

*Modelling Return on Marketing in the
South African Banking sector*

RESEARCH REPORT

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Abstract

In today's increasingly dynamic and competitive markets, organizations are continuously pressurized to meet financial targets in order to realise company goals in an efficient and effective manner. The banking sector in South Africa has, for a very long time, operated in a predominantly oligopoly market, however, due to increasing pressure from new entrants like Capitec Bank, there has been a shift of focus to ensuring long term profitability and competitiveness as the new entrants are constantly implementing strategies that cause customer switching. The literature reveals that long-term profitability requires that a firm implements sustainable development projects to ensure long-term profitability. However, many of the profitability models in use today do not have a variable for sustainable development and yet it is a key factor in drawing returns on investment. This study adopts the South African banking sector and investigates the applicability of Rust, Lemon and Zeithaml's (2004) return on investment model for the various initiatives that the banks have implemented.

From qualitative research with the banks, it was found that sustainable development forms a large part of the annual budget with the aim of improving the brand perceptions and increasing the likelihood of customer retention and attraction. However, the results from the bank's customers reveal that the initiatives being sponsored by the banks have very little effect on their decision to switch or remain banking with a specified bank. Basic customer satisfaction techniques like clear communication and customer care still outweigh any corporate initiative like sponsoring the local soccer league thus although these initiatives do benefit to keep the brand name in customer's minds, they do less in realising returns. The model reveals a technique to quantify return on investment taking into account factors like sustainable development and it was found that the model is applicable and useful in a South African setting.

Recommendations include applying the model to gauge not only the possibility of returns but also how much a company can expect to receive after investing a specified amount of money on any initiative. This model will be very useful for planning especially for capital intensive projects as the current economic environment cannot accommodate for misappropriation of funds.

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Masters of Commerce at the School of Business and Economics, University of the Witwatersrand. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Signed

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CHAPTER ONE: INTRODUCTION

With an increasingly competitive market, many businesses have shifted from product-centred thinking to customer-centred thinking where creating long term customer value has become a priority. As a result of this, customer equity is the latest development in marketing theory and there has been substantial demand for research which develops improved approaches to marketing that encompass more analytical rigour and demonstrate the effect of marketing on business performance.

Business success is measured in financial terms and as a result, it is important to measure any management actions like investing in sustainable development. Customer equity is a summation of customer lifetime values for the customer base of an organisation and it is a critical determinant of business performance and returns on investment as it accounts for non-tangible assets (for example, brand and relationship equity) unlike financial models. Bauer and Hammerschmidt (2005) suggest that the long term value of customers is a more stable and relevant metric of firm value than financial metrics like market capitalisation or price earnings ratio. The present research thus seeks to use a customer equity model that can evaluate return on marketing programs and corporate citizenship initiatives, which are not accounted for in financial analysis yet they constitute a huge percentage of most businesses budgets.

Rust, Lemon and Zeithaml (2004) acknowledge that various techniques exist for evaluating financial returns from marketing expenditure; however the approaches adopted in the literature have not produced a practical model that can be employed to trade off marketing strategies. As the banking sector in South Africa is becoming increasingly competitive with new players like Capitec slowly penetrating the market, a model is needed to demonstrate the benefit of a marketing campaign before launching as the model should predict how the bank's ratings will increase and determine the probability of retaining a customer and more importantly of attracting another customer. Such a model would help marketing practitioners to decide between campaigns and determine the value of incorporating elements like sustainable development.

Unlike other marketing techniques, sustainable development is difficult to quantify as the banks spend large sums of money investing in the society by doing community work, sponsoring education and numerous good deeds in the hope of creating a good name and preference from the community.

However, banks have no practical means to determine the value of their investment and it becomes difficult to evaluate returns as most of the time customers do not really change their behaviour because of a company's corporate responsibility (Schultz & Gronstedt, 1997). This study seeks to test a model that will enable marketing accountability and the model will be devised for the banking sector as research has shown increasing investments into society's wellbeing.

1.1 Research Objectives

The aim of this study is to use marketing science phenomena to establish a model that will enable a bank to determine key drivers of customer equity and establish return on investment in the same manner that Rust et al (2004) determined drivers of customer equity in the airline industry. The model will take sustainable development into account and propose financial accountability of marketing actions.

The study tests a model which enables what if evaluation of marketing returns on investment as it tests the effect on using marketing expenditure to improve customer equity drivers in the South African banking sector. The research seeks to enable these banks to focus marketing efforts on strategic initiatives that generate the greatest returns.

The research therefore, will seek to answer the following research questions:

1. What are the key drivers of customer equity for bank customers?

The components of value, brand and relationship equity will be analysed to assess their effect on customer equity in order to determine returns on investment on any of these criteria.

2. What is the effect of sustainable development initiatives on customer equity?

It is essential to determine returns on corporate responsibility initiatives as banks dedicate large budgets for this so the study will investigate means of evaluating returns on corporate citizenship.

3. Where can banks focus their efforts in order to achieve sustainable competitive advantage?
4. How can banks build long term value for themselves and for their customers and remain sustainable?

1.2 Importance of the study

Marketing is increasingly becoming accountable for investments since the fundamental shift toward value based management has led to an increasing demand for corporate valuation methods (Bauer & Hammerschmidt, 2005). For a long time, marketing managers have relied on intuition and experience to make capital intensive decisions such as whether they should increase advertising, invest in a loyalty program or invest in corporate citizenship with the hope that the community will acknowledge their efforts and change their purchasing behaviour. The outcome of this study will enable the marketing industry to draw conclusions and action plans based on the results of a model that will predict returns should a particular campaign be pursued.

This will enable accountability and better use of the marketing budgets as practitioners can make informed decisions and management can plan accordingly. Practitioners will be able to trade off investments by assessing returns on quality, returns on advertising, returns on loyalty programs and returns on corporate citizenship given a particular shift in customer perceptions. Practitioners will be able to select initiatives that generate the greatest returns.

For academia, this study will fill a gap in the literature and contribute to the customer equity theories by introducing a model to quantify return on investment. It will also create a base for future research to develop models in other industries which will provide measurement techniques for studying marketing investments.

1.3 Scope

The study will focus on the main banks in South Africa, namely, FNB, ABSA, Standard Bank and Nedbank as these have shown to have large investments into corporate social responsibility.

The study will progress as follows:

Chapter 1 – Introduction

The reader will be presented with an overview of customer equity and sustainable development and how this research will contribute to that domain.

Furthermore, the chapter will outline gaps in the literature of this type of output thereby outlining the purpose and importance of the study.

Chapter 2: Literature review

This chapter will provide a critical review of research studies conducted in the customer equity arena and establish all theories relating to the topic and determine major findings that emanate from previous research.

This will enable the reader to be knowledgeable about the field under investigation and to conceptualise the positioning of the study prior to viewing the outcome.

Chapter 3: Research Methodology

As there are many research designs that can be adopted, this chapter will justify why the chosen research design has been adopted and outline all plans to achieve reliability and validity whilst reducing bias. Elements such as the data collection technique, measurement instrument and sampling techniques will be discussed and a copy of the instrument will be attached as part of the appendices.

Chapter 4: Analysis of Results

Using marketing modelling techniques such as segmentation and stepwise regression, a full model will be devised that can aid decision making in marketing investments. Important outcomes will be established and highlighted for the reader.

Chapter 5: Discussion

Important results will be interpreted and implications for management, marketing and academia will be discussed. Each of the hypotheses will be discussed and concluded in terms of their relevance and impact on the conceptual model.

Chapter 6: Conclusion

This chapter will summarise the research report and draw all relevant conclusions. Areas for improvement and future research will be suggested whilst highlighting any shortfalls of the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section introduces two constructs, these being sustainable development and customer equity management. Recently, there has been a growing trend in sustainable development where companies are investing into corporate social responsibility but there is no evident benefit of the CSR campaigns. Corporate Social Responsibility (CSR) has been described as the company's performance in providing information on societal initiatives undertaken by the firm, community involvement and corporate philanthropy being an activity above and beyond what is required of the organization (Mullen, 1997). More generally, CSR is a set of policies, practices, and programs that are integrated throughout business operations and decision-making processes, and intended to ensure the company maximizes the positive impacts of its operations in society (Attalla & Carrigan, 2001). This literature review will reveal practices in CSR and evaluate the customer equity concept in order to establish the contribution of this research

According to Polonsky (1994) a firm that is socially responsible acknowledges that it exists and operates in a shared environment with stakeholders who are affected by the organisation's goals. Thus, management of stakeholder relationships lies at the core of CSR and entails establishment of a sound and functioning two-way communication with stakeholder groups. Maignan, Ferrell and Ferrell (2005) propose that firms need to understand the type of support needed from each group, as well as learn the expectations of business customers in order to have effective corporate citizenship which falls under the umbrella of sustainable development.

As this study will combine sustainable development and marketing efforts to gauge returns on investment, it is crucial to investigate what the literature reveals in the customer equity management arena.

According to Rust, Lemon and Zeithaml (2004), in a customer management marketing strategy, the objective is to maximize customer equity and having achieved this, a firm can use this as a basis for the comparison of strategic marketing alternatives. Customer equity is defined as, "the total of discounted lifetime values summed over all of the firm's current and potential customers" (Rust et al. 2004, p.110).

Customer equity evaluates all marketing expenditures on the same basis while customer lifetime value (CLV) is the suitable metric for individual customers (Rust et al. 2004). Conceptualizing the suitable methods for the growth and management of customer equity requires a breakdown of the construct into its components of value equity, brand equity and relationship equity (Rust et al. 2004).

These components each have specific, incisive actions a bank could use to enhance them all and the association between customer equity and these actionable drivers provides firms with a framework to systematically respond to changing customer needs and a changing competitive environment (Rust et al. 2004).

For this study, the focus will be placed on corporate social responsibility as it was established that this form of sustainable marketing practice would greatly benefit the banking sector. This construct would need to be integrated with the company's current initiatives and projects to ensure synchronicity across the business.

In addition, the literature review will show how the proposed model will be used to gauge the balance between sustainable development, service excellence and profitability. Thus, this study is critical in merging both sustainable development and customer equity as the way the business operates today and into the future.

The literature review will commence with an overview of marketing accountability and the role of customer equity in gauging returns, investigate measures used in customer equity and brand equity.

2.2 Marketing accountability techniques

2.2.1 Introduction

Marketing accountability is difficult to achieve because the cause-and-effect relationships between marketing and business performance usually are not clearly defined in the literature. Many researchers agree that tactical insights at this level are what many companies want (Hanssens *et al.* 2008). Numerous tools have been proposed in the literature to gauge the value of a firm and one of these tools is customer equity.

Gupta, Lehmann, and Stuart, (2004), posit that customer equity is a reasonable proxy for the value of the firm. This conclusion is supported by Rust et al. (2004), based on analysis of American Airlines. Gupta's, et al. (2004) customer based valuation approach is based on the premise that says if the long-term value of a customer can be estimated and the growth in number of customers can be forecast, it is easy to value a company's current and future customer base. It is thus critical to understand the profit orientated framework as that places an effect on the company's value.

The Profit-Orientated Framework thus includes an analysis of the following sections:

- a) Obtaining the largest long-term profits from customers using a customer equity approach.
- b) Measurements of marketing success and how this may be linked to the firm's market value.
- c) A bank's value, brand and relationship equity with specific ideas for how this may be increased most effectively.

2.1.2 Obtaining the largest long-term profits from customers using an equity approach

As it has been established, the banking sector in South Africa is facing intense competition especially with the emergence of new players that target the low income market like Capitec Bank. This competition places a greater urgency for establishing means to obtain long term profits from customers thereby ensuring cost effective management of funds using an equity approach. This was highlighted by Thompson (2001) and is an efficient way to build and maintain relationships with customers, thereby increasing the customer's life span with the respective bank.

It is therefore crucial to review the customer equity approach and what the literature reveals about different aspects of it as this can enable successful modelling of marketing returns using the equity framework that is currently being employed by the banks.

2.2 Customer Equity Logic for Marketing

Many researchers agree that today's economy has shifted from being goods driven to services driven, thus customers and firms have shifted from focusing on transactions to focusing on relationships (Vargo & Lusch 2004). This has led to a fundamental shift from marketing products to managing customers (Rust *et al.* 2004).

This shift is described as the new dominant logic for Marketing where service provision rather than goods is fundamental to economic change and this shift can be observed particularly in the South African banking sector (Vargo & Lusch 2004) in the same manner that Rust et al (2004) observed the importance of customer service in the airline industry

Customer orientation suggests that businesses need to spend resources to capture the business of high value prospective customers. Thereafter, it is critical that high value customers, converted to the company are then retained through excellent service (Blattberg & Deighton 1996). The customer equity logic seeks to establish the value of providing superior customer service and how this translates in sustainable value for the firm

For banks and businesses in general, setting a marketing budget requires the firm to balance what is spent in terms of customer acquisition with what is spent on retention. The customer equity logic places emphasis on both as by achieving both targets the company will achieve higher customer equity (Blattberg & Deighton 1996). It is equally important for the banks to spend on retaining customers. The return on investment model investigated in this study will consider marketing efforts for acquisition and retention in order to cater for Blattberg et al, (1996) findings.

Essentially, appraising customer equity has two determinants: The cost of acquiring new customers and the future profit stream from retained customers, thus the new goal of the marketing strategy is to maximize customer equity by balancing acquisition and retention efforts (Blattberg & Deighton 1996). To establish this balance, an understanding needs to be made of the various measures utilised to gauge a firm's value and these are discussed below

2.3 Measurements of a firms market value

According to Hanssens et al. (2008), the ultimate performance measure is unit sales or revenue, and the lessons learned improve profits in the near term. Profits are critical for business and that is the major goal for all businesses. Consequently, models have been developed for businesses that depend on building long-lasting, profitable relationships with customers. One of these measures is customer lifetime value and it is the dominant means of assessing customer value. Some of the other models though similar to customer lifetime value, still fall short and thus this study seeks to improve in that domain.

According to Rust *et al.* (2004), Customer Lifetime Value (CLV) can be defined as a measure of the future financial value of the customer's purchases with an organization and considers factors such as:

1. How much the customer spends on each purchase with the firm,
2. How often the customer purchases from the firm
3. The likelihood of the customer remaining a customer in the future
4. How much it costs to serve the customer and
5. The organization's discount rate.

The components of CLV are thus purchase frequency, the contribution margin and the marketing costs (Venkatesan & Kumar 2004). Venkatesan et al (2004) also prelude to the fact that it is easier and cheaper to retain customers than to acquire new customers as more marketing efforts are required to obtain new customers.

To incorporate these components of customer acquisition and retention in the model, one needs to incorporate brand switching as that determines the level of loyalty that consumers have to a brand. (Rust *et al.* 2004). If a customer is loyal to a particular brand the chances of retaining that customer are very high and similarly, if a brand is reputable and well known, customers are attracted to it and this increases the likelihood of customer acquisition. Essentially, Rust et al. (2004) use brand switching to determine the customer lifetime value using this reasoning as customers switching between brands decreases the retention and ultimately the CLV.

Brand switching, in the case of the banking sector, would involve customers changing from one bank to another in search of benefits. Examples were provided in the qualitative study where some customers switched from FNB to Standard Bank as the latter approved their home loans thus the customers shifted all their banking to the bank that proved favourable. Brand profitability, on the other hand, is concerned with understanding the extent to which customers repurchase that particular brand and this needs to include information about the focal company and its competitor's results. This is vital as it is not enough to have customers that prefer a brand, they have to actually continually purchase the brand in order for the firm to realise value (Massy, 1965).

However, knowledge of probabilities of purchases is not sufficient to measure CLV. A company's time horizon and discount rates also need to be assessed and these will be assessed in this study.

According to Rust *et al.* (2004), CLV modeling, also involves the modeling of the switching matrix for each individual customer. This requires using individual level data from a cross-sectional sample of customers, combined with purchase (or purchase intention) data, then a firm can estimate model parameters that enable the modeling of CLV at the individual customer level (Rust *et al.* 2004). A similar approach was adopted in this study, where individual data was collected of customers' purchasing habits in order to derive the CLV.

For managers, it is important to realize that the switching matrix is largely under the firm's control. If the firm improves the service, for example, this could result in a higher retention rate. The following section provides explanations of the different equations and use of the equations used by Rust *et al.* (2004) to determine various components of customer equity. This study follows a similar approach and the formulae are listed below:

In order to evaluate how much switching probabilities would change, one could use a logit regression as employed by Rust *et al.* (2004) below:

$$1. \Pr \text{ Brand } j = \left[\exp \frac{\text{utility of brand } j}{\sum \{\exp(\text{utility})\} \text{ across all brands}} \right]$$

In addition to using specific customer-equity driver ratings, the effect of brand inertia is also included as it has been shown to be useful in predicting factor in multinomial logit choice models (Guadagni and Little 1983). Brand inertia refers to situations when the brand is not preferred and customers are no longer loyal to the brand. The utility expression can be conceptualized as:

$$2. U_{ijk} = \alpha_k \text{ LAST}_{ijk} + X_{ik} \beta_k + e_{ijk}$$

Where U_{ijk} is the utility of brand k to individual i , who most recently purchased brand j . The dummy variable LAST_{ijk} is equal to one if $j = k$ and is equal to zero otherwise; X is a row vector of drivers.

$0k$ is a logit regression coefficient corresponding to inertia, $1k$ is a column vector of logit regression coefficients corresponding to the drivers, and ϵ_{ijk} is a random error term that is assumed to have an extreme value (double exponential) distribution, as is standard in logit models. In other words, utility can be modelled as:

3. *Utility = inertia + impact of drivers + random errors*

Rust et al. (2004) describe the switching matrix explicitly as the individual-level utilities that result in individual-level switching matrices. Essentially, each row of the switching matrix makes a different assumption about the most recent brand purchased which results in different utilities for each row. That is, the first row assumes that the first brand was bought most recently; the second row assumes that the second brand was bought most recently etc. This is crucial to determine the strength of a brand and for the banks in particular, the switching matrix outlines which bank's services were utilized and can enable the bank to determine what services people value the most and focus marketing efforts on those.

The utilities in the different rows are different because the effect of inertia (and the effect of any variable) only manifests with repeat purchases. The effect of inertia is also crucial in retaining customers hence Rust et al (2004) incorporated this into their model. Consistent with the multinomial logit model, the probability of choice for individual i is modelled as

$$\begin{aligned}
 4. P_{ijk} &= \Pr \text{ individual } i \text{ chooses brand } k, \text{ given that brand } j \text{ was most recently chosen} \\
 &= \exp(U_{ijk}) / \sum_k \exp(U_{ijk})
 \end{aligned}$$

Therefore, the individual-level utilities result in individual-level switching matrices and this ultimately results in an individual-level CLV.

In order that the CLV calculation is more specific, each customer i has an associated $J * J$ switching matrix, where J is the number of brands, with switching probabilities p_{ijk} , indicating the probability that customer i will choose brand k in the next purchase, conditional on having purchased brand j in the most recent purchase (Rust et al. 2004).

This leads to the concept of the Markov switching matrix which is denoted as **Mi**, and the $1 \times J$ row vector **Ai** has as its elements the probabilities of purchase for customer i's current transaction. The matrix can be depicted as

$$(4) \text{Bit} = \text{AiMi}^t$$

This leads to the calculation of the CLV of customer i to brand j which can be depicted as

$$5. \text{CLV}_{ij} = \sum_{k=0}^n \frac{1 + d_j}{1 + r} - \frac{t/f_{ij} \pi_{ijt} B_{ijt}}{1 + r}$$

where T_{ij} is the number of purchases customer i is expected to make before firm j's time horizon, H_j and B_{ijt} is a firm specific element of Bit. The next critical equation, customer equity, CE_j , can now be expressed as

$$6. CE_j = \text{mean}_i \text{CLV}_{ij} * POP$$

Where $\text{mean}_i (\text{CLV}_{ij})$ is the average lifetime value for firm j's customers i across the sample, and POP is the total number of customers in the market across all brands. The customer equity framework can also be utilized to derive a measure of the company's competitive position.

According to Rust et al (2004), market share, which has been historically used as a measure of a company's overall competitive standing, can be misleading since it only considers current sales while a firm that has built a foundation for strong future profits is in better competitive shape than a company that is sacrificing future profits for current sales, even if the two companies have equal current market shares. *Customer Equity Share* (CES) is important to consider and it is defined and calculated by using the following equation:

$$7. CES_j = CE_j / \sum_{i=0}^n CE_{kk}$$

Eventually, firms wish to understand the financial impact of marketing activities. A measurement of customer perceptions of the sub drivers about which the firm wanted to know more about is important when firms attempt to improve its customer equity by making improvements in the drivers.

This can be illustrated by the following: When a driver shifts (e.g., increased ad awareness), this can result in an estimated shift in utility, which in turn can produce an estimated shift in the conditional probabilities of choice (conditional on last brand purchased) and this ultimately results in a revised Markov switching matrix. This inevitably improves CLV (Equations 4 and 5). Then summed across all customers, this should result in improved customer equity (Equation 6).

Projecting the financial impact of marketing activities that aim to improve the CE drivers is important as it enables companies to determine if the expenditures are profitable.

Finance executives suggest that improved expenditures should be treated as capital investments and viewed as profitable when the ROI exceeds the cost of capital. This approach is based on the concept of value-based management (Copeland, Koller, & Murrin 1996). Thus ROI (return on investment) is calculated as

$$ROI = (\Delta CE - E)/E$$

E denotes the discounted expenditure stream, which is discounted by the cost of capital, and ΔCE is the improvement in customer equity that the expenditures produce. Even though the ΔCE can be negative, the ROI expression will still hold. These equations are all crucial to understand as they impact the return on investment model and were utilized in this study

2.4 CLV Forecasting: Managing the Asset Value of the Customer Base

The customer is seen as an entity that provides the firm with a stream of revenue (and costs) and therefore becomes an integral component in the tabulation of a firm's overall net worth, thus the customer can be viewed as an asset to the firm (Berger *et al.* 2002). This section reveals discussions on this concept and elaborates on the importance of viewing the customer as an asset in order to achieve long term customer equity.

Customer value is the value that the customer provides to the firm instead of the value provided by the firm to the customer (Roberts 2000). Berger *et al.* (2002) choose to view customers as assets which are systematically managed. This enables understanding of how firms relate to their markets in that firms are able to analyse what expenditure will have more impact on the value of a firm's customer base necessitating a new advertising campaign or improvements in service quality.

Customer value means the asset value of the customer from a firm's standpoint i.e the customers' lifetime value to the firm (Berger et al. 2002). The value the customer provides to the firm is the sum of the discounted net contribution margins over time of the customer which is the revenue provided to the firm less the firm's cost associated with maintaining a relationship with the customer (Berger and Nada 1998). The firm cannot perfectly predict how much an individual customer will contribute to its net worth, but it can calculate the expected value of the cash flows associated with an individual customer based on the customer's characteristics and the firm's planned marketing actions (Berger *et al.* 2002).

Essentially, Customer Lifetime Value (CLV) refers to the monetary value of the customer (or group of customers) over this time period (Berger et al. 2002). CLV analyses require each firm to make a careful assessment of the costs and benefits of alternative expenditures and investments, and then determine the optimal allocation of resources to homogeneous customer groups (Berger et al. 2002). Research has encountered many challenges and problems in linking marketing actions to CLV resulting in some managers and researchers concluding that marketing actions are ineffective in increasing the value of the customer base.

Berger et al. (2002)'s framework presents CLV as a dynamic construct since it not only influences the eventual allocation of marketing resources, but also is influenced by that allocation. Changes in the value of customer assets triggered by changes in marketing and changes in the allocation of firm resources (leading to changes in marketing actions) occur in a continuous, cyclical fashion.

In managing the asset value of the customer base, the four actions that firms must take in order to understand how their marketing activities affect the value of their customer assets are:

1. Create a database guided by marketing intelligence for the calculation of CLV
2. Segment according to customer needs and purchase patterns
3. Forecast CLV under alternative scenarios
4. Allocate resources to maximize the value of the customer base

By viewing customers as assets, and systematically managing those assets, a firm will be able to allocate its resources optimally and take the most appropriate marketing actions to acquire and maintain those assets so as to maximize the returns from them (Berger et al. 2002).

Once the CLV has been determined, the Customer Equity Management System suggests that the following drivers need to be examined: Brand Equity, Value Equity and Relationships Equity. These collectively form customer equity and are crucial in determining the customer equity for any business entity.

2.5 Customer Equity overview

According to Rust *et al.* (2004), in a customer management marketing strategy, the objective is to maximize customer equity and having achieved this, a firm can use this as a basis for the comparison of strategic marketing alternatives. As has been previously highlighted, customer equity validly evaluates all marketing expenditures on the same basis while CLV is the suitable metric for individual customers (Rust et al. 2004). Viewpoints on this concept are discussed below

For most firms, customer equity is certain to be the most important determinant of the long-term value of the firm but not responsible for the entire value of the firm. (Lemon, 2001). Since customer equity is about cash flow derived from current customers and future customers, it addresses the long-term sustainability of a firm's cash flow. Lemon posits that customer equity offers a powerful new approach to marketing strategy, replacing product-based strategy with a competitive strategy approach based on growing the long-term value of the firm. There is clearly a shift from brand-centric to customer centric marketing. According to Bell (2002), the point is not that product-or-brand-driven initiatives are unimportant or that the focus is misplaced but that the shift to a customer focus enables marketing tools to be more directly accountable for their intended results and to learn by a process of adaptive experimentation.

Direct accountability is one consequence of the ability to market to identified customers. Another, perhaps more important, is the ability to compute a customer's lifetime value and thereby to select customers and measure marketing results by the criterion of customer worth. By effectively leveraging the capabilities of information technology, marketing is entering a state where investment and returns can be credibly measured and indeed marketing functions can be related to market capitalization and shareholder value creation. (Bell, 2002). Rust et al (2004) also allude to this fact.

Leone (2006) argues that brand equity and customer equity tend to emphasise different aspects. The customer equity perspective puts much focus on the bottom-line financial value extracted from customers. Its' clear benefit is the quantifiable measures of financial performance it provides. Leone (2006) also concludes that the customer equity perspective largely ignores some of the important advantages of creating a strong brand. Examples include the ability of a strong brand to attract higher quality employees, elicit stronger support from channel and supply chain partners, and create growth opportunities through line and category extensions and licensing, and so on. In particular, the customer equity perspective is somewhat weak in capturing the nature of marketing tasks that deal with managing the channel and managing competitors.

Leone's argument is however nullified by Lemon's (2001) argument that says customer equity depends on three drivers namely; value equity, brand equity, and relationship equity. Therefore, brand equity is a subset of customer equity. One weakness of the customer equity approach is that it does not (according to Leone, 2001) always fully account for competitive response and the resulting moves and countermoves; nor does it fully account for social network effects, word-of-mouth, and customer-to-customer recommendations.

Other authors agree with Lemon (2001) and elaborate that marketing is viewed as an investment (Srivastava, Shervani, and Fahey 1998) that produces an improvement in a driver of customer equity. (Rust, 2004). In order to fully accomplish customer equity, firms need to make an effort to improve all three drivers. However, this concept implies that if all these drivers are improved, the firm will have significant market share and hence higher equity but there is no clear link between market share and profitability. Previous studies attempted to link market share to profitability as this study also attempts to do. A company that has built the foundation for strong future profits is in a better competitive position than a company that is sacrificing future profits for current sales, even if the two companies' current market shares are identical. (Rust, 2004). There has been a shift from focusing on market share and brand to managing customer lifetime value (CLV) and most recently to customer equity (CE).

Customer equity is referred to (Rust 2004) as an alternative to market share that takes CLV into account. Gupta (2004) found that a 1% improvement in retention, margin, or acquisition costs improves firm value by 5%, 1% and 0.1% respectively. They also find that a 1% improvement in retention has almost a five times greater impact on firm value than a 1% change in discount rate or cost of capital. (Gupta, et al. 2004).

Most companies refer to customers as assets from which value can be extracted and a brand is considered as one of the market-based assets. If indeed value can be extracted then it should be quantified. . The value of a customer is based on both the lifetime value and the indirect economic returns from influencing other prospective or current customers (Kraft, Rudolph & Rudolf- Sipotz, 2005).

Conceptualizing the suitable methods for the growth and management of customer equity requires a breakdown of the construct into its components of Value Equity, Brand Equity and Relationship Equity (Lemon, 2001). These components each have specific, incisive actions a firm could use to enhance them all and the association between customer equity and these actionable drivers provides firms with a framework to systematically respond to changing customer needs and a changing competitive environment (Rust et al. 2004).

2.6 Value Equity

2.6.1 Definition and Role

Value equity represents the customer's objective evaluation of the firm's product and service offerings such as banking services (Rust et al. 2004). Value equity is defined as the consumer's overall assessment of the product or service based on perceptions concerning that which is given up for that which is received (Lemon, 2001). Value is an important link between a customer and the firm and thus the firm should deliver on the value basics to meet customer needs and expectations (Rust et al. 2004). The three drivers for value equity are quality, price and convenience.

According to the Lemon (2001), value equity is most important when

1. The customer can discern difference between competing products
2. The innovative products and services are introduced
3. Customers face complex purchase decisions and
4. Firms wish to reinvigorate mature products or services

2.6.2 Drivers of Value Equity

The drivers of value equity are explored below

Quality: Quality can be defined as a form of overall evaluation of a product, similar to attitude (Zeithaml, 1988).

Firms can make the environment interesting for consumers and they can make their processes less burdensome for consumers whilst enhancing customer trust through the consistency of the service environment. Rust et al (2004) establish that high quality of a product results in higher value equity which in turn increases customer equity. The banks thus need to be assessed on this aspect and the study's quality sub-driver is formulated in the question: "How proud would you be to use these bank's services?"

Price: Price has been used as a tactic to attempt to influence customer perceptions of value (Rust et al. 2004). Usually customers associate high price with high value and the opposite is true in assessing low priced products. Pricing strategy can be defined as a reasoned choice from a set of alternative prices that aim at profit maximization within a planning period in response to a given scenario (Tellis 1986). To evaluate the price component and its effect on customer equity, the study's price sub-driver is formulated in the question: "How would you rate the competitiveness (Cheap vs Expensive) of bank charges to use your account (overall bank charges) for each of these banks?" These questions are derived from Rust et al (2004) study as they employed the same questions to assess price effect.

Convenience: According to Rust *et al.* (2004), convenience has three sub-drivers and these include location, availability and ease of use. Customers do not like to work too hard to achieve their objectives so firms can benefit from this by making their product more convenient and easily accessible to the consumer. The sub drivers are defined below:

Location is defined as the physical or virtual space in which customers interact with the firm or purchase from the firm. For the banks used in this study, this includes the bank itself, the ATMs for the specific bank and walk-in service centres. For value equity to improve, the location and experience thereof must be positive and encourage customers to continue using the service without feeling inconvenienced.

Ease-of-use can be defined as enhancements to a product or service that allows the customer to operate more effectively and efficiently. Anything that makes the product easier to use can be classified in this category and examples include the tips displayed at ATMs to assist the consumers, service agents inside the banks that help customers to navigate to the correct queue and the pamphlets on various banking needs that enable the customer to choose their package efficiently.

The last aspect of convenience is availability and this is, defined as an aspect of the firm's offering that determines when customers can contact or interact with the firm. Availability is crucial as clients need to be able to contact their service provider and Lemon (2001) warns that if this factor is not catered for it could be the number reason for customers switching to another service provider.

The study's convenience sub-driver is formulated in the following statement that is rated: "The bank serves me when and where I need it to".

2.7 Brand Equity

2.7.1 Definition and Role

The second aspect of customer equity is brand equity. According to Rust et al. (2004), brand equity represents the customer's subjective view of the firm and its offerings. Brand equity is defined as that customer equity segment which encapsulates the customer's brand perceptions. These perceptions are inevitably subjective and can be shaped by the firm through its marketing strategies and tactics and the customer can influence them through associations, experiences and connections with the firm's branded products and services. These created perceptions also reiterate Rust et al. (2004)'s notion that brand equity is the key customer equity component since brand management may be essential to successful customer management since the brand has the ability to influence the probability that a customer continues to do business with the firm.

2.7.2 Drivers and potential impact of brand equity.

The drivers of brand equity are namely brand awareness, attitude toward the brand and corporate citizenship and ethics. These drive brand equity because they have a large impact on customers' perceptions and are discussed further in this section.

Brand Awareness is the extent to which a customer shows knowledge and recall of a certain brand and the opportunity for awareness cultivation depends on the Customer Communication Strategy building blocks and Word of Mouth initiatives. Numerous examples are discussed such as the big yellow M symbol of McDonalds as something that consumers can easily recall or the tick of Nike's "do it" on sporting attire is instant recognition of the Nike brand. Brand awareness is important if a firm is to survive and to achieve that communication strategies have to be put in place. According to Rust *et al.* (2004), within these Communication Strategy are six sub-drivers:

Media Advertising: This includes mass-market customer communications such as television, radio, print and billboard advertising and web-page development. These tend to be the most expensive techniques as they reach masses of people.

Direct to Consumer: Unlike the above, these include customized communications such as direct mail, e-mail, outbound telemarketing, sales force communications and websites. In using these communications, it is important that the right consumers are reached and that these customers are actually consuming these efforts. It is equally important to ensure that these communications are consistent with these customers' communication preferences.

Consumer to Firm: These include websites, customer service, e-mail, inbound telemarketing and incoming direct mail.

These elements depend on the opportunities that firms create for their customers to communicate with the firm and they increase in importance as customers become less-willing to respond to direct-to-customer communications.

Sales Promotions, Publicity and Public Relations: Sales Promotion initiatives are coupons, featured advertisements, contests and in-store displays. Publicity and Public Relations initiatives include formal firm communications that are not paid for, thus it is critical to ensure that these events communicate that which is consistent with the firm's brand strategy. An example of this includes in- store displays in busy malls.

Word of Mouth Campaigns: These are known to encourage customers to 'spread the (positive) word' about the brand and thus customers can be offered incentives such as refer-a-friend incentives. Viral Marketing campaigns are also an example of this.

Effectiveness of the Communications: In order to evaluate this, firms have to consider whether their strategy initiatives answer to the call of the firm building awareness and attracting new customers, reminding existing customers to return and/or tell others and realising the firm's long-term strategy of building emotional-ties with customers.

These techniques can all be employed to achieve brand awareness. It is the firms marketing department's responsibility to devise a suitable mix of techniques for their target market and the banks in South Africa tend to use the first three elements of media advertising, direct marketing and consumer to firm techniques. These techniques are working well for all the banks as consumers can easily identify them by brand name, symbol and what the bank stands for. This could also be due to the fact the bank market is small with only 4 major players and small new entrants.

Attitude toward the brand is another component of brand equity and it is determined by the brand position. The brand position is defined as how the strengths and weaknesses of a brand are defined by the customer relative to substitutes and competitors. This driver is critical since a considerable portion of a firm's success depends on its ability to capture the heart and minds of consumer's which depends on accurate positioning where there is the right fit between the firm and its customer base. The sub-drivers are:

A Media Creative Strategy: The key message(s) which the firm wishes to convey to current and potential customers may include the messages the sales force should deliver to current and potential customers.

Media Placement: This depends on the firm's target market choice, thus an accurate and focused segmentation procedure will be required. For example, when designing media campaigns, a bank would need to establish what forms of media would most effectively reach their target market and this concurrently develops a customers' attitude toward the bank. Nedbank is currently trying to reach the lower LSM's and absorb customers from those segments so to effectively do so they must air their messages on public television like SABC channels and radio and not DSTV or any other magazines that do not reach these consumers.

Brand Name and Brand Partners: These include selecting associate brands that can enable customers to develop positive attitudes towards the brand e.g Know soups sometimes partner with Robertsons spices as the two products can be used together and customers can make sense of the use of the product. Selecting these can positively or negatively influence the brand's position depending on whether the names and partners align with the brand's image. Some banks have employed this technique in South Africa and an example is Absa bank partnering with the PSL soccer league in order to gain favourable attitudes with the mass market.

Packaging and Merchandising: Product package design, the product display can affect the overall brand's positioning in that customer brand perceptions can be influenced. Firms must ensure the package aligns with the firms brand values so as to keep consistency and enable customers to recall the brands more effectively.

Site Location and Distribution Strategy: Distribution decisions influence the brand position whereas site location can significantly influence the brand's perception. Firms need to design their sites to match the branding strategy in order to be effective

Corporate Citizenship and Ethics in a brand equity frame of reference this considers the degree to which brands and customer values are consistent. Corporate citizenship is the last driver of brand equity and probably the most expensive driver to execute as firms usually devise a separate corporate citizenship budget. The values of a firm's customers relate to the brand when growing brand equity is considered. Thus, these values need to be understood as the strength of this driver depends on the firm's customer base.

It is without saying that this driver exemplifies how a firm can benefit when it is strengthened and how the firm can suffer if the driver is viewed negatively by its customers. The sub-drivers of this driver are:

Community Event Sponsorship and Strong Record of Giving to the Community:

Event sponsorship can complement brand and firm reputation, brand perceptions and even favourably position a brand relative to its competitors. South African banks are doing well in this aspect as they sponsor numerous events.

Development and Maintenance of a Privacy Policy for Use of Customer

Information: Strong and solid private policies that protect these primary stakeholders have the ability to build customer confidence and improve customer perceptions of the firm's ethical practices. It is usually the norm to collect customer databases but in order to improve trust; firms must try to protect this information.

Clean Environmental Record: According to Ackerstein & Lemon (1999), a firm which engages in 'green' practices can positively influence brand equity.

Ethical Hiring and Work Practices: Due to the globalization of the workforce, there is more pressure for firms to practice ethical hiring practices and working conditions in all markets, especially developing countries where low-income stakeholder's (employees) are subjected to poor working conditions.

Strong Product or Service Guarantees: These have the ability to build customer confidence and improve customer's perceptions of the respective firm's ethical practices.

Focusing on building strong corporate citizenship and combining it with strong brand awareness and positive attitudes towards the brand are some of the solid strategies that can effectively be created that can build brand equity (Rust et al. 2004).

Building a brand means building brand equity by ensuring that new customers buy and current customers buy again (Rust et al. 2004). Since the drivers have been identified, it is important to also discuss what brand equity can do.

This first requires a brief discussion of what brands can do for the firm. Rust et al. (2004) point out that brands are able to

- 1) Build a customer's awareness and recognition of the firm's product and service offerings- This means that the brand acts as a magnet attracting new customers.
- 2) Act as a hallmark reminder for the customer about the firm – The brand stimulates customer retention as it ensures that current customers continue to think of the firm
- 3) Build an emotive brand-based tie between the customer and the firm- Customers with strong relationships with the brand closely identify with it and may form a relationship with that firm such as a loyal committed partnership which ensures customer retention and is preferred to a one-shot frivolous engagement.

According to Rust et al. (2004), brand equity influences customer equity in three distinct ways. If more favourable attitudes are created toward the brand, it is more probable that customer's will purchase the brand. Secondly, customers with increased positive feelings about the brand are less probable to switch to the competitor brand. Finally, these positive attitudes and feelings increase the probability that the customer will recommend the brand to others, thereby increasing the probability for other customers to try the brand.

2.8 Relationship Equity

The second aspect of customer equity is relationship equity. In Rust et al (2004) model relationship equity is assessed and it was found that the companies that built stronger relationships with their customers tended to keep the customers longer and this consequently increased customer equity. Relationship equity is thus essential and in an effort to maintain relations with clients, companies have developed databases that capture customer information including details of their profiles, demographics and bought products and this data was used by employees in order to determine market trends

Customer relationship management (CRM) ensures that this database software is used to develop actions that enhance customer relationships and the banks in South Africa all maintain some form of database of their customers.

According to Foss & Stone (2001), CRM is a useful tool in managing customer relationships. However, this requires concrete, practical value-driven initiatives as opposed to abstract ideals as research indicates. Greenberg (2004) suggests that CRM's implementation requires planning in order to succeed and such a program fails to succeed with lack of or poor planning. Lovelock & Wirtz (2007) suggest that over half of CRM implementations fail since companies equate installing CRM systems to having customer relationship strategies which means they perceive the system to be a strategy itself instead of a tool that enhances the firm's customer servicing capabilities (Lovelock et al. 2007)..

CLV is speedily gaining acceptance as the benchmark metric of acquiring, growing and retaining the appropriate customers in customer relationship marketing (Venkatesan & Kumar, 2004). However, many companies misuse the measurement since they initially work with undesirable customers or they do not know how to create the highest value (Thompson 2001). Most marketing managers are challenged with achieving convergence between marketing actions and CRM (Venkatesan & Kumar, 2004). Venkatesan & Kumar (2004) suggest that firms specifically need to take all consumer data collected and integrate this with how the firm and customers interact.

2.8.1 Definition and Role

Relationship equity represents the customer's view of the strength of the relationship between the customer and the firm (Rust et al. 2004). Relationship equity involves two components, namely understanding and managing one relationship's evolution and managing a portfolio of different relationships which are at different stages in the evolution (Rust et al. 2004). Buyer-seller relationships exist along a spectrum bounded at one end by single transactions and at the other by collaborative relationships or partnerships and in each transactional relationship firms wish to maximize returns in each transaction (Rust et al. 2004). This is applicable to the banking sector as they can improve on customer equity through the drivers discussed further below.

2.8.2 Drivers of Relationship Equity

First-In-The-Door-Approach: This is a strategy where the first customers drawn to a product are immediately absorbed by the offer and relationships are built immediately for future sales. Understanding and managing a relationship's evolution involves a Foot-in-the-door-approach (FITD). In this technique, vendor's ultimately aim to capture all the money customers can potentially spend as early as possible and breaking down the firm's total offering into many independent components constitutes the FITD approach with the first component sold being what is termed in the literature as the foot in the door (Rust et al. 2004).

The FITD approach must

1. Mitigate customer risk, thus be inexpensive enough to be purchased without hesitation
2. Fit between product functionality and customer needs must be close
3. The product quality should be impeccable
4. Customer problems should be solved uniquely to ensure that vendor's credibility and forestall competitive entry at a late date
5. A progressive path for future sales in the relationship should be laid out (Rust et al. 2004). FITD could fail if the FITD product fails, if the vendor is identified as being good at just the FITD product and the competitors get customers to switch by giving away the FITD product.

This technique is not common in the banking sector but it is essential in any case to understand all the tools proposed in the literature.

All-At-Once-Approach: This approach is ideal when the vendor wishes to sell the whole bundle of products and services from the onset of the relationship (Rust et al. 2004). This approach can enable a firm to streamline processes for servicing downstream business, incorporate midstream opportunity selection, locate a narrow path of upstream sales opportunities for proactive selling and install a new set of evaluation measures for evaluating its customer management efforts (Rust et al. 2004).

Different customers play different roles in a firm, thus should be managed differently, thus each relationship process needs to be adapted to a particular customer type and this is illustrated by the price versus cost to serve (CTS) framework which associates vendor investments with the returns from each customer relationship (Shapiro *et al.* 1987). The framework depicts four stages which customer relationships can occur and change.

Stage 1: This is depicted by High prices and High CTS at the introduction of a new product that offers sustainable benefits. The high CTS are due to customer education costs and the need for support in the absence of experience with the vendor and product (Rust *et al.* 2004). Sometimes referred to as ‘pioneers’, customers in this quadrant are expensive to serve, willing to pay a high price, want turnkey solutions from vendors in that they have chosen not to develop in-house expertise, are willing to pay the highest premiums for the latest and best products and as major drivers of innovation push the vendor to stay at the cutting edge of technology. Firms need to be aware of these needs and treat these customers differently. Banks do well in this field where Standard bank has premium package for high earners and these receive their own personal bankers, Nedbank and Absa also have premium packages for these customers.

Shifts to quadrant 2 occurs when the vendor can more efficiently serve these customers and is able to reduce their CTS without decreasing price (Hanssens *et al.* 2008). This shift requires little or no customer involvement.

Stage 2: In the second stage, vendors scale economies become more efficient and effective (Hanssens *et al.* 2008). This stage represents the good times for firms as lessened needs for support reduces the CTS, customers still value all of the product benefits and thus there is little competition which allows the vendor to charge higher prices (Bick, 2007).

Customers in this stage are depicted as ignorant in that they are unaware that they are paying high prices; grateful in that they value the relationship with the vendor and will pay premiums that rewards the vendor for past efforts; unconcerned in that they are not bothered by the high price in that costs of negotiating price reductions exceed the benefits of lower prices; Hostage customers who are prevented from ending the relationship since the vendor has increased switching costs (Duncan & Moriarty, 1997). A shift to quadrant 3 emerges from a gradual reduction in service levels coupled with lower CTS that are passed on to customers in the form of lower prices (Duncan *et al.* 1997). This shift needs to be jointly managed with the customer.

Stage 3: The selling strategy here involves offering equivalent products at a sustainably lower price, thus the vendor reduces prices while continuing to offer the same service (Hanssens et al. 2008). Here, customers expecting lower prices force vendors to strip away value-added services and sell them as basic products since this reduces CTS (Hanssens et al. 2008). These customers are switchers who will switch vendors if they cannot obtain lower prices (Benson et al. 1987). Vendors sometimes reduce CTS through joint investment and learning and firms differentiate between switchers and could be redefined into collaborators (Rust et al. 2004).

Stage 4: This stage is characterized by low prices and low CTS. As competition continues, the focal vendor becomes paranoid about losing the customer therefore, in order to counter the switching threat, additional services are offered that increase the CTS but since the customer does not pay a higher price, the relationship becomes highly unprofitable and thus the process ends here for the vendor (Duncan et al. 1997). Here vendors will do anything to stay in business and customer relationships that vendors try to buy their way in to populate the quadrant (Rust et al. 2004). New entrants like Capitec bank play aggressively in this quadrant as they cannot afford to lose the customers that they have managed to acquire.

The customers that span the four quadrants are

- (1) Lead users: These customers have needs, months and years before they become general in a marketplace.
- (2) Advocates and reference accounts: These loyal customers are willing to advertise through positive WOM, therefore utilizing powerful sales tools that supplement a vendor's sales efforts (Rust et al. 2004).

Essentially, either of these techniques can be employed to build relationships with the customers but it must first understand the different types of customers and their needs in order to invest in an appropriate strategy. This study analyses this concept generically as the relationship questions in the questionnaire attempt to gauge the level of strength of the relationship and if customers are likely to switch or remain customers of their respective banks. It is up to the banks to action these findings by adopting any of the techniques discussed above to build stronger, long lasting relationships.

2.8.3 Customer-Initiated Contacts

Customer Initiated Contacts (CICs) are also a crucial element of this study as they are an important source of customers concerns, questions and queries (Bowman & Narayandas 2001). Bowman & Narayandas (2001) define CICs as any communication with a manufacturer that is initiated by a customer or prospective customer. These could be inquiries about a products use, availability, reformulation, requests or refunds and complaints about product and/ or service quality performance (Bowman & Narayandas 2001). Firms are increasingly viewing contacts with their customers as an opportunity that needs to be managed. Acknowledgement that dissatisfied customers divert a firms marketing and sales organisation from its core functions has resulted in firms using technology to speed up their customer service organisations responses to CIC's therefore cutting costs and increasing profits, in particular, the interconnectedness of brand and relationship equity (Piturro 1998). CIC specific factors are defined as the different customer characteristics (e.g. heavy category users and light category users) and context specific factors (Bowman & Narayandas 2001). There are certain antecedents of CICs. According to Bowman & Narayandas (2001), A CIC entails exchange between a customer and a firm. Exchanges are evaluated along three dimensions of perceived fairness related to:

1. The allocation of resources and distribution of outcomes (distributive fairness)
2. The process or means by which decisions are made (procedural fairness)
3. How information is exchanged and outcomes are communicated (interactional fairness)

The behavioural consequences of CICs are:

1. Increasing returns to satisfaction and the importance of customer delight.
2. The extremes of satisfaction are an important determinant of behaviour in transaction type outcomes such as word of mouth activity.

Since it has been established that brand equity is not important to all firms, it is likely to matter the most in several specific situations. The situations pertaining to the banking industry are discussed below.

The first situation where brand equity plays a role is in an instance when experiences associated with the product or service can be passed from one individual or generation to the next.

This relates to one of Sheth & Parvatinyar's (1995) relationship marketing antecedents which state that, the intergeneration pattern of relationship marketing behaviour will be more prevalent among family oriented consumers. As the basic sociological unit, the family determines and shapes the entire social viewpoint and perception of each of its members, including their purchase and consumption behaviour (Sheth & Parvatinyar's 1995). This is especially true in collectivist societies such as South Africa's low-income sector, where family structures are the focus and co-dependency is common, which results in consumer's often adopting consumption patterns of family members, thus using the banking services of bank's used and approved by family members.

The second vital use of brand equity is when it is difficult to evaluate the quality of a product or service before consumption. Firms can use a proxy for quality which again, could be a family member, which reiterates the connection towards relationship marketing efforts.

Achieving profitability in marketing measures is critical but this study also incorporates consideration for this to occur sustainably.

2.9 Using Customer Equity to assess return on investment

Firms exist to create or improve value for shareholders and other stakeholders such as employees and communities they operate in. Stakeholders' theory is completely consistent with value maximisation, which implies that managers must pay attention to all constituencies that can affect the firm (Jansen, 2002). Given the growing importance of creating value for shareholders, market strategies have to be evaluated by their capacity to achieve this goal. Accordingly, both the acquisition and maintenance of customers must result in superior cash flows and augmented shareholder value (Stahl, Matzler & Hinterhuber, 2002).

Gupta, Lehmann, and Stuart, (2001), posit that customer equity is a reasonable proxy for the value of the firm. This conclusion is supported by Rust, Lemon and Zeithaml, (2004), based on analysis of American Airlines. Gupta's, et al. (2004) customer based valuation approach is based on the premise that says if the long-term value of a customer can be estimated and the growth in number of customers can be forecast, it is easy to value a company's current and future customer base.

Having determined the customer base, it becomes easier to assess future returns which are a key step in increasing marketing accountability. This approach of using customer based valuation techniques is supported by Gupta, et al. (2004). Gupta, et al. (2004) suggest and show that the value based on customers can be a strong determinant of firm value.

Customer equity therefore, can be employed to assess a firm's value as will be done in this study.

2.10 The Roles of Sustainable Development and Social Responsibility

As established in the Rust et al (2004) study, customer equity is essential in making marketing accountable for expenditure and increasing the value of a firm. Effective management of customer equity results in returns on marketing investment and makes it more possible for a firm to compete effectively in the business arena.

However, some of the techniques employed by firms today are more difficult to assess. A major weakness of the customer equity approach is that it does not (according to Leone, 2006) always fully account for competitive response and the resulting moves and countermoves; nor does it fully account for social responsibility effects, word-of-mouth, and customer-to-customer recommendations.

This is crucial to assess considering that firms spends millions on social responsibility initiatives in order to gain favourability in the market and improve recommendations between customers when they become more aware of how the firm helps society. With such large budgets being made for sustainable development it is critical to include this in the model of determining return on investment.

This section unpacks the sustainable development concept and how it has become a common marketing tool, especially in the South African banking sector.

2.10.1 CSR and Social Marketing

Amongst many strategies, banks tend to pursue corporate responsibility to earn positive connotations and preference from their customers. Corporate Social Responsibility (CSR) has been described as the company's performance in providing information on societal initiatives undertaken by the firm, community involvement and corporate philanthropy being an activity above and beyond what is required of the organization (Mullen, 1997). More generally, CSR is a set of policies, practices, and programs that are integrated throughout business operations and decision-making processes, and intended to ensure the company maximizes the positive impacts of its operations on society (Business for Social Responsibility, 2003).

A firm that is socially responsible acknowledges that it exists and operates in a shared environment, characterized by a mutual impact of a firm's relationships on a broad variety of stakeholders, who are affected by and can eventually affect the achievement of an organization's objectives. Thus management of stakeholder relationships lies at the core of CSR and entails establishment of a sound/functioning two-way communication with stakeholder groups, i.e. understanding the type of support needed from each group, as well as learning their expectations of business and what they are willing to pay for having their expectations met (Brønn et al., 2001).

Preliminary research supports the idea that today's consumers demand a fairly high level of CRS (Cui *et al.*, 2003) and firms are finding that consumers' perceptions of this responsibility influence their beliefs and attitudes about new products manufactured by a company (Brown and Dacin, 1997). This is quite evident in South Africa with Nedbank supporting the green robots initiative and energy efficiency programs and numerous other businesses sponsoring community events and building initiatives such as the habitat for humanity.

In their study, Brown and Dacin (1997) place CSR under corporate associations along with corporate ability (CA) which they define as those associations related to the company's expertise in producing and delivering its outputs while CSR associations reflect the organization's status and activities with respect to its perceived societal obligations. Examples include food companies like KFC sponsoring food to a community or an event. This makes sense to consumers as they already associate KFC with food. The authors also found that CSR associations have an influence on product evaluations specifically through the overall corporate evaluation.

Besides social responsibility, companies are encouraged to promote ethics, fairness, transparency, and accountability in all their dealings. They are expected to continue generating profits while maintaining the highest standards of governance internally and most businesses in South Africa, irrespective of the industry, adhere to corporate governance standards.

A firm's decisions should also be aligned with the interests of different players within and outside the company (Freeman, 1984). Hence, businesses have to also keep their activities attuned to society's ethical, legal, and communal aspirations-this falls in the realm of CSR (Jamali *et al.*, 2008).

Environmental and social issues have become important strategic concerns for businesses (Fellman, 1999). Consumers are becoming more concerned with corporate social responsibility and firms are finding that consumers' perceptions of this responsibility influence their beliefs and attitudes about new products manufactured by a company (Brown and Dacin, 1997). This can be noted in the increase of corporate responsibility budgets especially in the banking sector as they are one of the biggest economic players in the country.

Essentially the concept of CSR can be classified into cause related marketing where companies ensure to support a cause that is linked to the nature of their business, green marketing where firms can support environmental initiatives especially with the new climate culture emanating in consumers world-wide and sustainable development which focuses on developing people and is the umbrella term for developing society. Each of these are examined below

2.11 Cause-Related Marketing

2.11.1 Definition

There have been many definitions of Cause Related Marketing (CRM) and as it forms part of sustainable development, it is worth investigating the literature relating to it. According to Varadarajan and Menon (1988), cause related marketing is the firm's contribution to a designated cause being linked to customers' engaging in revenue-producing transactions with the firm-exchange of good and services for money. The authors view cause related marketing as the horizontal cooperative promotion, and involves the contribution to a cause by a firm which is 'linked to customers' engaging in revenue producing transactions with the firm.

This definition shows that CRM is essentially a way for a firm to “do well by doing good” and provides several benefits to both the firm and the non-profit organizations (NPOs) receiving the donations, and only refer to promotions in which the amount given to a charity by a firm is somehow tied to the purchase intention of consumers (Hou *et al.*, 2008).

CRM is a marketing program that strives to achieve two objectives and these entail improving corporate performance and helping worthy causes-by linking fund raising for the benefit of a cause to the purchase of the firm's products and/or services (Varadarajan and Menon, 1988). This means it will benefit an organisation selling female products to support women initiatives like women’s day or breast cancer awareness, similarly, a company which services children like Pampers and Purity can benefit in cause related marketing if they sponsor something related to children like vaccinations.

CRM has two types of campaigns: short-term campaigns and long-term campaigns, where short-term campaigns last for more or less six months while long-term campaigns last for a year or more.

The South African banking sector has not fully embraced this concept as they sponsor anything even if it is not linked to the nature of their business such as the soccer league, talent shows and community events. In the qualitative study, customers of these banks were interviewed to determine the use and effect of sponsoring of the unrelated causes.

From an experiment done by Duncan & Moriarty (1997), the respondents used were from the United States of America (U.S.) as well as the United Kingdom (U.K.). From the findings the authors found how respondents perceive CRM campaigns, where 78% of the respondents in the U.S. are more likely to buy a product that supports a cause. It was found that U.K. respondents (86%) were more likely to switch to brands that claim to help a cause a bit more than the U.S. respondents would (76%). Along with this U.K. respondents (45%) were less likely to pay more for a brand that supports a cause. Both U.K. respondents as well as U.S. respondents were aware of companies that support causes (79%, 68%) respectively.

CRM still needs to be investigated in a South African setting to determine if consumers will switch to a brand that supports a cause. There is very little literature on CRM in an African context.

2.12 Green Marketing

Green marketing is also a component of sustainable development and the law and regulation within countries have played a significant role in enhancing consumers' awareness and concerns about the environment and therefore the marketing activities of firms. Ethics is therefore seen as important to marketers as a company's ethical behaviour is perceived as having an impact on consumer behaviour. Consumers are seen to develop more favourable attitudes to firms that operate ethically (Carrigan and Attalla, 2001).

Green Marketing is said to be the specific development, pricing, promotion and distribution of products that do not harm the environment (Mimi & Hu, 2009). According to Mimi et al (2009), green marketing can be seen as a form of social marketing as it is concerned with not causing harm to the environment which fulfils one of the society's most important goals. South Africa generally has embraced the green marketing concept but there is still room for improvement as only a small section of the market actively participates in supporting green initiatives.

According to Grant (2008), a green brand is one that offers a significant eco-advantage over the incumbents and which appeals to those who are willing to making green a priority. There are strong green brands targeting both retail consumers and also B2B customers. Polonsky (1994) states that businesses believe that green marketing is an opportunity which can be used to achieve the organization's selling goals and that if firms engage in green marketing, they can use this to distinguish their product offerings as well as obtain a competitive advantage over other businesses, on top of this, green marketing may also increase the businesses' market share as well as disseminate a positive image to society.

For the South African banking sector, green marketing is a new concept that only the four major banks have started investing in. They all encourage environmental efficiency and some banks, like Nedbank, have gone the extra mile to support the green robots initiative. Businesses are generally motivated to engage in environmental marketing to reduce their costs, as costs for hazardous behaviour towards the environment, such as waste disposal are increasing. When firms decrease their hazardous behaviours they save on costs which allow their profits to increase (Polonsky, 1994). This logic suggests that investing in green marketing can translate to higher returns by saving other operational costs and simultaneously gaining favourability in the market.

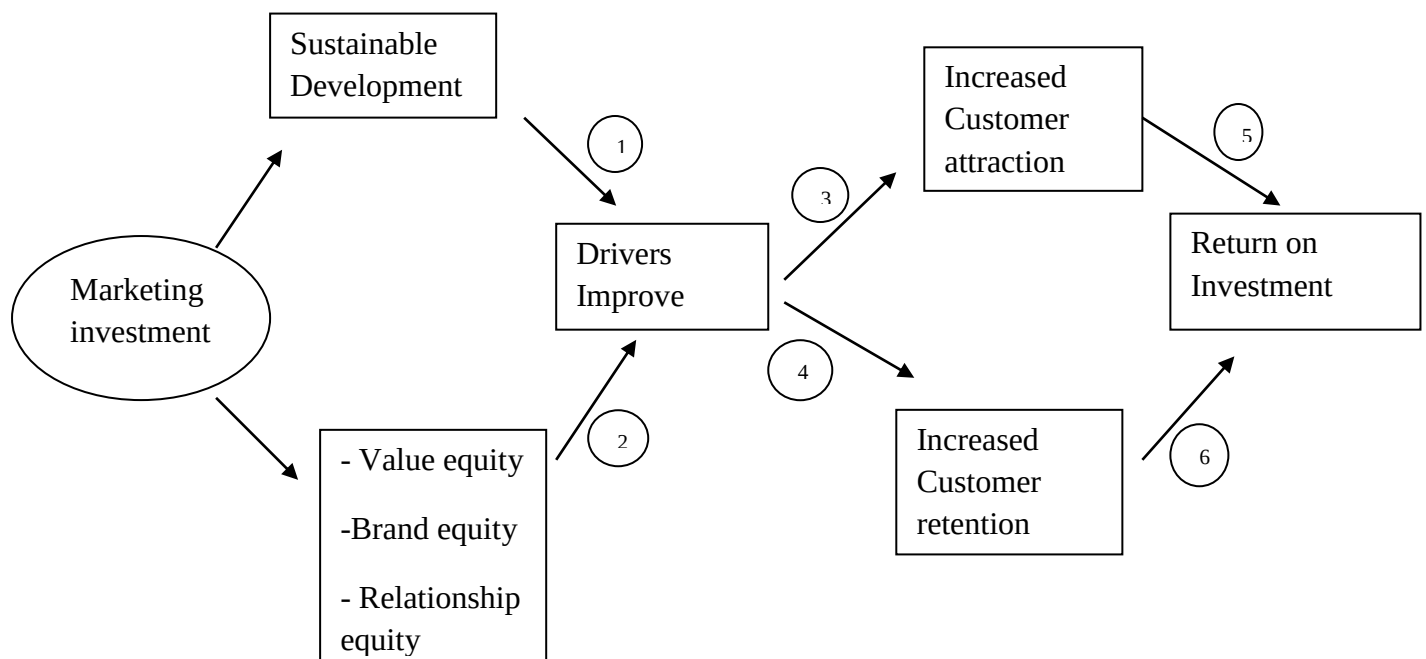
According to the Institute of Directors of SA (2002), there is a move from the single to the triple bottom line which is said to embrace the economic, environmental and social aspect of a company's activities. The economic aspect has been the focus for many years but with the customer equity logic businesses can invest in not only the brand, value and relationship but also sustainable techniques that can translate to higher returns. S

Sustainable business practices help the company in many ways, some of which are extending stakeholder accountability, introducing new rules of trade, produce new markets, shaping public reputation as well as raising the bar of legislation (Institute of Directors of SA, 2002).

It can therefore be noted that companies would benefit from sustainable practices and encompass the environmental dimension into their business mechanism.

Companies need to move from focusing on the one P (Profit) and instead also incorporate the remaining two P's being people and the planet. Profit looks mainly at the stakeholder value, increase sales and numbers while people and the planet focus on the environment and social wellbeing which is what companies should be tending towards. The customer equity model for this study will thus incorporate sustainable development and customer equity to assess returns on investment.

Figure 1: Customer Equity Model:



The conceptual model for marketing return on investment considering sustainable development is illustrated in figure 1 above. This model is based on the customer equity framework which comprises of sustainable development theory where the dependent variable is return on investment which depends on the type of strategy pursued, customer equity drivers and cost of marketing investment as established by Rust et al. (2004). The customer equity drivers of brand, relationship and value together with specific sustainable development practices such as green marketing or CSR or cause related marketing can be assessed to ensure returns on investment and make marketing more accountable.

As the aim of the research is to devise a model that combines marketing efforts on customer equity with sustainable development, the following variables will be tested to determine if a relationship exists and if return on investment can be modelled in an appropriate manner.

2.13 Sustainable Development

Attalla and Carrigan (2001) argue that corporate responsibility has little effect on customer's purchase behaviour and provide a framework to assess the impact of a sustainable development campaign. According to Ungerer et al (2007) being sustainably developed, is to capture the whole set of values, issues and processes that companies must address in order to minimize any harm resulting from their activities and create economic, social and environmental value. This also involves being clear about the company's purpose and taking into consideration the needs of all the company's stakeholders.

The present study will establish if a banks' corporate citizenship affects customer's intentions and it is believed that the more a bank invests into campaigns that matter to customers the more likely customer equity will improve. Through interviews and questionnaires, it will be determined if customers take note of the sustainable development initiatives and if this influences their buying behaviour and perceptions of the bank. Consequently, if they do take note of these initiatives and it affects their banking behaviour then lessons can be learnt to apply effective strategies. However, if these sustainable development investments are not affecting the purchasing behaviour, these expenditures will not be accounted for.

The following hypotheses will be tested

H1: Sustainable development has a positive relationship with customer driver improvement.

If the banks investments on the national soccer league, habitat for humanity, green robots etc create favour in the market then customer perceptions will change and they are likely to switch to that bank or remain there if they are already customers. Similarly, if the perceptions are negative, they are likely to leave and have no associations with the bank resulting in lower driver improvement.

Value equity

Zeithaml (1988) established that value is a key link between the customer and the firm and she defined value to be the firm's ability to meet the customer's needs and expectations in terms of quality, price and convenience.

It will therefore be argued that a bank's goal should be to understand customer's expectations and then to deliver on them before spending on initiatives that customer's do not care about. If a customer does not perceive that the firm's products or services are providing value, any marketing campaign, sustainable development project or loyalty program will have little effect in retaining the customers.

H2a: There is a positive relationship between value equity and improved customer equity drivers.

This means the more value a bank delivers to the customers, the higher the perceptions and ratings of the bank from a customer's perspective.

Brand Equity

Aaker and Keller (1990) describe brand equity to represent the extent to which a firm manages to influence a customer's subjective evaluation of the company's offerings and they believe that if customers develop more favourable attitudes toward the brand; they are more likely to purchase the brand. In the present study, it will be investigated how marketing efforts improve customer's feelings towards the bank's brand. If customers have increased positive feelings for the brand, they will be less likely to switch banks thereby increasing customer retention.

H2b: Brand equity has a positive impact on customer equity drivers

This would mean the higher the brand equity, the more positive the perceptions of the bank.

Relationship Equity

Vargo and Lusch (2004) highlight the need for building long term relationships with customers whilst Getz and Thomas (2001) describe relationship equity to represent the customer's view of the strength of the relationship between the customer and the firm.

With banking services, it is crucial to maintain good relationships with customers and this is evident in the bank's commitments to informing customers and providing service to assist customers in making decisions.

The present study will investigate the impact of investing in relationships and it is hypothesised that the stronger the relationship the stronger the customer equity and hence the higher the probability of higher returns on investment.

H2c: Relationship equity has a positive influence on customer equity drivers.

Customer attraction and customer retention

As Rust et al (2004) provide a framework for assessing customer equity driver improvements (see appendix A), it is proposed that any driver improvements will increase retention for customers that are already members of the bank and also attract other members from other banks thereby causing switch.

H3: Increased driver improvements have a positive effect on customer attraction

H4: Increased driver improvements have a positive effect on customer retention

Return on investment

According to Berger and Nada (1998) the goal of ROI is to project how much a particular driver will increase profits thereby recovering the initial investment. Rust et al (2004) established that customer equity is driven by three pillars of relationship, brand and value equity thus if all those improve perceptions of the bank and increase either retention and/or attraction, there should be an increase in profits which enables the bank to also receive higher returns on the investment.

It is therefore hypothesised that:

H5: Increased customer attraction has a positive impact on marketing returns

H6: Increased customer retention has a positive impact on marketing returns

The model to be tested here will enable “what- if” evaluation of return on investment and this can include such criteria as return on quality, return on advertising, return on loyalty programs and return on corporate citizenship as well. Firms will be able to make accountable decisions and trade off strategies to select those that are most effective in increasing the returns and never have to invest in programs that do not improve their drivers of customer equity.

CHAPTER THREE: RESEARCH METHODS

This section details the research methodology that was followed for this study. This study is an extension of Rust et al (2004), who used a customer equity model to estimate the value of companies and gauge return on investment in the airline industry. The latest models in using customer equity to do valuation of a firm were applied to the banking sector in South Africa and the proposed model was utilised to achieve the research objectives

3.1 Research Design

Zikmund (2003), states that a research design is a master plan specifying the methods and procedures for collecting and analysing the needed information. As the aim of the study is to describe customer equity drivers, an exploratory design approach was used. Data sources that were used were both primary and secondary. Primary data was collected from the banks and the findings of the qualitative study enabled formulation of questions to be asked in the quantitative study (a copy of the questionnaire is available in appendix A). The questions revolved around the customer equity drivers and sustainable techniques as employed in the Rust et al (2004) airline study. The exploratory approach allows the data collection to be both quantitative and qualitative.

A total of 200 respondents were asked to respond to a series of structured questions. The questionnaire was split into various sections covering customer equity management. A focus group was conducted to investigate the elements that would contribute to banks' sustainable development (focus group discussion available in appendix B).

3.2 Definition of the population

The population of this study comprised of all users of transactional accounts across industries and banks in South Africa. The statistics from FNB indicate that the majority of this market is the mass market thus this study focuses on them by drawing a sample from the mass market.

3.3 Sample plan

Sampling is any procedure that uses a small number of items or a portion of a population to make conclusions regarding the whole population (Zikmund, 2003). A precondition for sampling is that the selected sample has to be representative of the population under study in order for the researcher to be able to make generalisations about the population of interest (Zikmund, 2003).

For the present study, a group of ten people falling into the mass market bracket (earning less than R100 000/annum) were invited for a focus group discussion on their banking experiences. The purpose of this focus group was to gain more insight into the sustainable development component of the model in order to determine what drivers influence their purchasing behaviour and ultimately influence return on marketing investments. The focus group was facilitated by the researcher and a panel including the marketing manager of FNB and two researchers from the University of the Witwatersrand. The discussion was unstructured to allow the respondents to express their opinions on the banks corporate responsibility initiatives and this enabled the researcher to design the questionnaire appropriately.

The questionnaire was adopted from Rust et al (2004) study and two hundred mass market consumers were sampled were 100 represented consumers that are currently banking with FNB and 100 represented 'other banks'. A sample of the questionnaire is available in appendix A.

Because the city of Johannesburg is a vast region with tremendous heterogeneity in the mass market's ages and income brackets, there needs to be sufficient representation for the segment in order to derive any suitable conclusions. Various income brackets and all the age groups described above need representation as they live different lives and potentially hold different values.

The sampling frame that was utilised is a systematic sampling technique that used a chance selection process.

For the quantitative analysis, the researcher distributed questionnaires to every tenth person they met outside various FNB, ABSA and Capitec branches around Johannesburg shopping malls (North Gate, South Gate, Braamfontein, West gate and East gate).

To ensure representation and avoid location biased results, the researchers distributed to various branches around Johannesburg until the target of 200 questionnaires was reached.

3.3.1 Data Collection

Printed surveys were distributed to every tenth respondent and the researcher was present to assist the respondent when needed in filling out the questionnaire. The questionnaire was divided into four parts, brand switching, value related drivers, brand related drivers and relationship related drivers respectively. The brand switching and CLV questions were placed in the beginning as accurate answers are required for these in order to derive the customer lifetime value as required in the model to test customer equity. Placing them at the beginning of the questionnaire enabled the researchers to capture the respondent's perceptions before fatigue sets in and to arouse interest for the respondent because authors like Malhotra (2006) have criticised use of demographics in the beginning as they believe this tends to bore the respondent.

3.3.2 Data Collection Instrument

The period of data collection lasted from 12 March to 02 April 2011 and a questionnaire was employed to collect the information.

A pre-test study was conducted to determine if respondents would be able to understand the process and the questions and to time how long it takes to complete the questionnaire. The questionnaire was set out in such ways that ensured completion and maintained interest of the respondent to avoid causing boredom and fatigue.

It was also set to provide responses on each of the elements of customer equity (value, brand and relationship) and sustainable development in order to test the model appropriately.

English was employed as the main medium in the questionnaire. However, in the focus group, the researchers were available to interpret in the vernacular where respondents required clarification. This was done to reduce bias in the form of non-response, since English is widely understood across tribes in South Africa and therefore it is the best option.

3.4 Nonsampling error reduction

Bush and Burns (2006) define non-sampling error as all errors in a survey except those due to the sample plan and the sample size. Essentially, non-sampling errors can be committed by fieldworkers and respondents. In order to reduce these errors, the study employed a number of techniques for each type of nonsampling error. These are discussed below.

Intentional fieldwork errors

These include errors such as cheating or leading the respondents to reply in a certain way. To avoid this, the study divided the researchers into teams where two people work together in a specific area instead of one researcher working alone.

Unintentional fieldwork errors

These are errors that can occur when an interviewer believes he or she knows how to administer the survey and thereby causes misunderstandings or errors as a result of fatigue. Burns et al. (2006) recommend that it is best to train interviewers beforehand and allow for breaks in between sessions. Unfortunately, due to time constraints, training did not take place and thus unintentional fieldwork errors were not controlled.

Intentional respondent errors

Such errors comprise of falsehoods and non-response. To cater for this, the team provided incentives in the form of coffee mugs and pens and each research pair consisted of one person who speaks the mother tongue of this respondent. This was to ensure that respondents felt comfortable to discuss issues with the team.

Unintentional respondent errors

These could occur as a result of misunderstandings; guessing; attention loss and distractions. Researchers obtained permission from the managers of the respondents to avoid distractions and provide the comfort of knowing that they have been excused from their jobs for a few minutes. Additionally, a simple questionnaire with direct questions was employed to ensure that respondents do not lose attention or misunderstand the requirements of the question.

3.5 Questionnaire and scale development

3.5.1 Construct Validity

Essentially, construct validity tests whether a specific construct measures what it is meant to (Peter 1981). This must be tested in order to test for validity in a South African setting as the customer equity framework was created in the United States by Rust et al (2004). It thus essential when testing theory and to assess validity, Burns et al (2006) advise that convergent validity, discriminant validity and nomological validity can also be assessed. Exploratory factor analysis was used to establish validity for the present study.

3.5.2 Reliability

According to Malhotra (2006), reliability tests are conducted to ensure the consistency of scales across time periods in order to assure that scales can be used at any time. This study will assess reliability by calculating Cronbach's alpha for all scaled questions to gauge the stability of all scaled questions.

In essence, the study will assess both construct validity (using factor analysis) and it will also check the reliability of all of the scales using cronbach's alpha. An adequate cronbach's alpha should not be below 0.70 (Hair et al, 1998). These tests are fundamental as all the scales are imported thus their application to a heterogeneous setting like South Africa should result in a different outcome.

3.6 Analysis Technique

For the qualitative section of sustainable development, the researchers sought help from the bank's management and used experienced facilitators to draw conclusions relating to the sustainable development component of the model. For the quantitative section, two computer packages were utilised in the analysis, namely, SAS Enterprise guide and SPSS. This was done to take advantage of the strengths of these packages in performing multivariate statistics, correlations and reliability tests as outlined in the analysis section.

According to Zikmund (2003), among the statistical tests is t-test (or t-test) for a hypothesis about a mean, product-moment correlation analysis, and analysis of variance tests. The t-test may be used to test a hypothesis stating that the mean scores on some variable will be significantly different for two independent samples or groups. T-test is used when the sample size is small i.e. 30 or less, and the population standard deviation is unknown.

Zikmund (2003) continues to say that if the standard deviation is unknown but the number of observations in both groups is large, the appropriate test of mean differences between two groups is a z-test rather than a t-test. The z-test statistical procedure is identical to the t-test procedure. These tests were applied in some instances.

CHAPTER FOUR: RESEARCH RESULTS

The raw data from the questionnaires was first reworked to eliminate support data fields and collated onto a single spread sheet giving a total of 213 actual customers. The data was then further cleaned up where entries that did not have more than 75% responses were removed and the final number of usable surveys was narrowed to exactly 200.

This data was then analysed to determine defection and retention rates of customers over an annual period and defection patterns of customers over time. The discount rate of 12.7% was provided by FNB as the prevailing rate in August 2010 for discounting profit streams, including an appropriate risk factor, this will change as interest rates change (FNB, 2010).

To analyse the model and accomplish the study's objectives, each component of the model was assessed i.e brand equity, value, relationship equity and sustainable development. The formulaes for measuring CLV were adopted from Rust et al (2004) study to determine the returns on investment. The results commence with some descriptive statistics to enable understanding of the sample then each component of the model is assessed subsequently.

4.1 Descriptive Statistics

Cross sectional data was collected and as the survey in appendix a depicts, customer ratings of each competing brand was collected and the results provide additional information about each customer in terms of their perceptions of FNB and the other competing banks and value-relationship drivers. It is essential to firstly understand the types of customers thus a summary of the distribution of respondents' profiles is provided in the tables below:

Descriptives for each competing bank

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
FNB	200	0	1	.53	.500	-.141	.172	-2.000	.342
ABSA	200	0	1	.19	.397	1.551	.172	.410	.342
STDBANK	200	0	1	.37	.484	.543	.172	-1.723	.342
NEDBANK	200	0	1	.05	.218	4.161	.172	15.466	.342
CAPITEC	200	0	1	.11	.320	2.432	.172	3.954	.342
POSTBANK	200	0	1	.02	.140	6.909	.172	46.197	.342
OTHER	200	0	0	.00	.000	.	.	.	.
Valid N (list wise)	200								

MCOM RESEARCH REPORT: 395826

Measures of central tendency statistics

	FNB	ABSA	STDBANK	NEDBANK	CAPITEC	POSTBANK	OTHER
N Valid	200	200	200	200	200	200	200
Missing	41	41	41	41	41	41	41
Mean	.54	.20	.37	.05	.12	.02	.00
Median	1.00	.00	.00	.00	.00	.00	.00
Skewness	-.141	1.551	.543	4.161	2.432	6.909	
Std. Error of Skewness	.172	.172	.172	.172	.172	.172	.172
Kurtosis	-2.000	.410	-1.723	15.466	3.954	46.197	
Std. Error of Kurtosis	.342	.342	.342	.342	.342	.342	.342

Evidently, the sample is highly representative of FNB as the frequencies report that 107 of the respondents were banking with FNB at the time of interviewing whilst 74 were with Standard bank, 39 with ABSA, Nedbank 10, Capitec 23, and Postbank 4. This also gives an indication of people's preference and suggests the market shares of other competitors where Postbank and Capitec are clearly the smaller competitors

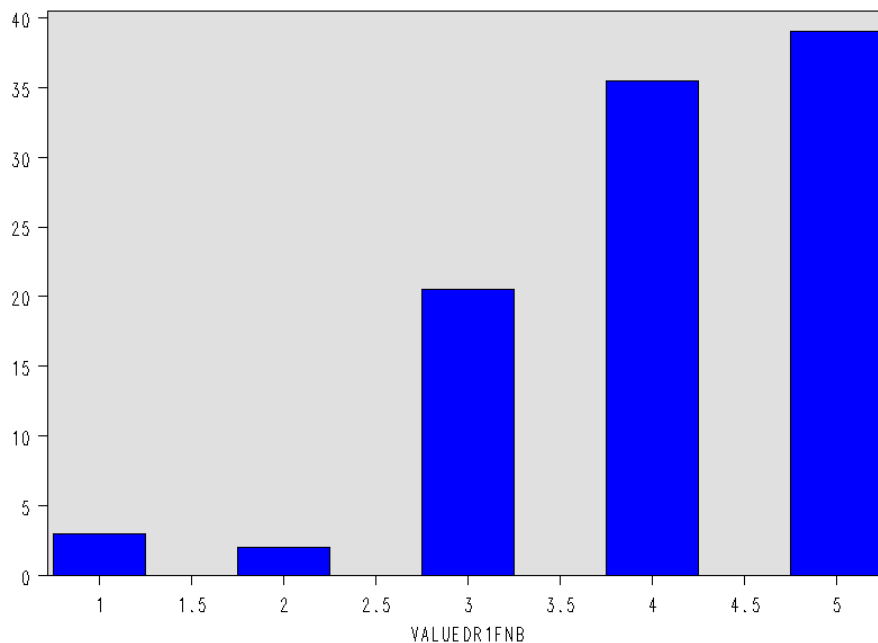
The means above confirm this result as the mean for FNB is larger than all the other banks and there is great variability in the output.

Descriptives of customer equity related drivers

For all these banks and FNB in particular, it is essential to discover the key drivers from brand, relationship and value relationship as these will provide an indication of customer's perceptions of these drivers. These are also the drivers of customer equity tested in the model and specific questions for each component were included in the questionnaire and each heading below indicates the response to the question on that component

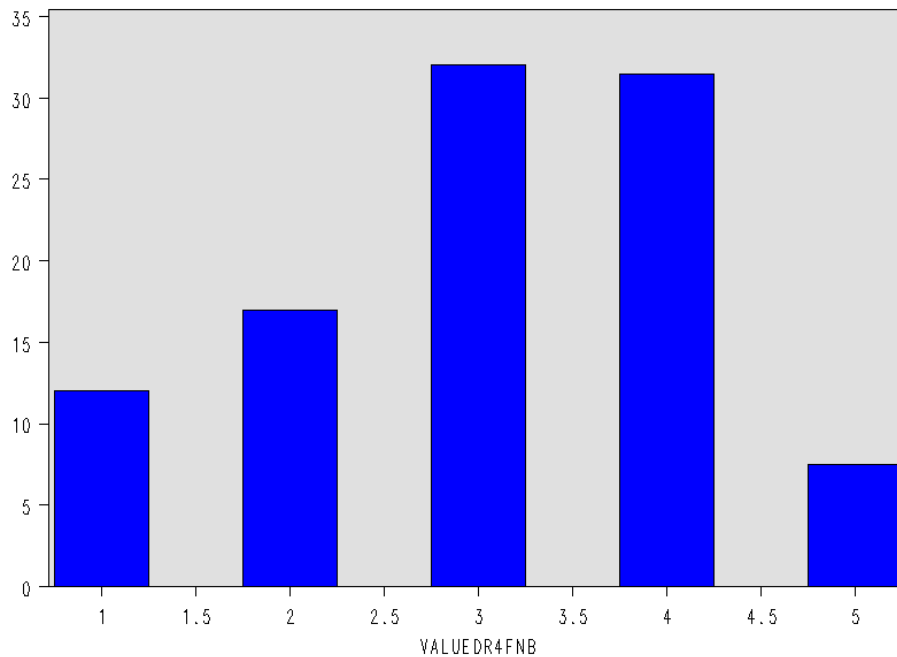
Value related drivers

i. This value driver assessed the respondent's pride with being with the bank and the graph below indicate people's responses to the value related question



For this market, consistent product quality is most important and there appears to be average satisfaction with the value component of FNB. However there is a substantial amount of consumers who are neutral and this may be concerning because they may increase the number of customers who are dissatisfied with the value equity and there is thus room for improvement in the sub driver of quality.

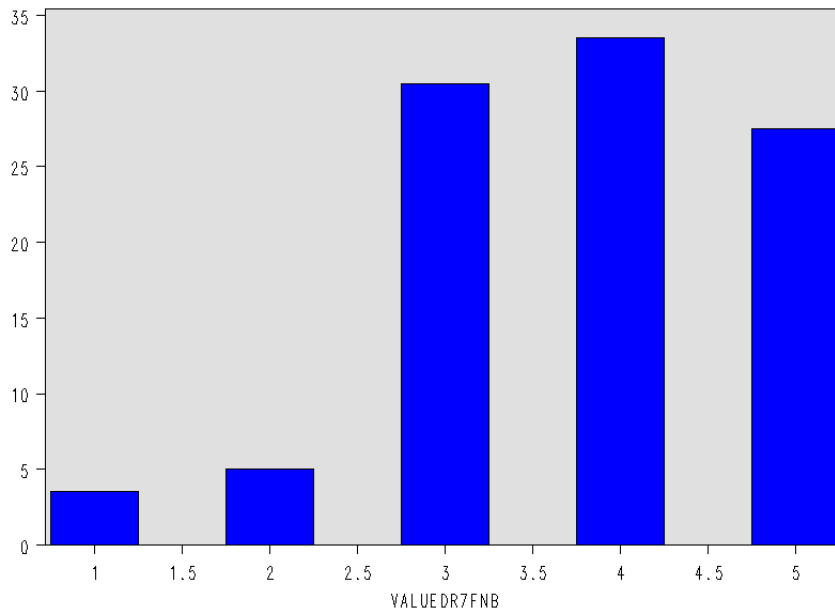
ii. Competitiveness of FNB bank charges- Price



In terms of the sub driver of price, there appears to be substantial levels of dissatisfaction as almost 50% of the respondents currently using FNB deem the bank charges to be expensive relative to other banks and another 50% deem them to be competitive. The sample consisted of a variety of consumers and this may indicate some overall perceptions that affect the brand image of the bank if nothing is done to improve them.

Overall, price does not seem to be urgent nor is it a worrying driver and this may be due to the fact that bank charges across banks in South Africa do not vary too much and thus all service providers are seemingly competitive.

iii. Convenience of bank service



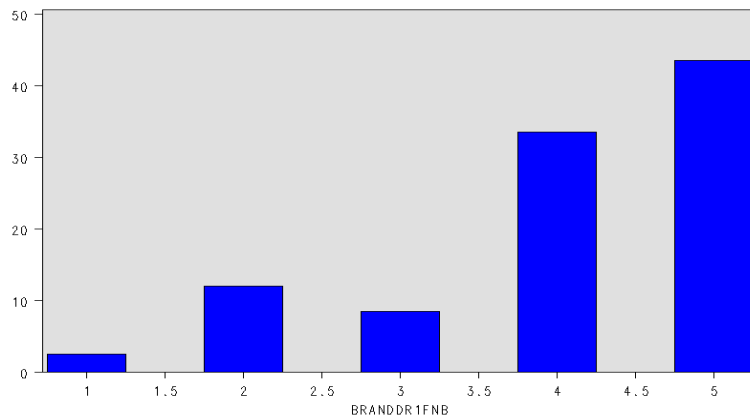
Convenience measures accessibility and if the bank meets customer needs. It appears that there is great satisfaction from FNB customers considering that FNB branches are accessible and services from ATMs and internet are readily available for consumers throughout the country. Thus this is a very strong driver of value equity and FNB is evidently doing well in this domain when compared to the other banks.

BRAND RELATED DRIVERS

The sub driver of brand equity involved advertisement awareness, information, corporate citizenship, community events, ethical standards and brand image. The strongest drivers are ad awareness, brand image and community events. A question was posed on each of these in the study.

The bar chart below shows that consumers are aware of FNB integrated marketing communications and the means table below shows FNBs strength in brand related drivers when compared to competitors.

i. Ad Awareness



ii. Brand related drivers means table

Variable	Label	Mean	Std Dev	Minimum	Maximum	N
Brand1	FNB	4.03	1.10	1.00	5.00	200
Brand1	ABSA	3.48	1.23	1.00	5.00	200
Brand1	STDBANK	3.33	1.14	1.00	5.00	200
Brand1	NEDBANK	2.77	1.07	1.00	5.00	200
Brand1	CAPITEC	2.88	1.31	1.00	5.00	200
Brand1	POSTBANK	2.03	0.99	1.00	5.00	200
Brand2	FNB	3.39	1.63	1.00	5.00	200
Brand2	ABSA	2.14	1.33	1.00	5.00	200
Brand2	STDBANK	2.18	1.42	1.00	5.00	200
Brand2	NEDBANK	1.80	1.06	1.00	5.00	200
Brand2	CAPITEC	1.85	1.26	0	5.00	200
Brand2	POSTBANK	1.61	0.91	0	5.00	200
Brand3	FNB	3.95	1.04	1.00	5.00	200
Brand3	ABSA	3.25	1.10	1.00	5.00	200
Brand3	STDBANK	3.32	1.06	1.00	5.00	200
Brand3	NEDBANK	2.78	1.08	1.00	5.00	200
Brand3	CAPITEC	2.73	1.14	1.00	5.00	200
Brand3	POSTBANK	2.25	0.90	1.00	5.00	200
Brand4	FNB	4.06	0.90	1.00	5.00	200
Brand4	ABSA	3.64	0.89	1.00	5.00	200
Brand4	STDBANK	3.64	1.06	1.00	5.00	200
Brand4	NEDBANK	3.08	1.11	1.00	5.00	200
Brand4	CAPITEC	3.21	1.06	0	5.00	200
Brand4	POSTBANK	2.77	1.00	0	5.00	200
Brand5	FNB	3.71	1.29	1.00	5.00	200
Brand5	ABSA	3.03	1.15	0	5.00	200
Brand5	STDBANK	2.97	1.17	0	5.00	200
Brand5	NEDBANK	2.56	1.18	0	5.00	200
Brand5	CAPITEC	2.63	1.17	0	5.00	200
Brand5	POSTBANK	2.02	0.80	0	4.00	200

The means table reports that FNB is strong on ad awareness which is the first sub driver of brand equity and it is stronger than some competitors like Postbank. However, on the second sub driver of brand equity which relates to quality and quantity of information, Standard Bank is leading as more consumers notice and pay attention to the information that Standard Bank sends to them and immediately after Standard Bank is Nedbank then Capitec then FNB eventually. Thus this means FNB is trailing in this domain.

For the third sub driver which relates to Corporate Citizenship there is general consensus that Nedbank is well known to be responsible for caring for society followed by Capitec then Postbank.

This may be concerning for FNB considering their massive budget for corporate social responsibility that is set aside for the various activities mentioned in chapter two. This shows that despite all FNB's efforts, consumers consider Nedbank and other banks to be better than FNB which is an urgent and concerning issue. Standard bank and Absa also need to be concerned especially since Absa is probably the biggest investor on corporate social responsibility

The fourth sub driver measured the bank's services relative to competition and it appears that Capitec is leading followed by Postbank as consumers believe that these two banks have respectful staff that help customers well. Surprisingly, it is the smaller banks that are leading in this domain and all the big banks like FNB have room for improvement.

Brand image was the fifth sub driver and Postbank is leading as they have higher ratings and consumers believe that the image of the bank fits their personality. This could mean that Postbank's strategies are well suited to their target market as they support television programmes like "Khumbul' Ekhaya". FNB therefore needs to improve in this domain as well.

Overall, it seems that FNB is weak in brand equity when compared to their competitors and the suggestions of this marketing strategy aim to improve the brand image and create effective corporate social responsibility.

RELATIONSHIP RELATED DRIVERS

The sub drivers of relationship equity include investments in loyalty programs, preferential treatment, knowing the banks procedures, the bank knowing the customer, the bank recognizing the customer as special, community and trust. The means table shows the ratings of FNB compared to its competitors.

i. Relationship related drivers means table

Variable	Label	Mean	Std Dev	Minimum	Maximum	N
RELATDR1	FNB	0.35	0.47	0	1.00	200
RELATDR1	ABSA	0.10	0.30	0	1.00	200
RELATDR1	STDBANK	0.20	0.41	0	1.00	200
RELATDR1	NEDBANK	0.05	0.21	0	1.00	200
RELATDR1	CAPITEC	0.07	0.26	0	1.00	200
RELATDR1	POSTBANK	0.01	0.09	0	1.00	200
RELATDR2	FNB	0.56	0.49	0	1.00	200
RELATDR2	ABSA	0.26	0.44	0	1.00	200
RELATDR2	STDBANK	0.35	0.47	0	1.00	200
RELATDR2	NEDBANK	0.19	0.39	0	1.00	200
RELATDR2	CAPITEC	0.17	0.37	0	1.00	200
RELATDR2	POSTBANK	0.09	0.28	0	1.00	200
RELATDR3	FNB	0.57	0.49	0	1.00	200
RELATDR3	ABSA	0.18	0.38	0	1.00	200
RELATDR3	STDBANK	0.27	0.44	0	1.00	200
RELATDR3	NEDBANK	0.10	0.30	0	1.00	200
RELATDR3	CAPITEC	0.10	0.30	0	1.00	200
RELATDR3	POSTBANK	0.02	0.14	0	1.00	200
RELATDR4	FNB	0.57	0.49	0	1.00	200
RELATDR4	ABSA	0.20	0.40	0	1.00	200
RELATDR4	STDBANK	0.29	0.45	0	1.00	200
RELATDR4	NEDBANK	0.13	0.39	0	1.00	200
RELATDR4	CAPITEC	0.08	0.27	0	1.00	200
RELATDR4	POSTBANK	0.01	0.12	0	1.00	200
RELATDR5	FNB	0.30	0.45	0	1.00	200
RELATDR5	ABSA	0.12	0.32	0	1.00	200
RELATDR5	STDBANK	0.24	0.43	0	1.00	200
RELATDR5	NEDBANK	0.06	0.23	0	1.00	200
RELATDR5	CAPITEC	0.11	0.31	0	1.00	200
RELATDR5	POSTBANK	0.02	0.14	0	1.00	200
RELATDR6	FNB	0.36	0.48	0	1.00	200
RELATDR6	ABSA	0.12	0.33	0	1.00	200
RELATDR6	STDBANK	0.25	0.43	0	1.00	200
RELATDR6	NEDBANK	0.06	0.23	0	1.00	200
RELATDR6	CAPITEC	0.10	0.30	0	1.00	200
RELATDR6	POSTBANK	0.01	0.12	0	1.00	200
RELATDR7	FNB	0.67	0.46	0	1.00	200
RELATDR7	ABSA	0.38	0.48	0	1.00	200
RELATDR7	STDBANK	0.41	0.49	0	1.00	200
RELATDR7	NEDBANK	0.30	0.45	0	1.00	200
RELATDR7	CAPITEC	0.24	0.43	0	1.00	200
RELATDR7	POSTBANK	0.06	0.23	0	1.00	200

It appears that FNB is stronger in relationship drivers but there are sub drivers where they are weak.

For the first sub driver (investment in loyalty program) FNB is leading with all the other banks trailing therefore their efforts for services like eBucks are well received by the consumers.

The second sub driver of preferential treatment however, is concerning as Standard Bank is viewed to be the best in providing special treatment followed closely by Capitec bank then Nedbank. FNB therefore needs to improve this in order to increase their relationship equity. The third sub driver measured knowledge of the bank's procedures and consumers seem to be well aware of Nedbanks' procedures followed by Postbank then Capitec, thus they do not understand FNBs procedures and this may affect their decisions whether to join the bank or not.

The fourth sub driver relates to how much the bank knows about their customers and most consumers perceive that Capitec understands them better followed by Postbank. As these are smaller banks, this is where FNB can take advantage of their accessibility to change these perceptions. As noted above, the fifth subdriver relates to how the bank recognises the customers as being special and FNB is clearly leading in this domain.

Sense of community is the sixth sub driver and most consumers feel a sense of togetherness with other clients of Standard bank as it seems to be leading followed by FNB, so although FNB is not leading they are highly competitive and have to find ways to overcome Standard Bank. More importantly, consumers have a high level of trust in FNB as it is leading in the seventh sub driver of trust and this means they can take advantage of this to pursue new ventures as consumers trust them but they should be careful not to misuse that trust.

4.3 Brand Switching

The modelling of customer lifetime value (CLV) which is what this analysis will derive, requires modelling of the switching matrix for each individual customer (Rust et al, 2004). The average of the switching probabilities (as explained in chapter 2) was derived to discover consumer's likelihood of staying with their current bank and the likelihood of switching to competitors as follows:

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	Bank to switch to 					
Current Bank ↓	Standard Bank	ABSA	Nedbank	FNB	Capitec Bank	Postbank
Standard Bank	0.272	0.191	0.19	0.23	0.12	0.01
ABSA	0.175	0.251	0.21	0.31	0.07	0.01
Nedbank	0.085	0.190	0.08	0.37	0.19	0.11
FNB	0.209	0.246	0.15	0.22	0.15	0.02
Capitec Bank	0.172	0.128	0.00	0.48	0.21	0.01
Postbank	0.00	0.00	0.40	0.10	0.25	0.25

The vertical axis represents consumer's current banks and most important for FNB is to note that current FNB customers have a 22% chance of staying with FNB whilst if given the option, the chance of switching from FNB to ABSA is 24.6%, and switching to Standard Bank is 20.9%. The primary focus for FNB should be to retain these customers and not have such a high probability to move to other banks. If FNB does not do anything to change this situation then there is a high chance of customers switching and thus this strategy provides tactics that FNB can pursue to retain current customers.

The other aim for FNB would be to increase the likelihood of customers banking with competing banks to switch to FNB and as it can be seen in the switching matrix above, current Capitec customers have a 48% chance of switching to FNB if something goes wrong at Capitec. This is quite substantial considering that Capitec is a small bank and FNB has more resources and points of parity and thus can attract more customers from this bank.

Significantly as well, current ABSA customers have a 31% chance of switching to FNB whilst current Nedbank customers have a 31% chance of switching to FNB.

There is great potential therefore and if FNB were to improve on the weak drivers identified above they may have a higher chance of retaining current customers and also of attracting more customers from competition. The results can be compared to past industry trends provided by FNB below.

4.3.1 Banking industry retention rates (FNB, 2011)

	2007	2008	2009	2010	2011	Average
Customers at year start		411	320	260	188	
Less: Lost customers		91	70	72	34	
Customers at year end	411	320	260	188	154	
Retention rate		77.9%	81.3%	72.3%	81.9%	78.4%

The results of FNB's output reveal that the average retention rates are within the expected norms of 70-90% and the expected pattern of increasing retention over time is identified and it appears that there may well have been an explanation for the dramatic fall in retention rate in 2007 and in 2011 as depicted in the brand switching matrix above. Overall the average of the annual retention rates is 78.4%.

For input into the Customer Lifetime Value model, Gupta and Lehmann (2005) recommend either using the average (78.4% in this case) where there is no discernible pattern of increasing or decreasing retention over time or using the average of the starting retention rate and the ending retention rate (79.9%) where there is a discernible pattern of increasing or decreasing retention rates over time. In the absence of further information, and for the purpose of simplicity, an average retention rate of 80% is utilised for the customer lifetime value calculations.

4.4 Improving Market Share

Stepwise regression was done to identify the key drivers of customer equity and provide advice for a course of action. The model proved to be a strong model with a reported R-Square of 74%. This means that the model explains 74% of the variability in the bank's customer equity and that is fairly strong considering that only 26% of the variability remains unknown.

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The results of the overall regression are provided below:

Parameter Estimates- Regression results

Dependent Variable: SWITCHFNB

Parameter	B	Std. Error	t	Sig.	Partial Eta Squared
Intercept	-.334	.209	-1.602	.111	.014
VALUEDR1FNB	.028	.031	.902	.368	.004
VALUEDR4FNB	.041	.025	1.641	.103	.014
VALUEDR7FNB	.034	.032	1.079	.282	.006
BRANDDR1FNB	.043	.029	1.478	.141	.012
BRANDDR2FNB	.028	.023	-1.233	.009	.038
BRANDDR3FNB	.064	.028	2.310	.022	.028
BRANDDR4FNB	.019	.038	-.501	.034	.001
BRANDDR5FNB	.024	.027	.872	.008	.004
RELATDR1FNB	-.060	.062	-.970	.033	.005
RELATDR2FNB	-.085	.071	-1.194	.234	.008
RELATDR3FNB	-.040	.073	-.547	.046	.002
RELATDR4FNB	-.075	.089	-.834	.405	.004
RELATDR5FNB	.068	.070	.965	.336	.005
RELATDR6FNB	-.089	.071	-1.258	.210	.009
RELATDR7FNB	.055	.067	.820	.414	.004

It is depicted that the strongest drivers are brand and relationship as they the most significant variables at 10 percent significance level and FNB needs to improve these drivers in order to increase their customer equity. It is estimated that if FNB improves their brand drivers they will also improve their customer equity as follows:

Brand equity

According to the results of the regression, if FNB improves their rating of information, the brand equity will improve by 2%, if they improve their corporate citizenship rating they will improve their brand equity by 6% and if they improve the community events by one rating point, they will improve brand equity by 1%, if they improve their ethical standards by one rating point they will improve brand equity by 2%. Likewise, if they improve their relationship rating by 1% their equity will increase by 8% and if they make their banking procedures more favourable by 1%, their overall equity will increase by 4%. It is thus worthwhile to improve all these drivers as collectively they have a substantial effect on the banks' customer equity.

To conclude the results of the hypothesis tests, regressions were run to test the significance of relationships using the p-value approach.

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According to Williams (2006), the p-value is a probability, computed using the test statistic, that measures the support (or lack of support) provided by the sample for the null hypothesis. The p-value ranges from 0 to 1. Williams states that, the larger the p-value, the more support the test statistic provides for the null hypothesis. On the other hand, a small p-value indicates a sample test statistic that is unusual given the assumption that H_0 is true. The results are as follows, where S signifies a supported hypothesis and NS shows an insignificant result:

Hypothesis tests results

Hypothesis	Detail	Result
H1	Sustainable development has a positive relationship with customer driver improvement	S
H2a	There is a positive relationship between value equity and improved customer equity drivers	S
H2b	Brand equity has a positive impact on customer equity drivers	S
H2c	Relationship equity has a positive impact on customer equity drivers	S at 10% level of significance
H3	Increased driver improvements have a positive impact on customer attraction	S at 10% level of significance
H4	Increased driver improvement has a positive impact on customer retention	S at 10% level of significance
H5	Increased customer attraction has a positive impact on marketing returns	S
H6	Increased customer retention has a positive impact on marketing returns	S

4.5 Customer lifetime Value

In computing customer equity, Rust et al (2004) calculated the customer lifetime value of each customer to assess the long term value of a business's customers. CLV will also be assessed here where average margin per customer is determined from the contribution value, which is a value that takes into account the customer revenue less an assigned cost of serving the customer. This is calculated each year by dividing the total contribution by the number of remaining customers as illustrated below:

Average contribution per customer per annum (FNB, 2011)

	2007	2008	2009	2010	2011
Total Contribution	R2,277,194.47	R4,564,808.61	R1,811,811.94	R1.387,558.	R1.39,596.78
Retained Customers	411	320	260	188	154
Average contribution per customer p.a.	R5 540.62	R14 265.03	R6 98.51	R7 380.63	R9 023.36

Inspection of the raw data reveals that the method of allocation of revenue/costs to the contribution column is likely to change hence the large discrepancy in average contribution per customer per annum between these two years (2007 and 2008). The annual averages also show a declining trend from 2008 to 2007 which could have been due to internal restructuring or a better focus on margin management. In the absence of further information to explain the decline and then recovery, the average annual contribution is utilised for the Customer Lifetime Value calculations; this is also in line with the recommendations of Gupta and Lehmann (2005), which advocate the use of the average if no discernible growth or decline trend in margin over time can be detected.

4.5.1 Calculation of customer lifetime value

As established in chapter 2, the formula of customer lifetime value is as follows:

$$CLV = m [r/ 1 + i-r]$$

Where: m = margin or profit from customer per period, in this case R9 409.38 per annum

r = retention rate; in this case 0.80 or 80%

i = discount rate; in this case 0.127 or 12.7%

Accordingly, the customer lifetime value is calculated as R23 019.89 where:

$$CLV = R9\ 409.38 [0.8/1 + 0.127 - 0.8]$$

4.5.1 Calculation of customer equity

According to the definition of customer equity, it is calculated by multiplying the customer lifetime value by the number of customers (Rust et al. 2004). As the study done was limited to the Gauteng area, data is used for this area only but could be extrapolated for South Africa as a whole. FNB provides the following data:

Total customer equity (Gauteng) = R 2 762,4 million

Total Customer equity (SA) = R 6 906,0 million

To determine customer equity for each bank and especially for FNB, an estimate is needed for current and future customers. While there probably will be growth in the total market due to economic growth and some banks will acquire customers more aggressively than others, plus customer margin will differ across banks on the basis of current information and the fact that market shares have established, these are used to determine the relative customer equities. In theory, however, it is acknowledged that current market shares are not the same as customer equity shares.

The resulting Customer equities for Gauteng are as follows:

ABSA	R580 Million
FNB	R 663 Million
Nedbank	R 497 Million
Standard Bank	R 967 Million

In conclusion, all the banks, particularly FNB needs to improve on drivers of brand and relationship equity and to prove that pursuing the marketing activities will actually improve profitability. The overall suggestions of this strategy is to do an integrated marketing communication campaign to promote FNB's current CSR strategies and a CSR relationship building campaign where FNB will create stronger relationships with current customers by supporting housing initiatives.

4.5.2 Test of model for Marketing ROI

To test the model, inputs were obtained from FNB for these two potential marketing programmes, which could then be loaded into the model and a resulting ROI of each programme calculated. The basis of this model is that firms can decide what drivers they would like to improve as established in the analysis above. If it is brand and relationship drivers that need improvement, marketing practitioners can design a strategy to improve these and firstly test it on the model to ensure they will receive returns on the investment. The two programmes therefore are:

Marketing Programme 1: IMC Campaign

An IMC (Integrated marketing communications) campaign is a common strategy that businesses pursue to increase awareness in the market of either the firms products or events. An IMC campaign could be pursued here. The IMC campaign could be aimed at positioning FNB as a good corporate citizen as they are currently lagging behind other banks like Nedbank. So on a five point scale the strategy seeks to improve ratings as follows:

- Brand sub driver of information: to improve rating to 3.90
- Brand sub driver of image: to improve it to 3.80
- Relationship sub driver of preferential treatment: to improve rating it to 3.20

Marketing Programme 2: CSR- Brand building campaign

Alternatively the bank could try to improve specific drivers like that of sustainable development by investing in a housing cause. This makes sense to consumers because banks provide home loans daily to thousands of customers thus it would make sense in the consumers mind if the bank supports such initiatives. The ‘house a nation’ campaign suggested will support housing initiatives by linking customers to their communities to help each other with housing projects and will improve the drivers as follows:

- Brand sub driver of corporate citizenship: to improve ratings to 3.82
- Brand sub driver of community events: to improve 3.57
- Relationship driver of knowing banks procedures: to improve to 3.78

This campaign is expected to reach 40% of the target market in Gauteng. These inputs were then loaded into the statistical (PCR) customer equity model, to determine the change in the dependent variable, the probability of defection, which via the change in retention probability (1- Probability of defection) then determines the change in customer lifetime value and hence customer equity: this then enables the calculation of ROI as follows:

$$ROI = \{ \Delta CE - Investment \} / Investment * 100 \%$$

Thus using this calculation, it can be seen that FNB will improve customer equity as follows:

Mktg Program	Area of Expenditure	Region	Investment	Amount Improved	% change in improvement in CE	Rand improvement in CE	Projected ROI
1	Brand	SA	R3 m.	0.18 increase on 3 drivers	0.35%	R8,351 m	278%
1 – 10%	Relationship	SA	R3 m	0.18 increase on 3 drivers	0.31%	R7,514 m	250%
2	Brand	SA	R1 m	0.18 increase on 2 drivers	0.08%	R0, 750 m	25%
2 – less than 10%	Relationship	SA	R1 m	0.18 increase on 2 drivers	0.07%	R0, 667 m	33%

Although the figures above are estimates, the table illustrates that the present strategy can be used to calculate ROI of different programmes. The banks could try numerous strategies and be able to determine the return using this technique which also proved successful in the airline industry in Rust et al (2004) study. From the information above, it appears that marketing programme 1 has a very high ROI whereas marketing programme 2 has a lower return on investment thus it would be worthwhile to invest in an IMC campaign. Overall, the model could also be tested with different inputs or with different marketing programmes and this shows that the model can be used to calculate the ROI of marketing programmes.

Practitioners can use this to trade off investments whenever there are a number of options provided to address a lack of presence in the market. This tool makes the marketing function more accountable because practitioners can discuss numbers at board level and be able to decide which strategy is most effective and efficient before investing millions in it. As marketing budgets are usually large, this exercise would provide direction and enable wise investments to occur.

4.6 Sustainable Development Outcome

The following section provides an analysis of current CSR initiatives and discusses customer responses relating to the topic and how the banks can use sustainable development to their advantage. Using sustainable development in the model will enable planning and forecasts of returns on marketing prior to pursuing any capital intensive sustainable development projects.

The key CSR issues include governance, environmental management, stakeholder engagement and labour standards amongst others. CSR is not only about fulfilling a duty to society; it should also bring competitive advantage, and through an effective CSR program, companies can; improve access to capital, sharpen decision-making and reduce risk, enhance brand image, uncover previously hidden commercial opportunities, reduce costs and finally attract, retain and motivate employees. Any of these can be incorporated into the customer equity model employed in this study to ascertain return on investment.

It is more important to ensure that investments on people translate to longer term growth of the firm and existence in a competitive environment.

According to The King III Report, stakeholders are categorized as shareholders, as providers of capital, parties that contract with the enterprise either as providers of input to various business processes and activities or as purchasers of its output including customers, employees and business partners. It is evident that customers should be seen as assets of the company and should be viewed in high regard.

From a stakeholder approach, Maignan et al., (2005) give important stakeholder measures that have to be incorporated for each respective stakeholder group. As established in chapter 2, one of the key stakeholders is the customer as they are the only source of revenue. It is crucial to take the customer's needs into account and pursue sustainable development projects that are meaningful to them. The focus group discussion revealed that the main needs of the mass market include housing and employment. To have an impact, the banks should address these issues rather than what seems fashionable at the time as any other projects that do not link to their lives cannot affect their preferences and thus have no impact on customer equity.

South Africa is currently facing a low-income housing crisis. Pillay and Naude (2006) state that an obstacle in the provision of low-income housing is the difficulty encountered by commercial banks to extend loans in this market despite supporting initiatives by Government. A lack of knowledge on the borrowing behaviour, preferences and experiences of low-income households in accessing housing finance from the commercial banking sector in South Africa hampers an understanding of the reasons for these problems.

From the research conducted by Pillay and Naude (2006), it was found that, in the housing purchase process, the majority of buyers were unable to access accurate information on the primary and secondary housing market, which influenced their ability to purchase a home. Housing is thus a serious issue for these consumers and it is an opportunity for the banks to establish sustainable development projects that address their needs and thus create valuable relationships with the consumers

The focus group participants expressed concern with regard to the lack of information they get as they do not understand the interest that reflects on their monthly statements and more importantly are unaware of the details of what it means to open up a bank account and what it entails.

Thus, banks need to emphasize and invest on their education to the consumers, starting at the front desk where a (potential) consumer would approach with interest in opening an account.

It was noted that consumers would understand more and appreciate it if bank consultants explained all the details to the consumers in their own languages as English for many is not a first language. This would improve the consumers' understanding of the bank operations and therefore improve the relationship between the two parties as competitors like Capitec bank do.

The new government seeks to address the inequalities created by apartheid through subsidising housing and service provision for the very poor. Towards this end, more than two-thirds of the state housing subsidy now goes to households earning less than R1 500 per month (National Department Of Housing, 2001). The focus group conducted showed that consumers are highly interested in having the banks assist in Reconstruction and Development Program (RDP) housing, as they feel that government is taking too long to satisfy their needs of having a home and they strongly emphasise that even though FNB has sustainable and community driven initiatives, they do not see them and are thus not affected by them. They believed that if FNB would state the initiatives and help in their communities, many people would move to FNB as their preferred bank.

It is evident that if the banks expressed their sustainable development initiatives to the public in a manner that they can understand then they will acquire more consumers in this particular market. This is supported by the cause related marketing discussion in chapter 2.

Corporate Social Responsibility can be used as an innovation tool in fusing both sustainable development and its CSR strategies in creating originality in its marketing strategies. The banks can associate themselves with a community driven initiative like Habitat for Humanity.

Habitat for Humanity South Africa considers such factors as the level of need for housing in the community, support of local leadership and community stability. Habitat for Humanity South Africa supports the committee through training them in their roles and responsibilities, administration, house design, finance, business plans, construction program, and record keeping (Habitat.org). The potential home owner helps build the house, this is a form of 'paying it forward' as the community who help with the home building are assured that they will get help from the potential home owner they are currently helping. This initiative will also be remembered by the consumers as it addresses a need in their communities.

What was also evident in the focus group is that FNB tends to close consumers' accounts when there is no money in it, this being done without the consumers' knowledge. As one of the respondents said "I use Standard Bank as right now I am unemployed so I find Standard Bank to be the easiest as even though I have no money they will not close my account, but FNB does this and it is very upsetting and inconvenient. You'll find that I sometimes get a little money here and there from my part-time jobs but the people try to put money in my account and find that they cannot as it has been closed without my knowledge". To the consumers this seems to be a focal concern, where FNB would need to focus on. Throughout the focus group the importance of information came out as key.

The community projects that most banks are currently running lack focus on the actual consumers and people of the communities as well as not targeting low income consumers.

It was noted from the focus group conducted that the consumers want community initiatives that are "closer to home" and are targeted at their own communities.

In addition to the community and environmental projects that the main banks are currently running they are also involved in sponsorships. These can be effective and contribute to customer equity if the sponsorship is for the teams that are actually in need within the communities of the target market.

These programs are good for engaging the youth and keeping them active. The three main attributes of sustainable development are; the people (of South Africa), the planet and profit and any bank that can successfully strike that balance will be guaranteed of strong positioning.

4.6.1 Conclusion:

The purpose of this section was to test the customer equity model and apply it to the South African banking sector. The quantitative and qualitative outputs were employed to gauge the usability and effect of sustainable development on customer equity.

It was established that the customer equity model is applicable to the banking sector and sustainable development can be measured as an additional variable. The results show that it would greatly benefit the banks to look into educating their consumers so that they can understand the banking processes.

Education in a language that the consumers can understand is imperative in the retention of the current customers as well as helping with the complaints levels that the company may encounter.

Consumers would also be more affected and possibly attracted by the bank's being involved in helping their communities through assisting in the RDP housing developments. Although this may be a difficult obstacle, banks can use this opportunity to associate themselves with housing and get involved in an initiative such as Habitat for Humanity. This initiative allows the consumers to help themselves while helping others and with any bank supporting this, consumers will see the company as helping their community and would want to switch banks thereby strengthening their relationships with the specific bank.

The closure of consumers' accounts without their knowledge is a big problem for consumers and for banks alike. Some of the banks like Standard Bank do not do this and from the focus group it was noted that this is one of the biggest reasons for consumers to move to Standard Bank and stay with them. The other banks can adopt the same system for consumers in the mass market to maintain retention levels.

The recommendations made above can assist the banks in fusing the three P's or sustainable development; people, planet and profit. The balance between these three is empirical for a company to further grow and develop. Consumers should be placed as assets and more emphasis should be placed on them rather than having the latest marketing strategy that does not impact the people that it is targeting.

The current sustainable development initiatives are efficient but have to be worked on, incorporating the recommendations made. Advertising the initiatives is also vital to increase the company's brand awareness and brand image and ultimately the company's' brand equity.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

The purpose of the study was to develop means to find a balance between profitability and sustainable development. A customer equity model and sustainable development model was used to show that by pursuing corporate social responsibility, banks can improve their brand equity and relationship equity whilst pursuing sustainable development.

5.1 Summary of main findings

- Employing a customer equity model that was tested in the study to gauge potential marketing returns before implementing strategy to ensure increased marketing accountability.
- Running an IMC campaign to promote the banks current and proposed CSR activities in order to create awareness and develop favourability amongst consumers.
- Pursuing a “housing the nation” campaign to address the specific issues of the target market so that there is a strong link in the customers’ minds.

This will can be done using “habitat for humanity” were a bank can assist customers to reduce their costs for housing by being involved in their own housing projects.

- Creating stronger customer initiated contacts by developing relationships with customers and linking them to other members of the bank to create a sense of community with the bank.

The customer equity and sustainable development model developed in this study can provide a significant contribution to organisations as marketing strives to become more accountable and as organisations search for tools to measure the effectiveness of marketing programmes. The strategies presented here will provide organisations with a powerful tool to build shareholder value by understanding the drivers of market based intangible assets. However, to implement such a model will require some organisational changes and for the culture of the bank to become more customer focused.

In conclusion, the strategy proposed here is essential for FNB since economies are moving from manufacturing goods to providing services and as marketing shifts from making transactions to developing relationships, the requirement of organisations needs to shift from managing products to managing customers as stated by Rust et al (2004). Marketing can thus be a greater contribution by being accountable as driving customer equity will build shareholder value and create not only sustainable profits but sustainable development as well.

5.2 Implications for management and academia

The customer equity model has proved to be an essential tool when making marketing based decisions that involve corporate social responsibility. This contributes to the marketing industry as practitioners can make use of the tool and report quantitative statistics that shareholders can understand to monitor investments. This will make marketing more accountable in the banking industry as practitioners can end the era of relying on judgement and experience when selecting marketing strategies.

The marketing literature will also lean towards quantitative reports using financial language in the form of the customer equity model. This is beneficial for standardised research as marketing eventually reports to finance and plays a vital role in determining enterprise value. Customer equity has thus broadened to include intangible assets like brand and relationship equity and this will affect current and future research to focus on this domain.

5.3 Research Limitations

Use of convenience sampling introduced a limitation in that the sample was not representative of the population and therefore the researcher could not generalise results of this study. The Gauteng region also comprises of many consumers and a bigger sample size would have been more representative.

It was also difficult to attain expenditure amounts on customer retention and acquisition from all banks. This made it difficult to generalise the results without taking into account the exact spend on these components. The results thus had to rely on past trends and estimates.

5.4 Recommendations for future research

The present study focused on the measures of customer equity and used regression analysis to assess the impact on the future value of a bank. It is may be possible to use other statistical methods to solve this problem and further determine returns on investment.

There are also opportunities for simplified and easy to use models of calculating customer equity and linking this to enterprise value. The possibility to use statistical methods to project the future needs of customers based on currently unmet needs in the market may add to the debate around the value that customers add to an enterprise and therefore increase customer equity and enterprise value.

Rust et al (2004) tested the customer equity model on the American airline study then this study tested the model in the South African banking sector. It might be worthwhile to test the model in another industry to validate the customer equity model and make marketing more accountable across industries in the world.

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Appendix A: Questionnaire sample

Understanding Customer Equity Management



This study is being conducted as part of a Masters Customer equity research project at the University of the Witwatersrand. The Questionnaire should take you approximately 5 minutes to complete. It is crucial that you read the questions carefully and think before you choose an answer. The survey is anonymous (i.e kept in secret), so **please be honest!**

Kindly read through the instructions at the beginning of each section of the questionnaire before completing that section.

Please note- There are no right or wrong answers!

MCOM RESEARCH REPORT: 395826

1. Which bank do you currently use?

☐ Standard bank	☐ ABSA	☐ Nedbank	☐ FNB
☐ Capitec Bank	☐ Postbank		
☐			

Other Please specify.....

2. What accounts do you hold at your bank? Please list your usage of these accounts in the spaces provided

☐ Savings/ Transmissions Account	☐ Current/ Cheque Account	☐ Fixed Deposit
☐ Personal loan	☐ Car/house loan	☐ Other (Please specify).....

3. How often do you use the bank account(s)?

☐ Daily	☐ A few times a week	☐ weekly
☐ A few times a month	☐ Rarely	

4. If you were to change banks, what is the chance that you will change to the following banks. E.g 20%, 50%

BANK	CHANCE OF YOU JOINING THIS BANK
Standard Bank	%
ABSA	%
Nedbank	%
FNB	%
Capitec Bank	%
Postbank	%

5. If you are an FNB account holder, How would you rate the following services out of 10?

☐	Withdrawing/ depositing money at an FNB ATM
--------------------------	---

MCOM RESEARCH REPORT: 395826

☐

FNB Cellphone Banking

☐

something

Point of sale transactions, for example, using your FNB card to swipe/ buy

☐

Withdraw/ Deposit money at an FNB Branch

For the following questions on a scale of 1 to 5, with 1 being “would never stop me from using a service from a bank” and 5 being “would always stop me from using a service from a bank”: To what extent would each of the following stop you from using a bank service?

Aspect	Would never stop me	Could possibly stop me	Might stop me	Could definitely stop me	Would always stop me
Poor Quality of banking Service delivery, e.g disrespectful staff and unhelpful consultants	1	2	3	4	5
High Fees of banking service Such as monthly bank charges	1	2	3	4	5
If people believe and say bad things about the Bank service and processes	1	2	3	4	5
Low Communication from the bank such as sms and emails	1	2	3	4	5
Difficulty in finding my bank's branches and atm's	1	2	3	4	5
My bank not being involved in taking care of my community	1	2	3	4	5

MCOM RESEARCH REPORT: 395826

On a scale of 1 to 5, with 1 being “poor” and 5 being “excellent”, how would you rate FNB on each of the attributes mentioned ABOVE? If you are not using FNB please move on to the next question

	Poor	Below average	Average	Above average	Excellent
Quality of banking Service delivery, e.g respectful staff and helpful consultants	1	2	3	4	5
Fees of banking service Such as opening account fees and monthly bank charges	1	2	3	4	5
What people believe and say about the Bank service and processes	1	2	3	4	5
Relationship with FNB, for example, do you feel that you receive good information about FNB accounts before you open one?	1	2	3	4	5

Now please think of other banks that provide the same offers/ services as FNB. Who do you see as FNB’s key competitors?

Please indicate two key competitors in the spaces provided below

Bank 1 that I see as FNB’s biggest competitor.....

Bank 2 that I see as FNB’S second biggest competitor.....

MCOM RESEARCH REPORT: 395826

How would you rate each of the two banks you listed above on a scale of 1 to 5 **where 1 = poor; 2 = below average; 3 = average; 4 = above average; 5 = excellent**. You may rate what you think/ believe and Please label your competitors in the spaces provided:

	Bank 1.....	Bank 2.....
Quality of banking Service delivery, e.g respectful staff and helpful consultants		
Fees of banking service Such as monthly bank charges		
What people believe about the Bank service and operation, such as do they have good beliefs about the bank?		
Relationship with the bank, for example, do you feel that you receive good information about their accounts before you open one?		

Value Related drivers

Please circle your response below

MCOM RESEARCH REPORT: 395826

How proud would you be to use these bank's services?

	Extremely not proud	Not Proud	Average	Proud	Extremely proud
FNB	1	2	3	4	5
Bank 1	1	2	3	4	5
Bank 2	1	2	3	4	5

How would you rate the competitiveness (Cheap vs Expensive) of bank charges to use your account (overall bank charges) for each of these banks?

	Very Cheap	Cheap	Average	Expensive	Very Expensive
FNB	1	2	3	4	5
Bank 1	1	2	3	4	5
Bank 2	1	2	3	4	5

The bank serves me when and where I need it to

	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
FNB	1	2	3	4	5
Bank 1	1	2	3	4	5
Bank 2	1	2	3	4	5

Brand related drivers

MCOM RESEARCH REPORT: 395826

Please fill in your response using a number from 1 to 5 to indicate your level of dis/agreement in the spaces provided

1 = 'strongly disagree'; 2 = 'Disagree'; 3 = 'Neither agree nor disagree'; 4 = 'Agree'; 5 = 'Strongly Agree'

	FN B	ABSA	STAND ARD BANK	NEDB ANK	CAPIT EC BANK	POSTBA NK
I often notice and pay attention to the bank's media advertising						
I often notice and pay attention to information the bank sends to me such as sms's or emails.						
The bank is well known to be responsible for caring for society						
The bank has respectful staff who help customers well						
The image of the bank fits my personality well						

Relationship related drivers

MCOM RESEARCH REPORT: 395826

Please fill in your response using a number from 0 to 1 to indicate your level of agreement/disagreement in the spaces provided

1 = Yes, 0 = No

	FNB	ABS A	STAND ARD BANK	NEDB ANK	CAPITE C BANK	POSTBA NK
I have a big investment in the bank's loyalty program						
The special treatment I get from the bank is important to me						
I know the bank's procedures well						
The bank knows a lot of information about me						
The bank recognises me as being special						
I feel a sense of togetherness with other clients of the bank						
I have a high level of trust in this bank						

**THANK YOU FOR TAKING TIME TO FILL IN THIS
QUESTIONNAIRE!!!**

Appendix B: Focus group questions

Focus Group Conduction for the FNB sustainable development assignment:

Focus groups are "small groups of unrelated individuals that are formed by the researcher and then led in a group discussion of a topic" (Schutt, 1999: 308). Focus groups are similar to interviewing people one-on-one but there are important differences. When conducting an individual interview the researcher is trying to learn about biographical details, political opinions, product preferences, etc., and how the individual interprets aspects of the social world. But these remain essentially the self-reflections of just one person (unless a suitable sample size is attained and aggregated to produce group measures). In a focus group, the object of the analysis is the interactions among the group members— how the group collectively creates meanings and negotiates definitions of whatever is discussed. Focus groups thus have the strength of being a more "natural" than one-on-one interviews which are by comparison more structured and somewhat more artificial.

www.nd.edu/~fwriting/fyc/instructors/documents/FocusGroups.doc

Date: 7 November 2010

Venue: Hyde Park

Time: 12:30

The focus group in question was conducted in vernacular language but will be transcribed to English for ease of understanding.

Onke: We are here to conduct a focus group to determine which banks you are currently at, why and whether or not you would consider leaving the bank. Will be going through some questions with you to help gain a better understanding of the banks that you currently use and wish to use.

So we would like to ask each of you, which bank you currently bank with?

The Focus Group:

The focus group was conducted of 7 respondents of both male and female gender who fell within the age group of 45-75.

Atmen Mlangeni –Male

Cylvia Mantewu-Female

Elizabeth Mukabe-Female

Dana Sithole-Female

Akhona Mzebe-Male

Victor Maguba-Male

Maxwell Dlamini-Male

Conductors: Khanyi Tshume

Onke Dumeko

Debbie Kirk

Belinda Mabuzane

.....

Atmen Mlangeni: I use Standard Bank

Cylvia Mantewu: I use FNB

Elizabeth Mukabe: I use ABSA and Nebank

Dana Sithole: I use Standard Bank

Akhona Mzebe: I use FNB

Victor Maguba: I use Standard Bank

Maxwell Dlamini: I also use Standard Bank

Onke: Ok, those you use FNB please tell us why?

Akhona: FNB is ok, compared to Standard Bank as when there is money that is meant to show it will show late so that why I prefer FNB as this does not happen. Standard Bank is too strict.

Onke: And those who use Standard Bank, tell us why and what you like about it?

Atmen: I just like standard bank

Onke: So if you could change to another bank, say FNB or ABSA would you?

Atmen: No, I wouldn't as I like the bank.

Victor: I would not leave Standard Bank either as it gives me no problems, my money doesn't come in late.

Elizabeth: I like ABSA because even if you have R50 in your account they won't close it, but with Nedbank I regret it as they have too many charges. I use Nedbank for my transactions.

Khanyi: So you use these accounts when wanting to purchase groceries and such?

Elizabeth: Well yes, but I used to use FNB for my stockvel money in a group. We found that the money was ok and the returns were fine.

Victor: I use Standard Bank as right now I am unemployed so I find Standard Bank to be the easiest as even though I have no money they will not close my account, but FNB does this and it is very upsetting and inconvenient. You'll find that I sometimes get a little money here and there from my 'peace jobs' but the people try to put money in my account and find that they cannot as it has been closed without my knowledge.

The majority of the group agrees with Victor's point and say that this is one of the big and important reasons for them to not bank or to leave FNB.

Cylvia: I use ABSA bank, because I think it suits me and I have had no problems so far with it.

Maxwell: Yes I use Standard Bank but only because I get paid in that bank. The people I work for opened the account for me so that is why I use it. Even if I wanted to leave or not Standard Bank is where I am told to go to get paid.

Khanyi: We would like to know about what you think FNB does and etcetera what more do you think FNB should do to better itself.

Elizabeth: I think FNB is an ok bank, but what they need to do is to stop closing our accounts, even if we have R50 in the account at least there is something there so to just close the accounts without us knowing makes no sense.

Onke: What do you think FNB can do to better the community? Could it sponsor schools or what?

Atmen: I think what they could do is to help the people, maybe by sponsoring RDP houses or something to that effect or they could place some temporary houses around just to support the people.

Victor: My main concern is that they need to have a pensioners fund for our parents as they are important to us.

Khanyi: Do you think FNB should educate their consumers in terms of explaining to you guys what it means to open this account or what the interest rates are or what you are paying for and things like that?

Group: Yes we think that should happen because when they say sign we just sign without knowing what we are signing for exactly. They need to educate us more so we can use our accounts better and know what we have 'gotten' ourselves into.

Khanyi: So if they do help build houses and teach their consumers more would you think FNB is a better bank or do you think it is something they should do anyway?

Maxwell and Elizabeth: Yes they should do it anyway as they are a bank that wants to help people. If they do this more people would go to FNB and some of us would go back.

Khanyi: Are you guys aware of anything that FNB does for the community or South Africa?

Group: No not really

Khanyi: Well FNB does have campaigns and things that they do to help your communities out.

Elizabeth: Well if that is the case then maybe they should tell us about them so that we also know and can maybe help where we can. We like good things to happen in our communities.

Khanyi: Ok, so what do you guys think of the other banks such as Capitec Bank and PostBank?

Elizabeth: We would like Capitec but it is not in our area. They call us to tell us that we can open an account with R10 but it is not around.

Onke: Do you guys think that Bank fees are too much?

Victor: Yes well I believe FNB has higher interests than the other banks.

Onke: So for you guys your main problem is that it closes your accounts.

Elizabeth: The bank is ok in terms of transactions, investments and such.

Akhona: What I would like to know is why they take a long time to send transactions from one account to another account or bank?

Maxwell: My main concern is that when they say I must go and take my money from the bank I find that it is less than the amount they said would be in it. If I'm supposed to get R2000 for my work then that's what I should get. I can be getting my money taken away every time I go to an ATM.

Khanyi: So would you prefer a bank with no interests when taking out your money?

Maxwell: Well yes, if that is even possible as I don't like this money taking thing that they do. I work fully so I must get my money fully.

Khanyi: I'm sure this is a big problem as you guys budget this money so when it does not come in, in full you can't do the things you wanted to do with the money so your month gets disorganised.

Group: Yes definitely.

[Another participant joins the group]

Onke: Hi sisi, I would just like to ask which bank you use?

Dana: I use Standard Bank and FNB

Onke: What do you use with the FNB and Standard Bank accounts?

Dana: I just use both as savings accounts

Onke: What do you like about FNB?

Dana: I like FNB because they have funeral policies, the service is good but what I don't like is the fees, they are too expensive.

Onke: What about Standard Bank?

Dana: Standard Bank is expensive but is reasonable.

Onke: What do you think FNB can do to better itself?

Dana: FNB has many charges and you find that when you get your statement you do not know what these charges are or what they mean. So they need to explain to us what they are or write them out fully on the statement and not the short version of it. They don't explain to us how you get these interests, whether it is from EFT at Pick n Pay or from withdrawing.

Onke: Would you leave any of your banks?

Dana: No I wouldn't.

Debbie: We are currently working on a new product where you only pay one amount once off R60 a month only. R59.99 paid every month as long as you do not go into a branch, so you can use your phone for cellphone banking or go to an ATM and deposit money without any extra charges. You also get R10000 funeral cover as a member.

Group: That would be a better account to have. We did not know that such an account existed or is about to exist.

Conclusion:

From the focus group we found that the consumers did not appreciate the closing of their accounts without their knowledge as even though they may not have money in the account in that month they could still get an income somewhere and need the surety that their accounts will still be there when they tell the employer which account to deposit the money in. As the group voiced, “Yes we think that should happen because when they say sign we just sign without knowing what we are signing for exactly. They need to educate us more so we can use our accounts better and know what we have ‘gotten’ ourselves into.” They found it very embarrassing and frustrating when the employer came back to inform them that that account no longer exists.

The groups’ responses showed that a lot more education needs to occur at the front desk when they want to open an account and continuously as they use the account. They found it frustrating to find all of these amounts deducted from their accounts without knowing what they are and what they are there for. They state that if they could be educated about these fees then they would try to avoid having them at all.

FNB would also need to voice their initiatives in social development as the group was unaware of any of the good endeavours that they did in communities. The respondents stated that if they knew about what FNB did in their communities more people would join the bank.