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# CUSTOMER RETENTION BY BANKS IN NEW ZEALAND

The banking industry is highly competitive, with banks not only competing among each other; but also with non-banks and other financial institutions. Most bank product developments are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves on the basis of price and quality. Therefore, customer retention is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment.

The majority of banks in New Zealand are foreign-owned, and appear to be narrowly diversified in the products and services they offer. This suggests that the New Zealand banking industry has reached the maturity phase of the product lifecycle and has become commoditized, since banks offer nearly identical products. This carries the danger of creating a downward spiral of perpetual price discounting - fighting for customer share. One strategic focus that banks can implement to remain competitive would be to retain as many customers as possible.

The argument for customer retention is relatively straightforward. It is more economical to keep customers than to acquire new ones. The costs of acquiring customers to "replace" those who have been lost are high. The key factors influencing customers' selection of a bank include the range of services, rates, fees and prices charged.

Data for this analysis was obtained through a mail survey to 1,920 household in Christchurch. Names and addresses for the survey were systematically drawn from the 2004 Christchurch White Pages telephone book with a skip interval of 73 from the 140,462 telephone book listings. A total of 514 useable surveys were returned from the initial mailing, representing a useable response rate of 28 %. The questionnaire gathered information on consumers' perceptions of their banks, the reasons they remain with their banks, and reasons why they might switch to a rival. The mail survey was designed and implemented according to the Dillman Total Design Method (1978), which has proven to result in improved response rates and data quality.

The constructs (Intention to Stay or Switch, Customer's Satisfaction, Customer's Perceived Value, Customer's Perceived Corporate Image, Competitive Advantage, Customer's Perceived Switching Barriers, Consumer's Behavioural Intention, Customer's Loyalty) investigated in this study all received positive marks by the respondents as factors that would influence their decision to stay with or leave their current banks. The most important construct (by mean score) was customer satisfaction, followed by corporate image and switching barriers. These results lead to suggestions for bank managers to consider as to how they might improve customer retention in today's competitive banking environment.

Results of this analysis have also shown that as the age of customers increases, so too does the propensity to stay with their current banks. In addition, respondents with higher education are most likely to switch banks perhaps because highly educated consumers tend to have greater expectations of services. Gender and income appear not to have significant association with the respondents' intention to stay with or leave their service providers.

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