A STUDY ON CROSS-SALES PROCESS IN FINANCIAL SERVICES

INTRODUCTION

Customer retention has been shown by academic researchers to be more profitable than customer acquisition. However, its implementation in the business environment has not been so successful. One of the reasons for this is that customer retention can be achieved in several ways (i.e. loyalty programs, affinity cards and switching costs) and that the translation from the concept of “retaining customers” to the actions and strategies to retain them is not always easy. One of the most attractive strategies to ensure that customers remain within the organisation is through cross-selling and up-selling. In short, the objective is to increase the number (or the value) of the products that a customer buys from a company to make it more difficult for him/her to leave. Whilst academic research has deeply investigated the concepts of loyalty, retention programs and trust, amongst others, cross-selling has not received the same level of attention. Moreover, existing research on cross-selling has been focused on products rather than on services. Finally, this research has mostly been conceptual in nature, with limited attempts to model or design practical cross-selling and up-selling strategies. In order for cross-selling and up-selling to be effective retention strategies, they need to be tailored to the needs of the customer. The offer must be adequate in terms of the target (who is going to buy the product), the content (what is going to be purchased) and a time (when is the right moment to offer the new product). This thesis investigates customer retention and cross-selling and up-selling from a practical point of view in the financial services industry. Firstly, it assesses the importance of the concepts of customer retention and cross-selling and up-selling through several interviews conducted with financial services providers (insurance companies, building societies and independent financial industry bodies). Having established the relevance of these concepts in the industry, the next step developed and applied a framework to design cross-selling and up-selling strategies. This framework, named the “Who-What-When” framework, was applied to the transactional and customer data bases of two financial services providers (a Spanish insurance
company and a UK building society). The “Who-What-When” method begins by segmenting the customer base in order to understand the characteristics and potential of each customer. It then, moves to modeling purchase propensity models, understanding the relationship between products in order to determine what product should be offered to each segment, according to their characteristics and their consumption history. Finally, it analyses the time sequence of the purchases in order to determine the right time (when the purchase is more likely to occur) to approach each customer, bearing in mind how they behave and the maturity of the products already held. The contribution of this thesis is twofold. From an academic point of view, the research demonstrates the importance of customer retention and cross-selling in the financial services industry, being both recognised as key strategic and tactical approaches for the future of the industry. Secondly, from a practical point of view, it contributes by developing and analytical framework to discover and design cross selling and up-selling strategies, aimed at retaining customers. This is achieved through the ‘Who-What-When’ framework which takes into account customer characteristics, consumption patterns and acquisition sequence to model cross-selling activities. Therefore, it refutes the traditional approach that ‘one size fits all’, advocating tailored strategies. Finally, this research highlights, from the empirical analysis, how repurchase decision is highly influenced by the length of the relationship with the provider and the type of products already purchased. Understanding these factors is key to successfully retaining customers via cross-selling.

During the last couple of decades, retaining customers has become a strategic objective for financial services providers. The reasons are several. Firstly, over the last twenty years, the financial services industry has undergone drastic changes (Morgan, 1994: Lymberopoulos et. al., 2004, McShane et. al., 2010). Factors like deregulation, market internationalisation and the emergence of new forms of technology have all brought new opportunities as well as threats for the existing players, resulting in a highly competitive industry (Bergendahl, 1995: Hislop et. al., 2002: Beckett et. al., 2000: Haynes, T., 2010). In addition, fast moving information and communication technologies
have helped drive the popularity of customer retention by enabling the capture, storage and manipulation of data used to drive customer retention strategies. (Crosby and Johnson, 2001: Crosby and Johnson, 2001a: Vtanasombut, 2008: Jullian, 2009). In a technical sense, data warehousing can now integrate information about customers and other stakeholders. Data has become more accessible and can be used in more advanced combinations. This data availability has permitted the growth of data mining, understood as the systematic process which uses advanced models and techniques (statistical automated computing) to extract and refine information (Gummesson, 2006: Minami and Dawson, 2008: Saundra et. al., 2010). The academic environment has also contributed to this emphasis on customer retention by referring to a number of studies which have evidenced numerous advantages derived from maintaining customers within the organisation on the basis of long-term relationships. Bejou et. al., (1998) and Zhang et. al., (2010) suggest its benefits in terms of loyalty. Reichheld (1996). Mittal and Lassar (1998). Liang et. al., (2008) and Reinartz et. al., (2008) speak about cross-selling and the gain of obtaining a bigger share of the customer’s wallet. Reichheld and Sasser (1990), Fornell and Wernerfelt (1998) and Campbell and Frei (2010) emphasise the impact of customer retention on increasing profits. With reference to profitability, Evans and Laskin, (1994) and Augusto de Matos et. al., (2009) talk about how existing customers reduce the cost of advertising and other promotional activities which were aimed at attracting new customers. Furthermore, it seems that customer retention is a key factor in transforming customers into companies’ advocators, by positive word of mouth.

As a result, as markets mature and competition intensifies, financial companies have to explore ways to increase customer retention. This emphasis on customer retention has its roots in the theoretical framework of Relationship Marketing which focuses on developing long-term bonds with individual customers (Roberts et. al., 2003; Cannière et al., 2010). A key feature of this approach is that not only does it result in increased customer retention but it also provides a sustainable competitive advantage to firms as the intangible aspects of a relationship are not easily duplicated by competitors. The scope of
Relationship Marketing has been addressed by a number of authors including Christopher et. al., (1991), Doyle (2005), Kotler (2003), Morgan and Hunt (1994), Webster (1992), Payne and Frow (2005) and Michalski and Helming (2008) leading to different definitions. In short, it can be said that the scope of Relationship Marketing includes the development and management of relationship in six markets, namely; internal, customer, referral, supplier, influencer and employees (Veloutsou, 2002). Although Relationships Marketing is concerned with developing strategies not only with customers but also with suppliers, employees, stakeholders and competitors, for the purpose of this research the focus is on customers. There are indications that Customer Relationship Management (CRM) and customer retention are more advanced in retail financial services than they are in most industries (IDC, 2000: Morgan, 2009). One of the ways in which companies in general, and financial services providers in particular, have built long-term relationships and promoted customer retention has been through the use of cross-selling strategies. Many financial organisations have customer bases in which many customers hold only a single product. On the other hand, customers who have more than one product can be very profitable (Foss and Stone, 2002: Augusto de Matos et. al., 2009). The supported correlation between customers holding more than one product and customer profitability has led many companies to realise the potential of cross-selling and up-selling actions (Salazar et. al., 2007). The justification for this comes from five possible reasons, namely: 1) a lower cost source of leads than other means of identifying or reaching prospects; 2) possibly higher response rates; 3) increasing effectiveness by carefully targeting customers; 4) increasing the bonds between customer and provider; and 5) increasing the switching costs (Foss and Stone, 2002; Kamakura et. al., 2003: Campbell and Frei, 2010). In spite of increasing importance attached to retaining customers (Bhattacharya, 1997; Guicheng et. al., 2009), empirical investigation into organising and managing retention is relatively recent (Ahmad and Buttle, 2001; Clarke, 2001; Calciu, 2008). In addition to this and despite its obvious importance, cross-selling has received little attention in academic circles. Most studies have been conducted for durables (McFall, 1969; Clarke and Soutar, 1982; Pyatt, 1964; Kumar et. al., 2008) with
a descriptive focus. In terms of the financial industry, the research has been even more limited with the exception of Stratford et al., (1982) and Kamakura et al., (1981, 2003, 2008). There have been a few descriptive studies over the past four decades that explored consumers’ sequential purchases (Blattberg et al., 2009; Bitner and Zeithaml, 2000; Boulding et al., 1993; Hauser and Urban, 1986; Mayo and Qualls, 1987). The article by Kamakura, Ramaswami and Srivastava (1991) is the first to model cross-selling opportunities formally. Over the last few years, there have been several more studies (Knott, Hayes and Neslin, 2002; Edwards and Allenby, 2003 and Kamakura, Kossar and Wedel, 2004; Reinartz et al., 2008).