 2001; Angur *et al*., 1999; Farquhar, 2004 and Winsted, 2000), but nothing was found in any of the peer review journals with regards to customer retention in the credit card industry in South African banks. This research would thus help fill that existing gap.

More importantly, this study explored the challenges that are distinctive to South African credit card issuers, as perceived by the banks. This was considered important because of the heightened competition in the credit card market. It is thought that this research output would be critical to the industry and may be referred to in the future by both the banks and other non-traditional credit card issuers

Farguhar (2004) raised the point that to provide service excellence to one's customers has become increasingly important if the aim of the organisation is to retain rather than merely acquire customers. The repeated experiences that result in customer dissatisfaction will contribute to the customer deciding whether to switch service providers or to reduce the level of activity with the provider (Farguhar, 2004). The retention of customers has been a subject of debate and extensive research (Brigman, 2005). This study will provide mainly the South African credit card organisations with some insight into their specific challenges of retaining customers in their industry.

1.5 Delimitations and limitations

1.5.1 *Delimitations*

The research was conducted from the perspective of credit card divisions of the South African big four banks and not from the customer's perspective. It was done using the qualitative research method with interviews and was thus be limited to these organisations. No attempt was made to investigate the challenges experienced in the credit card divisions of other smaller banks. This research also did not include the new non-traditional credit card issuers such as retailers, cellphone companies and airlines, which have recently entered the market. The players in the micro-lending sector were also excluded from this research.

The researcher chose the respondents who have the required expertise and experience in dealing with credit card customers in banks to respond to the research questions. In the process of choosing these respondents, no attempts were made to ensure that the sample was random and representative of the population.

This research explored the challenges that the South African credit card organisations, specifically banks, face in their attempts to retain their customers. There was no attempt made to explore any kind of relationship between these challenges.

1.5.2 *Limitations*

The exclusive use of only the big four banks as a sample may limit, to some extent, the generalisability of the findings of this research to other credit card issuers like retailers as it only represented the experiences of the banking organisations. The purpose of this research was to add to theory-building and to articulate patterns rather than to generalise to a population. Further work would need to be done to test the appropriateness of the findings in the other institutions that provide customers with credit cards.

The interview schedule was used and no additional standardised instruments were applied, as data collection only occurred through observations and unstructured interviews. Subjectivity, therefore, occurred as potential bias may have arisen between the researcher and the interviewees. The collected data could have been be altered by the mere presence of the researcher. This could have impacted on both construct validity and reliability of the research but was guarded against where it was possible.

1.6 Definition of terms

- Credit Card Issuers: Banks that are licensed to issue credit cards.

1.7 Assumptions

The following assumptions underpinned the research that was conducted:

- The big four banks in South Africa have existed for a sufficient period of time so as not to impact on the validity of the study;
- An hour to an hour and a half interview per respondent was sufficient to generate enough information and knowledge without loss of validity;
- The respondents chosen had sufficient experience on the research topic which enabled them to discuss all the challenges faced by their organisations to retain customers; and
- There was no inherent bias that was brought about by the profile of the chosen respondents.

2 CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This literature review examines the available body of knowledge for the theoretical issues that have been raised on customer retention. It also provides an overview of the literature that was used as a basis for deriving the research propositions which were relied upon during the data collection process.

The purpose of this study was to explore the challenges that the South African credit card issuers faced in their attempt to retain customers, as perceived by the banks. This literature review provides a definition of customer retention, as well as background on the importance and benefits of a focus on customer retention by credit card organisations. This is then followed by a review of the challenges that these organisations face when they attempt to retain their customers.

2.2 Background Discussion

The introduction of non-traditional credit card issuers in the market has intensified the competition to acquire and retain high value customers. This has also reduced the switching costs and customers are able move from one issuer to another with ease or limit their spending with one issuer that does not meet their service requirements (Proxenos, 1997).

Proxenos (1997) further argues that focusing on the customer needs is seen to be the fundamental requirement for the survival of the company and forms the basis for sustainable competitive advantage. As customers' needs and expectations continuously change, it has become increasingly crucial for companies to deliver high-quality service on a consistent basis. This will generate repeat business and increase the customer base through word-of-mouth and help with retention (Proxenos, 1997).

Stone and Liyanearachchi (2006) declared that at a strategic level, good retention practices depend on having a retention strategy, one which has been demonstrated to be critically important to the business, and which is owned by someone who has authority and budget to do something about it. They further argued that this strategy should identify which customers or types of customers are worth retaining and which can be retained cost-effectively.

2.2.1 *Definition of Customer Retention*

Hoffman and Bateson (2001) simply defined customer retention as the act of focussing the firm's marketing efforts toward the existing customer base. More specifically, and in contrast to seeking new customers, firms engaged in customer retention efforts work to satisfy existing customers with the intention of developing long-term relationships between the firm and their current client base (Hoffman and Bateson, 2001). Customer retention incorporates the notion of offering retained customers goods or services that are thought likely to meet their needs (Reichheld and Kenny, 1990a). This process is often referred to as cross-selling and increases the stickiness of the customer to the company (Reichheld, 1996).

Ahmad and Buttle (2001) argued that customer retention can also be seen as a mirror image of customer defections, where a high retention rate has the same significance as a low defection rate. Reichheld (1996) highlighted that defection rates tend to be much higher for new customers than long tenure customers meaning that a high proportion of new customers could bring down the rate of retention and vice versa. In some cases, suppliers are unable to detect hidden defections of their customers. Hidden defections occur when firms fail to recognise a slower growth in sales to a particular retained customer relative to the growth of the market (Ahmad and Buttle, 2001).

Ahmad and Buttle (2001) argued that customer retention management can be problematic if it is not defined precisely in a way that is appropriate to the company's business. Palmer et al. (2000) highlighted that customer retention has emerged as a core theme in many companies' strategies and this focus is truly understandable in the context of various studies that suggest that it is more profitable to retain existing customers, than to constantly acquire new customers to replace the defectors. This focus has been prominent in the credit card business where markets are saturated (Dawes and Swailes, 1999).

2.2.2 *Benefits of Customer Retention*

a. ***Provides Cross-Selling Opportunities***

As stated in 2.2.1, customer retention incorporates the notion of offering these retained customers goods and services that are thought likely to meet their needs and this process is often referred to as cross-selling (Reichheld and Kenny, 1990a). Reichheld and Kenny (1990a) argued that the benefits of this process have particular relevance to the credit card providers who face challenging market conditions of fierce competition and consumer mobility. They believed that cross-selling leads to increased stickiness of the customer to the financial services institution and therefore increased profitability.

Cross-selling in financial services organisations has only met with limited success and it has been suggested that this is because customers are multi-banked, having a number of providers for various financial products (Farquhar, 2003). Gould (1995) argued, however, that the longer the customer is retained, the more amenable that customer is to cross-selling.

b. *Improves Customer Profitability*

The adherents of customer retention argued that retaining customers improved profitability (Reichheld and Kenny, 1990a; Reichheld, 1996). The primary objective of customer retention is to achieve “zero defections” of profitable customers (Reichheld, 1996), so that the customer churn is minimised.

Abratt and Russel (1999) argued that the higher relative cost of customer acquisition has now shifted the emphasis towards building and maintaining long-term relationships with customers to improve profitability. Acquiring new customer costs, on average, five times more than retaining existing ones (Kotler, 2003). Kotler (2003) summarises these costs as the initial investment costs that are lost, the additional costs of having to acquire a new and potentially risky customer in the place of the defector, and the loss of potential profits. Since return customers buy more from a financial institution over time, future revenues are lost. Added to these costs is the dilution of focus in having to look for new customers, instead of focusing on building relationships with the existing customers as well as the potential costs of negative word-of-mouth from the disgruntled customer (Dawes & Swailes, 1999).

The retained customers are less price-sensitive than new customers and they are more amenable to cross-selling, leading to higher profitability (Kotler, 2003). Kotler (2003) also agrees that customer profitability increases over the life of a retained customer, stressing the value of focusing on lifetime value rather than once-off short-term gains. Dawes & Swailes (1996) suggested that an initial investment is needed to create and cement relationships with profitable customers, but that operating costs start decreasing once this is achieved.

c. *Provides a Competitive Advantage*

The importance of customer retention is due to the fact that it is considered a major determinant of market share and profitability and this relationship has been particularly established in banks (Appiah-Adu, 1999). Appiah-Adu (1999) argued that customer retention enabled financial institutions to reap rewards such as continued purchase of services, increasing the scale and scope of the relationship and word-of-mouth recommendations which provided free advertising.

To increase the company's competitive advantage, it has been suggested that companies should seek to explore both the length and depth of the relationship through retention (Hallowell, 1996). Hallowell (1996) added that the business was then able to enhance profits through increased sales, decreased costs to attract new customers, lower customer price sensitivity and reduced costs to serve customers familiar with the service delivery system.

2.3 Customer Retention Challenges

Customer retention is one of the most prominent customer initiatives in any bank and it is backed with defection tracking, cross sell campaigns and personal interventions (Hall, 2000). As companies move towards customer equity management, their attention tends to focus disproportionately on managing customer retention (Thomas, 2001). Hall (2000) continued to argue that retention was indeed a make-or-break issue because regardless of the business, a mere handful of customers may account for most of the profits. Thomas (2001) believed, however, that customer defections occurred, or were occurring because banks, like many other companies, treated retention as an event and as a separate strategy to be implemented and moved on from.

2.3.1 *Perceived Service Quality*

Darsono and Junaedi (2006) defined service quality broadly as superiority or excellence. Zeithaml (1988), as cited by Darsono and Junaedi (2006), argued that there were two forms of quality: Objective quality and Perceived quality. Specifically, perceived service quality can be defined as the customer's perception or judgement about the product's overall excellence or superiority. Objective quality refers to the actual technical superiority or excellence of a product and thus can be verified using some predetermined measurable ideal standard (Zeithaml, 1988). Maynes (1976), as cited by Darsono and Junaedi (2006), claimed that objective quality did not exist, and all quality evaluation was subjective and largely depended on the customer's perception. Therefore, perceived service quality was defined as a statement of belief or attribute performance (Olsen, 2002).

The high correlation between perceived quality and customer satisfaction raised contrary arguments among researchers about the order of occurrence between perceived quality and satisfaction (Parasuraman et al., 1994). However, there was agreement that perceived service quality led to satisfaction, especially when perceived quality was framed as a specific belief evaluation and satisfaction as a more general evaluative construct (Gotlieb et al., 1994; Johnson et al., 2001 as cited by Olsen, 2002). Thus, perceived service quality was the antecedent of customer satisfaction and had a positive impact on customer retention (Johnson, 1998 as cited by Olsen, 2002).

Many credit card organisations allocated substantial resources to monitor and measure service quality in order to improve performance and retain customers (Szymanski and Henard, 2001). Providing service quality to customers has become increasingly important if the aim of the organisation is to retain, rather than merely acquire, customers (Farquhar, 2004). This was also likely to apply where retention is interpreted as more than just arresting defections.

Repeat encounters that result in dissatisfaction led customers not to rely on the service and will almost always contribute to the customer decisions either about switching or limiting the level of patronage with the service provider (Ahmad and Buttle, 2001). For credit card organisations, customer churn is a significant concern since in the current competitive market conditions; it is unlikely that once a customer is lost he or she will return (Farquhar, 2004). Hallowell (1996) and Ennew and Binks (1996), as cited by Farquhar (2004), argued that the structure of the banks did not appear to support the retention of customers and they needed to be realigned to achieve the level of integration desired to provide high quality service and then retain customers.

Hart (1999) declared that service quality had been a major issue for credit card organisations for many years. This required a lot of commitment from management and companies that did not take service quality seriously were punished quickly by customers who took their business elsewhere and by competitive ratings (Hart, 1999). Hamilton and Howcroft (1995) argued that improving service quality involved sustained investments in both capital and management time. Capital investment could, for example, include the upgrading of card delivery processes, investment in information systems, etc., whereas management's investment in time could be taken up by investigations necessary to uncover and address the multiple root causes of inconsistent quality of service provided to the customers (Hamilton and Howcroft, 1995; Lundy, 1992).

2.3.2 *Customer Satisfaction*

Oliver and DeSarbo (1989), as cited by Shin and Elliott (1998), defined customer satisfaction with a product or a service simply as the favourability of the individual's subjective evaluation of the various outcomes and experiences associated with using or consuming it. Customer satisfaction was commonly defined within the disconfirmation of expectations paradigm (Oliver and DeSarbo, 1988). The disconfirmation of expectations paradigm argues that customers reach satisfaction decisions by comparing the actual product or service performance with prior expectations about how the product or service should perform (Tse and Wilton, 1988 as cited by Shin and Elliott, 1998). Shin and Elliott (1998) confirms that most researchers agree on the notion that satisfaction involves evaluation and that evaluation was the result of a comparison process.

Typically, the evaluation of customer satisfaction is based on a cognitive process in which customers compare their prior expectations of a product or service outcomes to those actually obtained from the product or service (Zeithml, Berry and Parasuraman, 1993). Customer satisfaction resulted when actual performance met or exceeded the consumer's expectations and likewise, if the expectations exceeded actual performance, dissatisfaction would result (Shin and Elliott, 1998). Therefore, Ruyter and Bloemer (1999) revealed that satisfaction was perceived to be a post-consumption evaluation or a pleasurable level of consumption-related fulfilment.

Satisfying customers has been a long-time goal of organisational leaders and as today's banking business environment becomes ever more dynamic and competitive, many companies have put increased importance on measuring and improving customer satisfaction (Shin and Elliott, 1998; Goldsmith et al., 1997). Companies are making strenuous efforts to both measure customer satisfaction and assess its impact on the business performance, and as such, organisations have exhibited their commitments to customer satisfaction through mission statements, goals/objectives and marketing strategies (Shin and Elliott, 1998). Paterson and Wilson (1992) argue that virtually all company activities, programmes and policies should be evaluated in terms of their contribution to satisfying customers.

Shin and Elliott (1998) suggested that one of the major reasons why customer satisfaction has been receiving the utmost attention from companies, and specifically from banks, was that customer satisfaction has been linked to customer retention, which was quite key to competitive success. Bolton and Winchell (1989) declared that satisfied customers tended to tell their acquaintances something positive about the product or service, and moreover, repeat purchases were important because they represented loyal customers who contributed to the expansion of market shares. Bitner (1990), as cited by Shin and Elliott (1998), argued that customer loyalty and retention depended heavily upon customer satisfaction. Similarly, Patterson, Johnson and Spreng (1997) demonstrated empirically a very strong link between customer satisfaction and repurchase intentions.

Barnes (2006) argued, however, that there was a big difference between satisfied customers and loyal ones. Satisfied customers were not necessarily loyal, but loyal customers were almost certainly satisfied (Barnes, 2006). Strauss and Neuhaus (1997) and Rowley and Dawes (1999) proposed that the relationship between satisfaction and loyalty was nonlinear, resulting in the tendency to remain loyal in spite of the pressure of switching incentives. It was possible for very loyal customers to be dissatisfied with an interaction or with a component of the bank's service and still remain loyal and this was one of the benefits of creating loyal customers; you could displease them every now and then and then they would still remain loyal (Darsono and Junaedi, 2006; Barnes, 2006). Darsono and Junaedi (2006) concluded that the role of customer satisfaction was not always clear as a number of customers who express satisfaction still defected, and dissatisfied customers stayed loyal.

Stone and Liyanearachchi (2006) further pointed out that most credit card companies have now discovered that the relationship between customer satisfaction and customer attrition is a complex one and thus cannot be summarised by the customer simply in terms of degrees of satisfaction. Hallowell (1996); Soderlund (1998); Ruyter and Bloemer (1999); Kandampully and Suhartanto (2000) advised that companies should beware that concentrating all the resources into the initiatives of increasing customer satisfaction did not produce an equal increase in loyalty, and thus customer retention, for all the customers.

Oliver (1999) offered a possible explanation for the non-linear relationship of customer satisfaction and loyalty. Customer satisfaction still has an important role to play as an antecedent of loyalty; however, its role is limited in the affective loyalty. Affective loyalty is based on quality-based satisfaction or price based satisfaction. This type of satisfaction is vulnerable to brand switching (Oliver, 1999). Barnes (2006) added that achieving a high level of customer satisfaction with regards to short-term transactional measures was important, but such satisfaction was vulnerable unless accompanied by a longer-lasting, more deeply held connection with the company. Companies must not only meet customer expectations with regards to predictable things, but must also exceed their expectations about things they do not expect to be done, because as soon as a competitor comes along who can do it better, faster and cheaper, customer satisfaction dissipates and becomes irrelevant (Barnes, 2006).

2.3.3 *The Effectiveness of Loyalty Programmes*

Loyalty programmes are offered by both retailers and banks to stimulate continued patronage among customers through discounts, free air-miles, or special services (Berman, 2006). Berman (2006) added that the most popular form of customer loyalty programme started in the 1980’s with the introduction of frequent flier programmes by airlines and they have retained their popularity, particularly among airlines, financial services firms, credit card providers and car rental firms.

a. *Customer Loyalty*

Loyalty can be defined as being faithful or true to allegiance (Palmer et al., 2000). Aspinall et al. (2001) added that the concept of loyalty could be defined as a positive disposition to a brand that transcended transactions and made repurchase likely in the face of adversity. Much of the literature has looked at brand loyalty (Rowley and Dawes, 1999). Rowley and Dawes (1999) argued that customer loyalty and brand loyalty terminologies were of no difference and could be used interchangeably.

Darsono and Junaedi (2006) conceded that attempting to define loyalty was much easier said than done. In general, there were three distinctive approaches to measuring loyalty: Behavioural measurement, Attitudinal measurement and Composite measurement (Darsono and Junaedi, 2006). TePeci (1999) as cited by Darsono and Junaedi (2006), argued that the behavioural measurement considered consistent, repetitious purchase behaviour as an indicator of loyalty. The one problem with the behavioural measurement is that repeat purchases were not necessarily the results of psychological commitment towards the brand and hence, repeat purchases did not always mean commitment (TePeci, 1999). According to this approach, customers would remain loyal as long as they felt that they received greater value than they would from other companies (Zeithaml and Bitner, 1996).

Attitudinal measurement uses attitudinal data to reflect the emotional and psychological attachment inherent in loyalty (Bowen and Chen, 2001 as cited by Darsono and Junaedi, 2006). Bowen and Chen (2001) added that the attitudinal measurement was concerned about the sense of loyalty, engagement, and allegiance. In this approach, loyal customers were often involved in the word-of-mouth referrals (Hallowell, 1996). Clayton-Smith (1996) described this type of loyalty as customers having a sense of belonging, where not only their wallets but their hearts and minds were won.

The third approach, the composite measurement of loyalty, combines the first two dimensions and measures loyalty by the customer's product preference, propensity to switch, frequency of purchase, recency of purchase and the total amount of purchase (Bowen and Chen, 2001). They added that the use of both attitudinal and behavioural measurements in loyalty definition substantially increased the predictive power of loyalty. Dawes and Worthington (1996) also conceptualised this type of loyalty as the interaction of both behaviour and attitude. Dick and Basu (1994) suggested that loyalty was determined by the strength of this link between relative attitude and repeat patronage.

Dick and Basu (1994) argued that it was important to distinguish between customer retention and customer loyalty, although they were interrelated. Credit card providers may retain customers despite these customers being loyal (Dick and Basu, 1994). This happens typically in companies where there are no competitors or no competitor differentiation in the industry, or where the switching costs are high (Gould, 1995). Dick and Basu (1994) suggested that customer loyalty should drive customer retention, the above long-term sustainable benefits of cross-selling and price desensitisation should be obtained, and should ensure that customers do not switch if a competitor offers a better looking service. Dawes and Swailes (1999) argued that customer loyalty should be central to successful customer retention and companies who compete on the basis of loyalty needed to understand the linkages with customer retention.

b. ***Loyalty Programmes***

A loyalty programme can be defined as a programme launched by a financial institution with the sole purpose of increasing customer loyalty and retention of profitable customers, by driving and rewarding the required customer behaviour (Wehner, 2000). Loyalty programmes are very critical in making customers more than just satisfied (Gould, 1995). Gould (1995) argued that loyalty programmes were very powerful enablers that credit card providers could employ in increasing customer loyalty and thus customer retention.

Although there have been some failures, loyalty programmes were perceived to have been one of the most successful marketing tools of the 1990's (O'Malley, 1998). The use of loyalty programmes in retaining loyal customers is expanding in credit card companies, but have, in the past, been criticised for being expensive and ineffective (Dowling and Uncles, 1997). It is, however, critical to remember that loyalty programmes can only be beneficial if the credit card providers' value proposition of its products and services are intrinsically good and would not be of any benefit on top of a bad product or service offering (O'Malley, 1998).

Despite the size and growth of the loyalty programme market, studies have shown that there's little evidence on whether the loyalty programmes are viewed as valuable by the members or the extent to which these programmes contribute to the credit card provider and brand loyalty (Yi and Jeon, 2003). Other researchers have questioned the effectiveness of many customer loyalty programmes as they believed that acquisition rates and relationship duration may have little impact on the profitability of a loyalty programme (Reinartz and Kumar, 2005 as cited by Berman, 2006). They argue that the long-life customers may not spend more, be lower-cost customers to serve, or have lower price sensitivity. They concluded that the customers with high revenue were always preferable, regardless of the duration of the relationship.

Since rewards programmes such as 1 airline mile per dollar purchase or a 3- cents (US) discount off future purchases per $1 purchase are so common, a consumer may have little or no commitment to any specific loyalty programme (Berman, 2006). Berman (2006) added that in that situation, customers joined multiple programmes and switched loyalty among these programmes, and this pitfall could be applicable to all types of customer loyalty programmes. Visa’s credit card commitment research also found that consumers have less commitment to their credit card brand than their brands of car insurance, potato chips, and household cleansers (Berman, 2006). Consumers have a large number of credit cards, as it is easy to get a no-annual-fee credit card, and there is no penalty for having a card that is not used.

While the overall findings on customer loyalty programmes have suggested that many do not meet their objectives, there are significant benefits to a well-run loyalty programme (Berman, 2006). Other studies have found that members of loyalty programmes exhibited increased loyalty to the programme’s sponsor. They found that the customer’s relationship perception of a financial services company’s loyalty programme explained about 10 percent of the total variation in the customer retention and customer share (Yi and Jeon, 2003). They also found that members of the financial services company’s loyalty programme were generally less sensitive than other customers to perceptions of lower service quality from their company and any price disadvantage relative to the other competitors.

Berman (2006) concluded that a major concern that credit card providers needed to address in running a customer loyalty programme was saturation of the loyalty programme market as evidenced by a large number of competing companies with similar programmes, as well as a significant numbers of consumers who were members of multibple loyalty programmes. Yi and Jeon (2003) argued that in these environments, undifferentiated customer loyalty programmes, regardless of type, have very little chance of meeting the objectives of brand managers.

2.3.4 *Role of Staff in Customer Retention*

One of the themes that recurred in research was the problem of staff churn, particularly, but not solely, at the senior level (Stone and Liyanearachchi, 2006). A number of research studies have found linkages between employee satisfaction and retention and customer satisfaction and retention (Bitner et al., 1990; Clark, 2002; Reichheld and Kenny, 1990b). Reichheld and Kenny (1990b) have maintained that high customer retention will lead to higher employee satisfaction as employees will find their jobs much easier dealing with satisfied customers than dissatisfied customers. Higher retention of right calibre of employees creates a stable and experienced labour force who deliver higher service quality at lower cost to the customer and thus raise customer value (Clark, 2002). This, in turn, leads to higher customer retention and sustainably high profits and growth (Stone and Liyanearachchi, 2006).

Stone and Liyanearachchi (2006) argued that senior staff churn leads to constantly changing focus in marketing, sales and service policy and implementation. It is very hard to secure the commitment of the front line staff to new policies, which they believe will not last long and are inherently more complex, particularly when they are accompanied by inconsistent communication and incentives, leading inevitably to customer loss (Stone and Liyanearachchi, 2006).

Staff appear to view themselves as key players in retaining customers and, since information systems and structure appear not to provide the required support, there are grounds for this view (Farquhar, 2004). However, staff may lack the power to respond to customers adequately, which again may impact on efforts at customer retention. Hamilton and Howcroft (1995) added that improving customer retention required that the front-line employees, i.e. those who have daily customer contact, have the power to take actions which provide immediate customer satisfaction and thereby reinforce customer retention. This necessitates that they also have the means in the form of appropriate information technology to access and interpret data as a sound basis for any such actions (Hamilton and Howcroft, 1995).

Available empirical evidence seemed to suggest that companies which promote the welfare of their staff, experience higher customer retention rates compared to companies which do not (Schneider and Brown, 1985 as cited by Clark, 2002). Similarly, Davies (1985) and Bank (1988), as cited by Hamilton and Howcroft (1995), confirmed that there were grounds foe believing that a strong relationship did exist between quality customer service, employee orientation and corporate success. Credit card issuers and banks in general, have become aware that incentive systems which reward staff on their ability to retain customers are critical in sustaining the net growth of their businesses (Hamilton and Howcroft, 1995).

Schneider and Bowen (1985) declared that the advantages of long-term employees were that they were often able to form personal relationships with customers, understand their needs better and possibly be able to pre-empt dissatisfied customers leaving the company. When employees identify with the norms and values of an organisation, they were less inclined to leave and, furthermore, customers were likely to be more satisfied with the service (Schneider and Bowen, 1985). Clark (2002), has shown that the greater the discrepancy or conflict between the perceptions of staff and customer demands, the greater the impact on customer experience, and customer churn becomes inevitable.

2.3.5 *Increased Competition and Reduced Switching Costs*

Another reason customer retention has become increasingly important is the increase in competition (Hoffman and Bateson, 2001). The factors contributing to this competition include the lack of differential advantage of goods and services on the market and the accessible market information that is available to customers, thereby minimising informational advantages among competing organisations. Hoffman and Bateson (2001) further pointed out that there were not as many new good customers as there once were, thus it is critical for firms to retain their current customers.

Xue et al. (2006) argued that a strong brand might not be sufficient for success in the highly competitive credit card market. Many firms have tried to leverage their strong brands and deep pockets in an attempt to retain a large customer base, but failed to sustain themselves in the face of aggressive price competition from rivals (Brynjolfsson and Smith, 2000).

Retail banks have been forced to alter and adapt their marketing activities as a result of the competitive forces around them (Walsh, 2002). Darsono and Junaedi (2006) argued that the central thrust of the marketing activities of companies was now viewed in terms of its ability to develop a sustainable competitive advantage. Aspinall et al. (2001) added that success in the credit card business was largely dependent on the development of barriers that would prevent customers from moving to other companies. They highlighted, however, that if competitors could identify weaknesses in these barriers, they would not only make it easier but also rewarding for the customers to move and even the loyal customers may also do so in droves.

The concept of creating customer ‘stickiness’ can be understood from the perspective of switching costs or barriers which is the cost a customer incurs when switching to a competitor (Xue et al., 2006). The literature has identified three main types of switching costs or barriers: transaction costs (e.g. sign-up fees), learning effects, and artificial costs (e.g. loyalty programmes) (Klemperer, 1987 as cited by Xue et al., 2006). Klemperer (1987) argued that credit card stickiness arose mainly from the second and the third types of switching costs. The general view was that switching costs intensify the competition during acquisition and soften competition during retention (Brynjolfsson and Smith, 2000).

a. ***Product Features***

Customer retention can be achieved by through the imposition of barriers to exit once the customers have entered into a transaction with the organisation. This practice can be described as psychological entrapment and although historically prevalent in the financial services industry, it has become less effective as the levels of competition have increased (Brynjolfsson and Smith, 2000). The switching barriers make it costly to switch banks given the investment that is required in terms of time, effort and money. Examples of switching barriers used in the context of credit card organisations include the number of services and products utilised by the customer – the higher the number, the more hassle and inconvenience in switching the business to another bank. As such, cross-selling of products and services not only help in increasing the revenue generated by each customer, but also make it difficult for the customers to switch to another bank (Goyal, 2004).

Banks also use additional services or product features, other than those core to the product, to give additional value to their product and thus raising the barrier for customers to switch. Every strategic option searches for a way to bond with the customer, which is reflected in a significant switching cost. Examples of these services or features include monthly re-payment limits and flexibility, travel insurance and automatic credit limits increases. These services may influence the customer’s decision to switch to another credit card provider who may not offer these additional services.

b. *Economic Factors*

Whether the company’s strategic aim is to lock customers in or lock competitors out, the best way to attain this is through adding value to the customers. This value can be added by offering the customer the best product and also considering the customer’s economic situation and then offering a product to the customer at a cost that provides value by locking in other financially related services that enhance the product offering. Seductive features such as zero annual fees, lower debit interest rates and higher credit interest rates “dupe” customers into staying with their credit card provider, leading them to over extend themselves and thus making it difficult for them to switch (Goyal, 2004). The effectiveness of this strategy has been hampered by the fact that competitors always attempt to match the interest rates and other financial benefits that are offered by other companies, making the differentiation on this option difficult to market (Reichheld, 1996).

Many credit card markets are mature and approximately stationary and, in such markets, the recruits to one brand are the defectors from another brand, except in those rare cases when the customer is new to the market (Reichheld, 1996). Reichheld (1996) clarified that when customers switch between brands, we should not assume that they are typical of those that stay and this could indicate that they are more mobile and subsequently may leave the new service provider. The internet has affected the customer’s propensities to search for and evaluate competitive propositions, and then switch (Stone and Liyanearachchi, 2006).

Xue et al. (2006) pointed out that in cases where companies had identical market share and similar technological abilities, consumers normally incurred the same level of switching costs. They added that since all the consumers incurred similar switching costs, no company would gain a unique advantage from the customer's switching costs and moreover, every company would be worse off. The point they were making was that when companies behave in the same way, they end up with the same market share and the competitive advantage of having a larger market share cannot be achieved.

3 CHAPTER THREE: RESEARCH PROPOSITIONS

The literature was reviewed in the preceding sections, and sought to address the main problem of identifying the challenges that the South African credit card organisations faced in their attempts to retain customers, as perceived by the banks. The following propositions flows from this literature review and form the basis against which the research was conducted.

Proposition 1:

Perceived service quality is a challenge to retention because continued encounters with poor and inconsistent service quality contribute to the customer's decision to either switch or limit the level of patronage with the credit card provider.

[Farquhar (2004); Johnson (1998); Olsen (2002); Szymanski and Henard (2001); Ahmad and Buttle (2001)]

Proposition 2:

Customer satisfaction is a challenge to retention because of the complex nature of the relationship between satisfaction and retention where a number of customers who express satisfaction still defect, and dissatisfied customers do not.

[Rowley and Dawes (1999); Darsono and Junaedi (2006); Barnes (2006); Barnes (2006); Strauss and Neuhaus (1997)]

Proposition 3:

Loyalty programmes are a challenge to retention because an average consumer has a number of credit cards with multiple loyalty programmes and show little commitment to any specific programme as he/she can easily switch between credit card providers.

[Berman (2006); Yi and Jeon (2003); Reinartz and Kumar (2005)]

Proposition 4:

Low employee satisfaction and retention are a challenge to retention because they lead to an unstable labour force that delivers low service quality to customers and resulting in low customer retention.

[Bitner et al. (1990); Clark (2002); Reichheld and Kenny (1990b); Stone and Liyanearachchi (2006)]

Proposition 5:

Increased competition in the credit card market is a challenge to retention because it lowers the switching barriers and this increases the customer's propensity to switch from one provider to another.

[Klemperer (1987); Xue et al. (2006); Brynjolfsson and Smith (2000); Stone and Liyanearachchi (2006)]

4 CHAPTER FOUR: RESEARCH METHODOLOGY

The research methodology section describes the methodology that was followed to confirm the propositions that were made in the previous chapter. It begins with a brief description of the research method that was chosen and its implications for this research. The research design and sample of interviews will then be discussed. This is followed by descriptions of the processes that were used in data collection, analysis and interpretation. The chapter also includes the discussion on the validity and the reliability of the chosen research method and approach.

4.1 The Research Method and its Underlying Characteristics

This research study required the researcher to explore the challenges that the South African credit card organisations faced in their attempts to retain their customers, as perceived by the banks. This type of research problem lends itself well to the qualitative research methodology (Leedy and Ormrod, 2001). Another reason for not doing a quantitative research was that different organisations face different challenges when attempting to retain customers, mostly due to their unique business environments and corporate strategies, and therefore benchmarks are likely to differ significantly among firms (Leedy and Ormrod, 2001).

The research method that was chosen for this study is the qualitative research method and was conducted in the descriptive paradigm, using interviews. This approach and its implications on the research process are discussed below.

4.1.1 *Qualitative Research Paradigm*

Leedy and Ormrod (2001) highlight that the intention of a qualitative research is to answer questions about the complex nature of phenomena, often with the purpose of describing and understanding the phenomena from the respondent's point of view. The qualitative research starts off with the proposition rather than specific hypotheses and is followed by the collection of an interview data from a number of participants (Leedy & Ormrod, 2001). The same process was followed for this research. The research that was performed during this study had many of the typical characteristics of qualitative research as proposed by Leedy and Ormrod (2001).

There are certain assumptions that are embedded in the qualitative research method and these were considered throughout the research process. The following are the qualitative paradigm assumptions that informed this research (Creswell, 1994:5):

- The relationship of the researcher to that researched is "researchers interacts with that being researched",
- The role of values is "value-laden and biased",
- The nature of reality is that "reality is subjective and multiple as seen by the participants in a study",
- The language of the research is "informal, evolving decisions, personal voice, and accepted qualitative words".

This research contributes to the available body of knowledge because it explored the challenges that the South African credit card organisations faced in their attempts to retain customers rather than merely confirm or validate the existing customer retention programmes. In summary, the purpose of this research was to add to available theory that would finally help other organisations that are battling with their customer retention efforts, rather than just test the existing theory, which is characteristic of the qualitative research paradigm (Leedy and Ormrod, 2001).

The role of the researcher as an instrument in this research had a significant impact and therefore could not be ignored. Rowley (2002) argues that the successful execution of the research depends critically upon the competence of the researcher. An interview schedule was used to try and alleviate, to some extent, some of the issues that could have arisen. The potential subjectivity was mitigated by making an effort not to lead the interviewees, and by regularly confirming with the interviewee what was meant by specific statements.

4.1.2 *Descriptive Research Design*

The research design was descriptive in nature and could be classified as idiographic as it was concerned with exploring particular events and providing the picture of what transpired (Cornfold and Smithson, 1996). More specifically, this research design took the form of content analysis, a detailed and systematic examination of the contents of the materials for the purpose of identifying patterns, themes, or biases (Leedy and Ormrod, 2001). In this case, the content analysis was carried out on the transcripts of the interviews which took place between the researcher and the respondents.

The interviews were based around open-ended questions and this method of data collection was used because it allowed for the flexibility required from the evolving nature of the research problem, and it was found appropriate for the research problems which required in-depth discussion and probing (Leedy and Ormrod, 2001). The advantages of using in-depth and semi-structured interviews for data collection include:

- Respondents can provide historical information (Creswell, 1994),

- The researcher has control over both the questions asked and the environment (Creswell, 1994),
- The interviews provide a large amount of useful information (Leedy and Ormrod, 2001),
- They are flexible and enables the researcher to prompt and probe as necessary (Pirow, 1990),
- They enable the researcher to take cognisance of non-verbal behaviour (Pirow, 1990),
- They provide access to information that would be difficult to obtain through other research methods (Leedy and Ormrod, 2001).

Despite the many advantages stated above, there are several disadvantages that are associated with this method of data collection and required the researcher to be aware that skill and care were needed in using this method. These are:

- Information provided by the respondents is coloured by their own perspective (Creswell, 1994),
- The researcher’s presence may bias the responses (Creswell, 1994),
- Not all people are equally articulate and perceptive (Creswell, 1994),
- Data may be misinterpreted by the researcher relative to the intended meaning of the respondent (Leedy and Ormrod, 2001).

The researcher made attempts to mitigate these disadvantages by continually confirming with the respondent the intended meaning and not intentionally leading the respondent.

4.2 Population and Interview Sample

4.2.1 *The Population*

The population in this research played various roles in the credit card business and were involved in different ways on the efforts to try and retain their current customer base. This population represented customer experience and marketing managers, customer data analysts and practitioners as well as the associations (e.g. Visa and MasterCard) who influenced and managed the credit card business. This was to the extent that they were considered subject matter experts in the credit card business

4.2.2 *The Interview Sample*

The researcher purposefully selected the respondents who had the required experience and expertise to answer the interview questions (Creswell, 1994). No attempts were made to select the respondents randomly but the researcher had endeavoured to be objective in the selection of the respondents. The following table lists all the names of the people who were interviewed and their responsibilities in their respective organisations.

Name	Responsibility	Company
Amanda Olsson	Head: Existing Customer Marketing	Standard Bank Card
Faeza Momoniat	Head: Customer Experience	Standard Bank Card

Name	Responsibility	Company
Ros Brett	Head: Corporate Credit Cards	Standard Bank Card
Jenny Webber	Head: Business Development	MasterCard
Lee Bromfield	Head: Customer Value Management	FNB Card
Angela Rink	Head: Joint Venture Cards	FNB Card
Prema Gramanie	Manager: Customer Retention	FNB Card
Alet Scholtz	Manager: Existing Customer Marketing	ABSA Card
Natashe Barnard	Head: Existing Customer Marketing	ABSA Card
Linda Fourie	Team Leader: Retention Call Centre	ABSA Card
Rejoice Mashiri	Manager: Customer Retention	ABSA Card
Graeme Holmes	Head: Consumer Cards	Nedbank Card
Marc van der Zon	Senior Business Manager: Consumer Accounts Management	Nedbank Card
Daneel Jordaan	Head: Corporate Credit Cards	Nedbank Card

4.3 Research Design

Research design is defined as the blueprint for fulfilling the research objectives and confirming the research propositions (Cooper and Schindler, 2000). The key objective of the research design is the formulation of the semi-structured interviews that help in answering the interview questions and also assist in discovering potentially new aspects of the research problem.

The semi-structured interview schedule was used during interviews to assist in the reliability of data collection and ensured that the questions were answered as comprehensively as possible to aid in a thorough analysis. The interview schedule did not contain any structured, closed questions, since the interview needed to remain flexible to allow for any relevant information to emerge.

The type of questions that were used were open-ended and were focused on the ‘why and what’ of the customer retention activities. Various probing questions were used during and towards the end of the interview to ensure that the open-ended questions were answered as comprehensively as possible.

There were no other standardised instruments for data collection that were used, since data collection occurred through interviews as well as through observations made by the researcher. The interviews were directed into areas of interest that came up during the interview even though open-ended guiding questions were be used. Although this process assisted in exploring the research topic, the lack of fully structured interview schedule has some drawbacks such as the following (Leedy and Ormrod, 2001):

- The difficulty in analysing some of the interview data, especially when synthesising across interviewees,
- The influence by the researcher's personal view in certain areas.

Despite the above drawbacks, unstructured interview are deemed to be very powerful data collection tools that can yield very useful information (Leedy and Ormrod, 2001).

The interview schedule is attached in Appendix A.

4.4 Data Collection

There were three sources of data that were used during the research process: interviews, observations and appropriate and relevant documentation.

4.4.1 *Interviews*

The nominated respondents were contacted by telephone to inform them of the purpose of the study, the subjects to be covered and the research process, including the expected duration of the interview. An interview roster and an interview schedule were used to conduct these in-depth interviews. All the interviews took one to one and a half hours each. The interviews were all conducted at the interviewees' respective offices.

The interviewees were assured of confidentiality and that pseudonyms would be used to disguise their responses whenever this was requested. This ensured that the responses obtained were not based on what the interviewee viewed as appropriate or acceptable rather than on what they truly believed to be the case. Recording facilities were made available to record the interviews and notes were also taken during the interviews. The recordings of the interviews were transcribed after the interviews.

4.4.2 *Observations*

Careful observation was made during the interview process to complement the data that was obtained during the interviews. This was used to enhance the quality of the analysis. Care was also taken not to confuse the observations of the researcher with the interpretation of the data.

4.4.3 *Documentation*

The relevant documentation that was provided by the interviewees was included in the data collection process. The only documents that were used as a source of data in this research were the customer surveys were conducted by one of the banks and the customer service charter that one of the banks uses to motivate their staff.

4.5 Data Analysis and Interpretation

Data analysis and interpretation are crucial parts of the research process. Since qualitative data was collected, inductive reasoning processes were used during data analysis and interpretation.

4.5.1 *Data Analysis*

The data that was collected was not easy or simple to analyse and relied heavily on the integrative power of the researcher. The analysis of data in this research method does not follow the normal process where it only starts once data collection has been completed (Rowley, 2002). It had to take place, to a greater extent, during the process of collecting data and care had to be taken not to confuse observations with interpretations. This is different to the quantitative research approach where the process is linear (Creswell, 1994)

Analysis of this data was not simple but care was taken in this research to ensure that all the relevant data was taken into account and also that the most significant aspects of the research were adequately addressed. Due to the emergent nature of this type of research, only some of the analyses were used while the collection of data was underway. The following structure was followed (Leedy and Ormrod, 2001):

- The facts were organised into a logical order, and notes were added where appropriate;
- The facts were also classified or clustered of into categories such as financial issues, strategic issues, and operational issues.

- The patterns or themes that emerged from the data during ordering were identified and categorised.

A chain of evidence was maintained during data analysis to ensure that the appropriate sections would be properly referenced when referring to specific interviews or documents (Rowley, 2002). In addition, the frequency of each identifiable challenge uncovered in the transcript was tabulated to inform the researcher as to the perceived importance of the identifiable challenge across the respondents. However, no statistical analysis was performed on these results.

4.5.2 *Data Interpretation*

The interpretation of the data is of great importance in the research process (Leedy and Ormrod, 2001). It is during this process that new aspects of the research problem are uncovered. Since the research was conducted in the descriptive paradigm, some of the interpretations occurred during the data collection phase, while many of the interpretations occurred during the data analysis phase.

The different phases of this research were very much interlinked, and the various data analyses formed the foundation for interpretation based on the collected facts, identified patterns in the data, individual reflections of the researcher and potential connections.

4.6 Validity and Reliability

Validity is concerned with whether the instrument measures what it is supposed to measure and whether it will lead to valid conclusions (i.e. the accuracy of the study) whereas reliability is defined as the extent to which similar research conducted in future will result in similar outcomes (i.e. consistency of the study) (Leedy and Ormrod, 2001). High levels of validity and reliability are extremely important in research.

4.6.1 *External Validity*

External validity refers to generalisability, i.e. the implications of this research for other organisations in other settings and times (Leedy and Ormrod, 2001). This implies that the sample is representative of the population (Leedy and Ormrod, 2001). However, the intent of the qualitative research is not to be able to infer the findings onto the population and it is, rather, to interpret the event from a unique perspective (Creswell, 1994). In this research, limited generalisations could be made, as the purpose of the research was to add to theory-building and knowledge rather than to generalise to a population.

4.6.2 *Internal Validity*

Internal validity is defined as the extent to which the instrument allows inferences about the causal relationships between data elements (Leedy & Ormrod, 2001). Therefore, internal validity is more relevant in studies that try to establish a causal relationship. The internal validity of the research was checked against the respondent involved by asking them if the conclusions were accurate and matched the reality. There are various types of internal validity: construct validity, content validity, face validity and criterion-related validity (Leedy & Ormrod, 2001). Only construct validity was relevant to this research and will thus be discussed.

4.6.3 *Construct Validity*

Construct validity is concerned with reducing subjectivity by linking the questions posed during data collection to the research propositions (Cooper and Schindler, 2000). This was attempted in the research process by using multiple sources of data during data collection and for that reason construct validity will be achieved as far as is possible within this research approach.

4.6.4 *Reliability*

In order to enhance the reliability of the study, some definitions and explicit explanations were considered for this research when communicating with the respondents. However, the role and interpretations of the researcher played a significant part in the final interpretations given that the research was conducted in the descriptive paradigm. Similar research by other researchers may not lead to exactly the same results.

5 CHAPTER FIVE: EVALUATION AND DISCUSSION OF RESULTS

5.1 Introduction

This chapter contains the evaluation and discussion of the results of the in-depth, semi-structured interviews that were conducted with the respondents. The meaning and the impact of the results is discussed to provide insight into all the challenges that credit card issuers encounter when attempting to retain their customers. The quotations used in this chapter are taken directly from the transcript and have been quoted verbatim, but have not been individually acknowledged to maintain respondent anonymity.

This chapter begins with an overview of the strategies and activities that the credit card businesses employ to try and deter customers from defecting. This overview is then followed by a detailed discussion of the challenges of customer retention and their implications to the credit card businesses.

5.2 Strategies Implemented to Retain Customers

All the respondents have confirmed that customer retention is at the core of their businesses. It came out quite clearly that banks guard their client base jealously against any suitors who may want to woo them away. It is for this reason that all the banks that were contacted have very strong mechanisms in place to try and ensure that they do not loose their customers.

For many organisations, customer retention starts at the very beginning of their relationship with the newly acquired customer. Projects are continuously started in order to change or improve processes with the aim of providing a superior customer experience. All the customer touch points are continuously monitored and their impact on customer experience regularly measured. In all the organisations that participated in this research, customer retention is managed and dealt with from the executive committee level and forms part of their day-to-day agenda.

The strategies that the different banks employ to retain customers were found to be quite similar. The only difference that was observed was the level of emphasis on particular strategies than on others. The strategies could be divided into two: the Reactive Strategies and the Proactive Strategies. The reactive strategies included those activities that are executed as a result of a request from the customer to close the account. On the other hand, the proactive strategies covered predictive models that are run to predict those customers that are likely to defect and then put in place some possible responses to attempt to stop them from defecting.

5.2.1 *Reactive Strategies*

All the big four banks approach the defecting customers in a similar way. They have put in place rescue or retention call centres to which all customers that approach the bank intending to close their accounts are directed. The bank branches and all the other call centres have no power to close a credit card account except the ones that are set up for that particular reason. The banks also ensure that all the customers that are closing or intend closing their accounts are approached and spoken to by the retention agents.

The retention agents would firstly ascertain whether the customer that is intending to close the account is worthy to be saved or not. This is done by checking the behaviour of the customer over time and that customer’s profitability to the bank. In some cases, the retention agents are given retention eligibility indicators to avoid inconsistencies and biased judgements. All this information is made available to the retention agent on the computer screen and that decision can be made quite quickly by checking a list of pre-determined measures and ratings of a customer. If the retention agent determines that the customer they are dealing with falls within the category of those customers that are not worth saving based on the available customer contribution model, then they close the account immediately and then advise the customer accordingly.

On the other hand, once the customer retention agent determines that the customer is worth saving based on the available behaviour scores and customer contribution model, they then begin a process of attempting to retain that customer. They begin the retention process by attempting to understand the reasons why the customer intends to close their account. Service related reasons are generally easier to deal with because the retention agents are given the authority to take up the service related issue in that case and follow it through until it is resolved. An example of a service issue could be a card that was not delivered to the customer and the retention agent will find out where the card is and follow up with the relevant parties to ensure that the card is delivered to the customer and thus retain that customer.

In other cases where the issue is not service related and it is related to the customer not finding value with having the account opened, the customer retention agent would then begin to resell the card value proposition to the customer. The agents are also given authority to use a toolkit of incentives to stop the customers from defecting. This toolkit includes incentives such as credit limit increases, product upgrades, a number of free loyalty or rewards points and they can also defer the payment of the annual fee by a year or more. These strategies have been found to be quite successful and in some cases they have managed to save over 50% of the potential closures.

Other reactive strategies include the analysis of the reasons given for account closures. These reasons are categorised and used to improve the current processes or implement new processes that may prevent customers from defecting. They are also used to improve the communication channels and messages to ensure that the value proposition is clearly communicated to the customer. In other cases, these reasons are pushed back to the areas that caused the customer complaints to ensure that employees are made aware of the impact their actions have to the customer experience and ensure that they change their behaviour. They would also put plans in place that will ensure that the gaps are closed and those issues are not raise again by the customers.

5.2.2 *Proactive Strategies*

This is one of the areas where most of the credit card companies differ. All the respondents agree on the need to employ some predictive modelling and strategies but not all of them have a functioning team looking after this area. In some cases the rules are old and they are not being properly executed. Some banks have not been able to quantitatively justify the value of these strategies because their defection rates have not increased since they decided to stop responding to the prompts generated by these predictive models.

The organisations that have functioning teams in place, build deterministic models that analyse the spending patterns and behaviour of different customers in different customer segments. Compared to expected and predetermined patterns, these analyses would result in attrition indicators. These indicators will then be used by the banks to build strategies to respond to their affected customers in a way that will help deter them from defecting.

The behavioural indicators that are used to inform strategies that are to be deployed to change the behaviour of customers and to reduce attrition are generally called the 'TRIP Segmentation Model'. In this model, customers are segmented into different groupings which would require different strategic responses to deter those customers from defecting to other banks. In this acronym, T stands for Transactors, R for Revolvers, I for Inactive accounts and P for Pay-downs.

Transactors

Transactors refer to those customers who use their credit card only as a payment solution and not as a credit facility. This is generally prevalent in customers who do not have other credit card related products and secondary cards attached to their accounts. They normally pay off all their debts before it revolves and they pay little or no finance charges. These are low risk customers, in terms of bad debt, but they also generate narrow revenue streams to the banks. Banks earn higher interchange and little finance income on these accounts. Their chances of defecting are very high because generally they possess high financial skills. They beat the banks at their own game. These customers defect with ease if it is for their advantage.

One response to this group of customers is selling them multiple supplementary products. A secondary card like a petrol card or a card for the spouse or child is likely to increase the chances of moving them into revolving their debt, now that there’s more than one person responsible for spending on the account. The other tactic that the banks generally employ to this category of customers is to give the higher credit limit and promote discount products to lure them to purchase bigger ticket items that will get them to revolve. This would increase the chances of creating more stickiness to the bank and also result in another revenue stream from interest on the revolving debt.

Revolvers

This refers to customers who have used their credit limits and are sitting with very high balances. These customers relatively have a lower risk of defection as they'll need to pay off their high balances first before they can be allowed to close their accounts. They are also good for the banks because the banks can be secured some revenue streams for a longer period of time and they also can earn some interest income from this group of customers. They are, however, good targets for those competitors who are prepared to offer them a lower interest rate for a short period of time if they are willing to transfer the whole balance over to the competitor.

Banks respond to these customers by selling them other value added products like credit insurance plans which cover the whole balance and in the event that the customer dies, their dependants will not have to deal with that particular debt. It is also easier to offer higher credit limit to those deserving customers in this category, which would then get them to grow their balances more and thus increase their stickiness to the bank.

Inactive

The Inactive accounts refer to those accounts where there has been no customer initiated transaction over a period of more than three months and the customers haven't approached the bank to close their account. This could be one trigger that signals silent defection. The challenge for the banks is how to get this group of customers to begin to spend more on their credit cards again.

The banks respond by calling these customers to understand why they are not spending. The retention agents would resell the credit card value proposition to the customer and in other cases offer the customer a sweetener to get them to begin to spend. Other banks send customers system generated communication to check if there is something wrong and also to offer some retail discounts at popular retailers with the hope of enticing them to begin to spend again.

Pay-downs

This refers to those customers who are normally revolvers but are now in a pay-down mode where they are paying down their debt without buying anymore using their credit card. This could be a trigger that these customers are on their way out as soon as the debt is completely paid off. Most respondents agreed that when these customers reach a zero balance, they are more likely close their accounts.

This is a group that has to be watched closely. Most respondents suggest that the most appropriate response would be to call them and understand why they are not buying through their credit card any more and then tailor some of the benefits that may act as sweeteners to prevent them from defecting. This could include offering them some discounts at popular retailers to get them to spend again.

Other proactive retention strategies that are used by banks include campaigns to check if customers are being given the right product and if they have the right credit limits that satisfy their needs. Product upgrades and limit increases are then granted to deserving customers and these proactive actions could go a long way in improving customer experience and thus increasing customer retention.

5.3 Quality of Service

"All the banks offer similar products and I believe that the key differentiation will be on service. The challenge is that over 50% of our customers leave because of service related reasons"

All the respondents concurred that the quality of service, as perceived or experienced by the customer, is the major reason why customers defect. Customers demand high levels of service and all the banks have recognised this as being very important to customer retention. Banks continuously measure and assess the effectiveness of their customer touch points and put plans in place to improve them.

There are a number of cards in peoples' wallets and the challenge is to have your bank's card being the primary card and first choice when the customer intends to conclude a transaction. It has become quite clear to most banks that in the environment where it is difficult to differentiate themselves through their product offerings, service excellence will become quite critical and form the basis for differentiation. People will use a card that they find reliable and do not have to go through a lot of effort to get the quality of service that they think they deserve. This clearly depends on the segment to which the customer belongs. High earning customers are more likely to demand the highest level of service and can easily make the decision to defect. The lower end customers could stand a lot of poor service because of their hunger for a credit facility but as soon as they can change service providers, they will do so quite quickly.

Service excellence has become a key theme in most of the organisations and it is now being driven from the executive level. It now features prominently in all of the banks' strategic plans and forms part of most executives' performance scorecards. Some banks have begun to run campaigns where the service responsibility is pushed back to the point of failure and have people personally held accountable for the issues raised and their bonuses have been impacted.

Some organisations have begun to make very bold service promises where the customer is promised to only have to speak to one person in the bank and that person will ensure that the service issue is resolved. This is very important in an environment where the customers have grown intolerant of a situation where they have to speak to more than two people before they reach the person who can actually resolve their problem. This strategy does come at a high cost because it would require highly trained front desk or call centre agents who are properly empowered to deal with customer issues and ensure that the customer is retained.

5.4 Customer Satisfaction

"The challenge with the complexity of customer satisfaction is not that huge for us, and it may be responsible for about 5% of our defection rates"

Customer satisfaction is quite important to the retention of customers by banks. Satisfied customers tend to be loyal and this results in repeat business with the credit card provider. All the respondents have agreed that a complexity does indeed exist whereby satisfied customers defect and dissatisfied customers stay. There are different reasons that contribute to this complexity and different customers in different segments and categories would respond differently to the same situation.

5.4.1 *Reasons Unsatisfied Customers Stay*

Regulatory

The introduction of the National Credit Act (NCA), has resulted in a situation where a number of customers cannot qualify for a credit card or the credit limit that they need as compared the period before the implementation of the NCA. In fact, before the promulgation of the National Credit Act, banks embarked on issuing more credit cards and increased current customers' credit limits to reduce the impact of the NCA on their businesses. This has resulted in a situation where a lot of customers are sitting with credit limits that they would not qualify for if they were assessed under the stringent credit granting rules of the NCA.

It is for this reason that most of the credit card customers in this category are stuck with their current banks because should they decide to leave, they would not qualify for a credit card or a credit limit facility equal to the one they now enjoy. They then face a situation where they are forced to endure poor or lower standards of service with no option to easily defect to another credit card provider offering superior service.

Customer Complacency

Most respondents concurred that another reason why dissatisfied customer never defect is complacency on the part of customers. Many customers seldom make an effort to shop around for better deals or service when it comes to credit cards. They do not see much differentiation in the different credit card offerings and as such they do not believe that changing a bank would result in better service. They are likely to be patient with sub-standard service for some time before they even complain.

Brand Loyalty

The other reason has to do with brand loyalty and the number of products people have with a particular bank. The people who have their credit card with the same bank where they carry out their primary banking are highly unlikely to move their account elsewhere because they may prefer to have all their banking done in one place. It is generally a very difficult exercise for one to move one's banking portfolio to another banks because one might have to inform a lot of other third party service providers about this move.

5.4.2 *Reasons Satisfied Customers Defect*

Debt Reduction

As discussed in section 5.4.1., the introduction of the NCA has made it difficult for customer to have more debt than they cannot afford. Most people who got their credit cards before the introduction of the NCA are likely to have more credit cards and credit limits that they cannot afford. In the event that these individuals need to buy a car or a house, they might need to limit their credit exposure in order to quality for the new credit facility that they need. This would therefore mean that they would need to close some of their credit cards even though they were satisfied with the service.

Interest Rates

Most respondents concur that customer seldom check the interest rates they pay on their credit cards. This is mostly true for the customers in the lower end but the high earning customers tend to shop around for better rates. Interest rates become a serious problem in a high interest rate environment because the high rates begin to negatively impact on the customers' disposable income. Customers begin to search for better rates or reduce their exposure by closing their accounts.

Card Fees

Credit cards fees are a very important revenue stream for the banks. These include fees like annual fees and late payment fees. When customers' disposable income is under pressure, most customers begin to look for areas where they can cut costs. Free fee credit cards then become quite attractive. Many banks counter these by deferring or cancelling some of the fees for a short period of time in order to retain their customers. This practice can result in reduced profitability for the banks.

5.5 The Effectiveness of Loyalty Programmes

"Our customers have very high expectations and would continuously question our value proposition. They have moved on from loyalty reward points and they now demand instant gratification. They want to be rewarded today."

A functioning loyalty programme was seen by all the respondents as being critical in retaining customers. Of all the four banks, only two have a properly functioning loyalty or rewards programme and only one believes that it is extracting more benefit from their loyalty programme. The reason this specific rewards programme worked is simply because it is linked to a variety of merchants and all the customers in different segments are able to benefit from the programme.

All the respondents agreed that loyalty programmes can help organisations to retain customers only when customers see value and do not have to wait a very long time before they can redeem loyalty points collected. Customers will only commit to a programme where benefits are realised quickly and where there is also a variety of ways to claim the rewards points. The more flexible the loyalty programme, the better. Some customers may prefer air-miles and others might prefer to get a discount from a retailer where they regularly buy household items.

Other respondents argued that customers have moved away from the earning of points and continuously demand instant gratification. Customers have become quite savvy when it comes to reward programmes and they come with very high expectations. They demand to be made to feel more important and special and they continuously question the value propositions, demanding to know what is in it for them. Customers would like to have a choice of how they are rewarded and demand this of banks.

The respondents from the banks that do not have a loyalty programme have argued that this situation has not resulted in them loosing customers. They believe that the only thing that customers need is good service and superior experience when using the credit card. Other added services like loyalty programmes are secondary and would not help to keep the customer when the service that is provided is not kept at the acceptable level compared to what other customers experience at other banks.

5.6 The Role of Staff in Customer Retention

"It is very important that our employees know our products well and this takes a long time to achieve. In order to produce good results, you have to be a satisfied employee"

All the respondents agreed that the banks' employees are very important and key in the retention of customers. Different levels of employees would have a different impact on customer satisfaction and then retention.

5.6.1 *Front Desk Employees*

This category of employees includes the branch employees and the call centre agents. They are in a very close contact with the customers and are the face or 'ambassadors' of the banks. The treatment that customers receive from this group of employees is reflective of the value of the organisation and the customers are very likely to make decisions whether to use the bank's services again or not after their contact with these employees. Some of the banks go as far as measuring the staff satisfaction levels in conjunction with customer satisfaction surveys and they have found a close relationship between the levels of customer satisfaction and staff satisfaction.

There is generally a higher turnover of staff in the call centres than in the bank's branches. This is due to the fact that the call centre agents are on temporary contract in most cases and branch employees are on permanent contacts. The customer satisfaction surveys have shown over time that the customers who deal with the branches directly are more satisfied with the bank's services than those who go through call centres.

The challenge with a high turnover of staff is that of training. It takes a long time to train the customer contact agent to the acceptable level of proficiency where they are able to provide a higher level of service quality to the customers. There are many products in the credit card market with different options and features and understanding all that product knowledge is not easy. Most banks have recently moved away from using temporary employees in their call centres. They have converted all of their temporary employees and have given them permanent contracts. By doing this, they hope that the employees would buy into the bank's vision and depict that when dealing with customers.

5.6.2 *Senior Management*

Senior management refers to those employees that manage and also give strategic direction to the bank's customer management activities. There has generally not been too much movement in this area and most of the managers tend to stay longer in their positions to see their strategies through to implementation.

All the respondents have agreed that any impact that result from this group of employees is not immediate but takes a long time before it manifests itself. The kinds of issues that arise are more related to the continuity of the strategies and customer management activities that are being implemented. New managers always come up with new ideas and the front desk employees can get confused about the things they are expected to do and this can adversely impact on the quality of service rendered to the customers.

5.7 Increased Competition and Reduced Switching Barriers

5.7.1 *Increased Competition*

Competition in the credit card market comes from other banks (Traditional Competitors) and from other retailers (Non-Traditional Competitors) who have recently entered the credit card market.

a. ***Impact of Traditional Competitors***

“The most important thing for us is to be front of the wallet”

Most credit card customers in the banks own one or more products with the bank. Banks target the customers in their customer base for new credit cards to ensure that they cement their relationship with the bank. Banks do not openly target other banks’ customers except in the case where the customer owns a product like homeloan or vehicle finance account with them. The biggest competitive issue is to have one’s credit cards being on the front of the wallet and being the card of choice when the customer makes a purchasing decision.

Most respondents have concurred that there has not been much attrition or defection to competitor banks from their customer base. The value proposition of all the banks is similar and there is very little differentiation between what one bank offers to its customers compared to what other banks offer.

b. ***Impact of Non-Traditional Competitors***

"There hasn't been any drastic change in our attrition rates since the new competitors came"

There has been a huge entrance of new credit card providers from other retailers, cellphone companies and airlines. These new competitors generally target customers who are regular buyers in their stores or use their services on a regular basis. They take advantage of the customer's loyalty to that particular brand and offer rewards that are related to that specific company's products. For example: Airlines will offer their customers air-miles in their rewards programmes and retail stores offer customers rebates on the products that they sell.

The banks have linked themselves with these new entrants and this helps them to benefit from any gains these organisations make. All the respondents have agreed, however, that even with the noise that was made by these new entrants on card fees, there has been very little or negligible impact on the attrition rates and credit card spend on the bank credit cards.

5.7.2 *Reduced Switching Barriers*

I don't think the switching barriers are low, especially after the implementation of the new National Credit Act"

All the respondents agreed that it is generally easy to close one's credit card account and move to another service provider. There are no financial penalties incurred by customers when they attempt to close their accounts. All it takes is a phone call to the bank and the account will be closed. However, credit card providers introduce different mechanisms to try and stop or make it extremely difficult for customers to defect. The switching costs or barriers that banks employ to deter customers from defecting can be categorised into two, those that are product related and those that are related to economic factors.

a. ***Product Related Barriers***

After customer acquisition, all the banks embark on cross-selling more services and credit card related products with the aim of improving the customer experience and, most importantly, to increase the stickiness of the customer to the bank. Products that are sold include secondary cards and insurance related products.

In other cases, customers are encouraged to pay their third party accounts or recurrent payments like cellphone accounts and insurance policies through their credit card accounts. It is hoped that if customers link many accounts to their credit cards, it would take a much longer time to cancel them when the customer decides to close their account.

b. ***Economic Related Barriers***

The economic factors do not have a huge impact under good economic conditions. These become more pronounced when the economic conditions change and the customers’ disposable income is under pressure. Customers begin to look for better deals that make it cheaper to use credit cards.

The banks respond by waiving annual fees and cancelling other credit card related fees in order to discourage their customers to defection to other banks that offer free fee accounts. All the respondents have concurred that the new entrants that offered free annual fee accounts have not caused many of their customers to defect.

The National Credit Act has also played a very important role in this case because many customers who were given higher credit limits could not easily defect because they would not be able to get similar limits from new credit card providers. The NCA has been one of the biggest deterrents to defection than many other factors as it makes it difficult for customers to acquire credit if they cannot afford it.

6 CHAPTER SIX: CONCLUSION

6.1 Introduction

The findings or results that were presented in the previous chapter will be tested in this chapter against the five propositions that were formulated before the research was conducted. This will be followed by suggestions and recommendations to the credit card managers who deal with issues of customer retentions. The recommendations are basically based on the insight gained from the interviews that were conducted with the respondents and the analysis and evaluation of the results that were presented in the previous chapter.

6.2 Strength of Support for Proposition 1

Proposition 1 states that: The perceived service quality is a challenge to retention because continued encounters with poor and inconsistent service quality contribute to the customer's decision to either switch or limit the level of patronage with the credit card provider.

From the results presented in the previous chapter, it was extremely clear that the customer's perception of quality is very important and forms the basis of a sustainable competitive advantage for banks in an environment where product differentiation is difficult. All the respondents concurred that over 50% of the complaints that are received and reasons given to close accounts are service related. The first proposition was thus fully supported by all the respondents from all the four banks.

It is important to note, however, that service related issues are easy to resolve. The customer retention call centre agents are trained to take ownership of the customer's service queries and ensure that they are resolved to the customer's satisfaction. All the respondents concurred that it is easier to convince a customer that wants to close their accounts for service related reasons to stay. In some cases the banks pacify customers by offering them a token of appreciation like waiving fees for a year and there has been a lot of success in retaining customers in this way.

6.3 Strength of Support for Proposition 2

Proposition 2 states that: Customer satisfaction is a challenge to retention because of the complex nature of the relationship between satisfaction and retention where a number of customers who express satisfaction still defect, and dissatisfied customers do not.

The interview results have shown that the complexity does exist where satisfied customers leave and dissatisfied customers stay. This situation results from a variety of reasons and it is not easy to stop satisfied customers from closing their accounts due to some of the reasons discussed in the previous chapter. The second proposition has been fully supported by all the respondents.

This customer satisfaction complexity has been found to account for a smaller number of customer defections. It is only in the situations where customers are under serious financial distress and wanting to consolidate their debts that this manifests itself and it is difficult to stop that. In other cases, the customer retention agents will attempt to resell the card's value propositions and throw in some sweeteners like waiving annual fees to try and stop customers from defecting.

6.4 Strength of Support for Proposition 3

Proposition 3 states that: Loyalty programmes are a challenge to retention because an average consumer has a number of credit cards with multiple loyalty programmes and show little commitment to any specific programme as he/she can easily switch between credit card providers.

The loyalty programmes are not functioning well in most of the credit card organisations. As discussed in the previous chapter, there are only two banks that have a properly functioning rewards programme and only the respondents from one bank confirmed that they were noticing a difference that is brought about by their rewards programme. They have argued that the customers who were extracting value from their programme were likely to stay longer with their bank.

The third proposition was not fully supported. This could be attributed to the fact that most of the banks in the South African market do not have a fully functional loyalty programme and, only one of the two that have, has argued against the proposition that they have seen commitment by the customers to their loyalty programme.

The banks that do not have loyalty programmes in place have argued that they have not seen a huge exodus of customers due to the absence of a loyalty programme. Nonetheless, it is important to note that all the respondents emphasised the fact that customers have recently grown more demanding and they will only support a programme where they are able to extract value quicker. Rewards programmes that give points that take a very long time to reach a level where they can be redeemed will get very little support and those banks that run such programmes will not get the intended benefit of retaining customers through such programmes.

6.5 Strength of Support for Proposition 4

Proposition 4 states that: Low employee satisfaction and retention are a challenge to retention because they lead to an unstable labour force that delivers low service quality to customers and resulting in low customer retention.

The impact and the areas impacted by employee retention differ depending on the level and function of the employees. All the respondents argued that the impact of high staff attrition of the front desk employees is immediate and can result in many service related queries that could negatively impact the retention of customers. The fourth proposition was fully supported by all respondents.

Most of the banks do measure the staff satisfaction in conjunction with customer satisfaction surveys as this gives management an indication of the service customers are likely to receive from their employees. The retention of higher level employees, like senior managers, was found to have a negative impact on customer retention over a longer period of time. There was, however, very little anecdotal evidence to support or understand the impact of the turnover of senior managers dealing with customer management on the banks' defection rates.

6.6 Strength of Support for Proposition 5

Proposition 5 states that: The increased competition in the credit card market is a challenge to retention because it lowers the switching barriers and then increases the customer's propensity to switch from one provider to another.

The competition in the credit card market in South Africa is not very strong between the banks as there is very little differentiation in the products and service that they offer. All the respondents have confirmed that the arrival of new entrants from retailers and airlines has not done much to change the status quo. The fifth proposition was completely rejected by all the respondents from all the banks.

The barriers to move between different banks are generally not strong and there are no costs incurred in switching between credit card providers. The strength of the existing barriers largely depends on the personal conditions of the individual customers. The customers that are running large balances will generally find it difficult to defect because they would need to pay off all the debt that they owe before they can be allowed to close their accounts. The introduction of the National Credit Act has had an unintended effect of increasing the switching barriers for those customers who have taken on more debt that they can afford. These customers cannot get a new credit card or a credit limit equal to the one they have when they decide to switch and this has acted as a very strong barrier to defection.

The product related features that banks employ to deter customers from defection are not very effective especially for those customers who normally pay their accounts in full every month. The switching barriers for these customers are traditionally low and the introduction of competition does not necessarily lower them any further but it gives them more options when they decide to defect.

The increased competition in the credit card market is not a challenge to retention because it has not lowered the switching barriers and, thereby increasing the customer's propensity to switch from one provider to another.

6.7 Recommendations to Management

There is agreement that the retention of customers is very important to banks in an environment where it is very costly to acquire new ones. There are challenges, as detailed in the previous chapter, that all the credit card businesses face in their attempt to retain their customers. Most of these challenges are not difficult to manage and many banks have managed to face them successfully.

Service quality has repeatedly come up as one of the key challenges that all the banks face in their attempt to retain customers. It is a difficult issue because it is dependent on motivated people and fully functioning processes and systems to ensure consistency in the way the service is rendered to customers. What has proven to be successful for other banks has been the emphasis of holding departments and people personally accountable where there has been a service failure. It important to note that this approach was found to be able to change behaviours and attitudes towards customer service delivery.

The complexity that exists where satisfied customers defect and unsatisfied customers stay was found to account for very little in customer defection rates. The factors that account for this are outside the scope of the banks' control and in most cases there is very little that the banks can do. The only suggestion would be to resell the credit card value proposition to the defecting customers and offer to change or eliminate some of the factors that are pushing the customers to defect.

The challenge with loyalty programme is difficult to deal with in an environment where there are few that are functional and that bring in noticeable value to the banks and the customers. Nonetheless, there is agreement that for a loyalty programme to be effective in deterring customers from defecting, it has to offer a strong value proposition to the customers. Customers need instant gratification and no longer have the patience to wait for months collecting reward points before they can redeem them and extract benefit from the programme.

The satisfaction and retention of the banks' front desk employees is very important in the retention of customers. These employees are the face of the company and are first and, in many instances, the only contact that the customers have with the bank. The quality of service that they render to the customers gives the customers the impression of how the bank values them and can result in the customer having a short or longer relationship with the bank. The banks should continuously measure their staff satisfaction rates and also ensure that many of them are made permanent employees of the bank. This would assist in having their buy-in on the banks' customer management strategy and vision and they will behave positively towards creating an environment conducive to a superior customer experience.

Competition from other banks and from the new entrants to the credit card market does not seem to be a very big issue for the banks. However, it is important to note that in an environment where there are many options and temptations to change, and traditionally lower barriers to switch, customer service will become very important. Customers will begin to seek banks that offer them a carefree service and where there are very few issues to worry about when using their credit cards.

6.8 Areas for Further Research

The challenges that credit card businesses face when attempting to retain customers has enjoyed little attention as a research topic and this research report offers a broader view on these challenges. A significant opportunity exits to do further research on this topic in the banks and other areas where credit cards are offered.

A quantitative study centred on the challenges identified and discussed in this research report would be very relevant. It would be a pertinent extension of this explorative work and would give banks a better understanding of the relative significance of these challenges to their businesses. The outcome of such a research could be used to identify areas of improvement and to inform new strategies.

A study into the key drivers of customer loyalty in the credit card environment is South Africa, with particular emphasis on the contribution of loyalty or rewards programmes should be conducted. This study will establish if loyalty or rewards programmes are necessary and if they truly achieve the intended objective of retaining credit card customers.

Another study could be commissioned to understand the challenges that are faced by the non-traditional credit card providers (retailers, airlines and cellphone companies) when attempting to retain their customers. This could help understand how these companies respond to this challenge of customer retention in an environment where customers only have one relationship with the credit card provider and where the companies mainly depending on the strength of their brand to retain customers.

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8 APPENDIX A

<u>**The Interview Schedule**</u>

Details of the Respondent

Respondent Name:

Title:

Organisation:

Contact Telephone Number:

Email Address:

Date:

Time:

Duration of the Interview:

The Opening Statement to the Respondent

My name is Abel Mudau, a student at the Wits Business School, and I would like to thank you for agreeing to contribute to this research study. I guarantee that your contribution will be anonymous and neither your name nor your company will be linked to any statements or comments made.

As I explained earlier during our telephonic conversation, the primary purpose of this research is to explore the challenges that the South African credit card organisations face in their attempts to retain customers, as perceived by the banks. More specifically, the intent is to identify and analyse these.

The Key Interview Questions

The interview questions below are setup in such a way that they'll be open-ended and addressing the research questions discussed above. This is done to ensure that the interview remains flexible and allows for any relevant information to emerge. A number of different probing questions will be used during the interview to ensure that the research questions are answered as comprehensively as possible. The following research questions and prompts will be used:

Interview Question 1: [to be answered by the respondents from the banks and the card associations (VISA and MasterCard)]

What strategies has your company implemented to retain credit card customers?

Please elaborate why your company chose those particular activities.

Interview Question 2: [to be answered by the respondents from the card associations (VISA and MasterCard) only]

What challenges have you faced in building customer commitment levels to your brand of credit cards?

Probe:

Could that include the lack of differentiation in customer proposition between the different associations?

Interview Question 3: [to be answered by respondents from the banks only]

What are the key challenges that your division is facing in trying to implement the customer retention strategies?

Probe:

To help with this interview question, the prompts will begin by “Could the challenges faced when embarking on the activities of retaining customers include….”

a) … the level or lack of consistency in the quality of service rendered to your customers?

b) …lack of noticeable positive change or an equal increase in customer retention from any initiatives that you embarked on to improve customer satisfaction?

c) …increased competition in the credit card market?

d) …the reduction in customer switching barriers that have increased customer mobility?

e) … the lack of commitment shown by your customer to your loyalty programmes?

f) … the impact of the level of retention and satisfaction of staff members have on customer satisfaction?

Closing Remarks to the Respondent

Thank you very much for making the time to meet with me and for contributing to this research. The information received from you today has been invaluable. As soon as the results for the research are available, I will send them to you for your perusal. Thank you and goodbye.