**Literature Review:**

The context of the research study is the financial services industry, particularly the Spanish and UK industries. It is useful at this point to provide a brief contextualisation of the European financial services industry in order to put the later case study companies into a broader context. Understanding the external conditions when this research was conducted is crucial to identify the challenges and opportunities that the case companies face and enjoy, and how the broader environment may determine how customer retention and cross-selling might fit within the organisation.

During the last three decades, the financial services industry has been one of the most rapidly growing industries around the world, specifically in the western countries. However, it is not only growth (Back *et. al.*, 2000; Hasan *et. al.*, 2009), but unprecedented changes that have altered the existing conditions and opened the door to new opportunities and threats. Some of these major changes have been the result of the de-regulation process which countries have undertaken in order to be perceived as international players. As a result, competition has increased, weaker competitors have been removed from the industry and strong companies have become stronger, with an international business scope. Together with this legal transition, there have been several sociological issues shaping the new reality of the financial services industry. The natural evolution of society and the literacy of consumers have influenced, and are still influencing, the future of the industry. Additionally, technology is provoking a major change in how financial businesses operate and on the new opportunities that they can obtain by changing their operational models.

Prior to the impact of these factors, the financial industry could be described as a very fragmented industry (Calomiris and Kercseski, 1998; Boot, 1999; Chang *et. al.*, 2009). Due to the regulations that existed at that point in the European countries, financial services providers used to ensure their status quo and a protected area in which to operate. This meant that there were limitations to the kinds of products that each type
of institution could offer and the areas where they could operate. Under these circumstances, competition was limited and certain players operated under quasi-monopolistic conditions where they were the only ones allowed to provide certain products. As a result, marketing strategy was basically aimed at protecting existing business (expanding branch network) (Verbeek, 1997; Hartmann, 2010), however, this situation was about to suffer a drastic change during the last two decades of the 20th Century.

With the Code of Liberalisation of Capital Movements of 1957, the member countries of the OEEC set up new conditions of the European financial market without restrictions to the movement of capital (Gelos and Roldós, 2002; Postner and Veron, 2010). Some of these transformations derived from this decision, focused on the rigidness of the industry with a vast amount of regulation and legal barriers to compete. As a result of this, during the 1980’s and early 1990’s, all the member of the European area started their so called Deregulatory Processes (Cummins and Rubio-Misas, 2004, Barth et. al., 2000; Kovacevick, 2008). The basic consequences of these liberating measures demolished the limitations to the business scope and to the areas of actuation. Therefore, financial services provides were no longer forced to offer just one type of product (i.e.: building societies and mortgages, banks and current accounts and insurance companies and insurance policies), but they could increase their portfolios (Mackay and Molyneux, 1996; Thorburn, 2008). Moreover, where companies’ regional limitations were erased, from that moment on they could compete anywhere within the country boundaries and, after the agreements with other European countries, the territory expanded to the whole of the European Union (Berger et. al., 1999; Postner and Veron, 2010).

As a consequences, de-regulation was followed by a relocation of resources into new markets and regions (Stiglith, 1985, Boot et. al., 1993; Rahesh and Bajeev, 2008). As a result, the financial industry witnessed several company mergers and closures during the 1980’s and 1990’s; this sharply increased the trend towards joint ventures, links with other service providers and acquisitions (Ennew et. al., 1990; Thorburn 2008).
This increased competition started to make companies aware of the value of their customers. Hence, business strategies were redesigned to fit into the new environment: from a functional-based organisational structure to a flexible one which focused on products initially and ultimately on customers (John and Harborne, 1985; Sensarma, 2008).

Over the last two decades, customers in the financial sector have also changed, making the industry much more challenging (Mapfre, 2006; Grayson et al., 2008). Rising financial literacy levels have generated a much more sophisticated client with a deeper understanding of what he/she wants (Harrison, 2000). Moreover, the multitude of offers and sources of information have proved to be very efficient for customers to improve their understanding of financial services terminology (Peelen, 2005; Stone 2009). In this situation information has become a crucial tool to link customers and financial services. This increased level of sophistication allows financial companies to launch into the market tailored products which offer new business opportunities. Customers, on their side, now expect better service as they have become aware of their own value to the organisations.

Since liberalisation of the industry, companies started a fierce war to increase their business scope and market share. This clearly implied attracting customers from other institutions. This increased competition reinforced the need of customer acquisition as the main strategic objective (Wilson, 1992; Hartman 2010). This sometimes was attempted by intensive attraction campaigns which slowly reduced loyalty and relationships. Therefore, customers have become much more promiscuous in their financial purchase decisions (Stephenson and Kiely, 1991; Grayson, 2008). Now the objective is to get the best offer from a variety of companies, which can be difficult to differentiate from one from another. It seems obvious that in these circumstances, financial companies have to listen carefully to customers in order to be able to design a value proposition with competitive conditions (Stone and Woodcock, 1997; Maas and Graf, 2008).
Firstly, the Information Society has restructured production. In this way, the advances in technology have improved the productive capacity of companies, allowing them to be more efficient (Devlin, 1995; Kuan et. al., 2008). Additionally, companies can now count on valueless assets: speedy information about their systems and processes improves control and operational models. Mackay et. al., (2001) called the current society “Post-Fordism”. They characterised it by flexibility, customisation, niche markets and ‘Just In Time’ (JIT) delivery.

Moreover, the contribution of technology has allowed companies to be more market oriented. They can take full advantage of technological innovations with their ability to collect and analyse data on customer patterns, interpret customer behaviour, develop predictive models, respond with timely and effective customised communications and deliver product and service value to individual customers. These technological tools consist of software and data warehouse systems that intelligently search for patterns and relationships using embedded algorithms (Baker and Baker, 1998, Tercha, 2009).

By using technology to “optimise interactions” with customers, companies can create a holistic view of customers and learn from past interactions how to optimise future ones (Howcroft and Beckett, 1993; Campbell and Frei, 2010). Finally, the Internet has opened up a new medium for businesses, and a new channel to ease the process of finding suitable providers around the globe and deliver their products without boundaries. Moreover, it is a very powerful tool which can gather information in real time that can be used to reach a quicker understanding of customers’ purchase behaviour. This data can easily be transformed to be included in the transactional activity, facilitating the estimation of demand, therefore easing the production process (Ahn et. al., 2003).

All these advances in information with respect to customers and production, and all the potential benefits that financial service providers can obtain from combining them,
are also shaping the industry’s current situation with a clear focus on efficiencies and getting close to customers’ needs.

Little remains from the highly regulated situation which financial services providers operated, three decades ago. There has been, and still is, an ongoing transformation in the industry (Verbeek, 1997; Betts, 1994 Tayler, 2005; Hammond and Thwaites, 2000; Cummins and Rubio-Misas, 2006; Kumbhakar et. al., 2001; kovacevich, 2008; Chan et. al., 2009). At the moment, the financial industry can be considered as a growing sector with large competition, between traditional players, international corporations and other non-traditional providers (i.e. Tesco and Sainsbury who, in the last five years started to develop and offer their own range of financial products, usually managed by well-known “high street” providers) (Balock, 1997; Laforet, 2008). All these companies follow multi-product and multi-channel strategies aimed at offering a complete solution to all financial needs that customers might have. In this way the retail strategy, traditionally based on offering branch services, has now been updated and complemented with telephone call centres, mobile telephone communications, agents and internet services, to provide the complete response mentioned before (Easingwood and Storey, 1997; Butler and Durkin, 1998; Haines, 2010).

In addition to this, customers have become more and more demanding moving away from generic formulas and require a unique response to their specific problems.