

## **Conceptual Framework of Customer Value Management (CVM) in Indian Banking Sector**

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### **Abstract**

With the financial development of any country in rapid growth manner, the function of the banking sector is gaining importance. In an agitated bidding markets, all the commercial banks in India were confronted towards the challenging tasks in favor of holding on to the prevailing customers as well as fascinating novel customers. There exist struggle in describing customer value owing to its complexity, moreover it is necessary for the long term profitability as well as productivity. Thus, Bankers must make maximizing the value of customer, an unambiguous and assessed business goal. Many businesses have capitalized in huge customer databases to monitor, understand, and impact customer behavior. The subsequent information is cast-off to obtain and recall customers as well as to bring out the behavior of customer with the marketing approaches like the value of all present and upcoming customers are enhanced. A conceptual foundation is a tool which can aid the managers in manipulating the distribution approaches in a value-based field. The representation can guide executive thinking in framing the value of customer in a system of banking. This paper conceptualizes the value of customer in a dissemination system as the interactions among customer service, costs, acquisition factors, and customer feedback.

## **Keywords**

Customer Value (CV), Customer Analysis, Customer Relationships, Customer Feedback.

## **Introduction**

The current banking industry is broadly impacted by the globalization development. The impression is uttered, chiefly, in financial business liberalization which, in turn, leads an enhanced competition. To persist in an aggressive world, banks must give their clients an innovative as well as relatively low-cost experience, as the competitive influence regarding a bank is chiefly determined by its conformance degree to their needs of the client [1]. In the information phase, banks want new abilities for competitive achievements, like product innovation, employee skills, customer relationships, customized products, motivation, and information technology.

Customer value management (CVM) intend towards the enhancement of the efficiency of marketing task as well as the business profitability by pinpointing the value of various customer segments as well as aligning marketing tactics, plans, as well as resourcing accordingly. CVM is the subsequent buzzword for various firm after the concepts such as relationship marketing which have gained a strong foundation in enterprises. Loyal clients are mutually a rare resource as well as a foundation of esteem. In support of a start, the companies should expand the customer value (CV) which is a clear and measured aim of the business. CV is extremely intangible and it has no exact indicator to its implementation. CVM could be gotten because handling every customer relationship through the aim of attaining maximum lifetime revenue from the whole client base. It allows the companies to acquire complete lead of the economics of reliability by improving maintenance, decreasing threat, and remunerating acquisition costs for a longer as well as more profitable commitment period. CVM has intangible advantages in relationship marketing, which mainly emphasizes on calculating constructs, such as trust and commitment, that generate effective customer relationships. The data of customers is currently not a serious component of relationship marketing efforts. Therefore, CVM augments this framework by concentrating on the study of customer data and on clearly seeking data-driven customs to improve customer value.

It swings the emphasis of the organization from marketing campaigns or managing products to handling the profitability of each and every customer for the whole existence of the relationship. And it is the customers whom have the enterprise and not the software were so intense to manage frequently. This unique conceptual perceptible will absolutely change our insight of the company procedures and the type of training that is provided to

the potential managers. These Indian banking industry has an enormous canvas of the past, which comprises the practices of traditional banking from the time of British peoples of the reform era, nationalization to the denationalization of banks, and at present growing figures of foreign banks in our country, India. Thus, Indian banking system created through an extensive voyage. The banking industry in India has also attained a novel height with the altering times. The usage of tools has carried a revolution in the modus operandi of the banks. Most of the banks that are successful are in possession of the trust of the shareholders as well as other stakeholders. Still, with the altering dynamics of banking business takes a novel kind of risk exposure.

### **Major Challenge Faced by India's Banks**

India's banks confront numerous types of problems and challenges, that have impacted their financial stability and profitability.

### **Asset Quality**

The foremost risk to the banks of India is the increase in bad loans. The inflation in the economy in the past few years headed to an increase in non-performing assets (NPAs) or bad loans. These are loans that are not repaid back by means of the debtor. Thus, they are a loss with respect to the bank.

### **Capital Adequacy**

A unique method by which a bank attempts to recover from bad loans is by keeping some money as a 'provision'. This currency cannot be cast-off for any other purposes, including giving a loan. As an outcome, banks have lower capital available to utilize for numerous functions. The Capital Adequacy Ratio will impact what funds a bank have. As this goes down, these banks has to acquire money or else use depositors' currency towards lending.

In 2018, the banks that have been exposed to risk following \$2 billion Punjab National Bank fraud case, were UCO (\$411.8 million), Allahabad Bank (\$366.8 million), Union Bank of India (\$300 million) as well as SBI (\$212 million). CVM will aid people precisely define which one determines the customer value, calculate performance with respect to the efforts, contest, optimize scarce possessions, and generate sustainable aggressive benefit [5].

The idea of CVM is actually straightforward. It's approximately:

- Asking the customers in the target marketplace what they are actually looking for as they do trade with the vendors.
- Determining how the customers in the direct market rate the value that is provided with respect to the value offered by the contenders.
- Determining what modifications on the bank's part would have the maximum positive impact on customers' insight with respect to the value of the bank's contribution.
- Aligning people as well as processes with a mutual attention to offer value.
- Offering a steady stream of information as well as data to maintain aligned.
- Winning with clients, with staffs, and with investors.

Every firm in today's trading environment is stressing the focus of the customers[6]. Though, what is missing in the majority of the businesses seems to be valuable and realistic customs to get customer requirements, calculate at what extent the customer satisfies those requirements and forms actionable tactics to recover the company's extent.

## **Literature Review**

Fredrick Onyango Aila (2011) hypothesizes CV in a distribution scheme as the connections between customer service, inventory, order cycle timings, transport, warehouses, as well as customer complaints. Essential hypotheses were recommended based on the conceptual framework as well as a research work planned to tentatively examine the hypotheses strength [2]. The conceptual base is an instrument which can help executives in planning distribution tactics within value-based provinces. The model may guide the management thinking in setting CV in a distribution scheme.

Peter C. Verhoef and Katherine N. Lemon (2012) suggest that by means of customer-centric executive systems, companies target to enhance CV. In this research study, they set six significant lessons that companies can work for effective CVM, incorporating accessible research knowledge as well as best practices: (1) using CVM towards advancing the business performance; (2) confirm that CVM besides client-driven over IT-driven; (3) accept customer lifetime assessment as a core measure; (4) capitalize in strong methodical abilities; (5) apprehend the key factors of customer retention, client expansion, also customer acquisition, and (6) handle slots to produce CV [4].

Dr.V. Renuga. et. al (2016) in her study, revealed the relationship among the banks' customer pair up management as well as customer loyalty. Since a good deal of banks has

enhanced and the consumers have many options at the moment, the competition has augmented, and so making a relationship with the consumer becomes extremely imperative. The covariance form reveals that CRM in the Indian banking industry is a multidimensional model that includes the following factors, namely service quality, organizational structure, trust, customer support, personalization, technology, as well as market orientation [9]. The structural model examines the previously obtained factors along with their indicators. The results of this study prove the fact that the CRM is a multifaceted approach and acts as an important metric for enhanced business performance. Also, the objective is to effectively analyze all the available data about the customer. The study of such data helps an organization to evaluate a customer's recent experience and probably gain satisfaction and loyalty. Several banks are still ensuing the conventional techniques of marketing as well as only some of the banks were seeking to utilize CRM [3].

Banks are an engines which drive functions in the financial segment, growth of an economy and money markets. With the swiftly emerging Indian banking sector, cheats in banks were also rising rapidly, and scammers have adopted utilizing modern technologies. Financial services sectors are well aware of the detrimental impact of fraud. Even in the industry-average stage, fraud damages an institution's status, customer loyalty, shareholder assurance, and the bottom line. But still, the most well-known financial institutions face some formidable challenges in this field.

Customer value being a high priority in any business been largely driven the risks professed by the consumer as well as the service quality of the brand or the company's products and services. In specific, factors related to influence customer value than the brand factors in the business premise (Chen, 2005). Kordupleski, R. (2003) insisted the significance of CVM as key for the performance of any business to exist in his book mentioning good is bad, ensuring competitive advantage, and focusing on value rather than the satisfaction. In the business of banking and in the digital era of business, the banking sector is involved in the establishment of CV electronic channels in place of the traditional system of delivering services. Distributing the services by electronic devices specifically through mobile banking services ensures the customer value is created and enhanced (Laukkanen, T., & Lauronen, J., 2005). Daniels, S. (2000) explains that the customer value management is another form and way to enhance customer satisfaction. And reiterated the role of the price as a major influence in the customer value management.

### **Characteristics of CVM**

- Customer Value Maximization is the branded structure designed by Xerago which seeks to increase value from consumers and prospects utilizing a combination of media, creativity, technology, and analytics interventions improved by accurate evaluation systems.
- CVM is a multi-disciplinary method and is estimated to increase value from both prevailing customers and prospects. Based upon the request at hand, CVM may or may not practice CRM-style relationship marketing[3].
- CVM may or may not need the use of extra application/software installation. If the customer already has an application installed, and this procedure does not yield full benefit, CVM will look to re-engineer such applications to maximize value rather than recommend the purchase of new/additional software when it is not required.
- CVM places high emphasis on exact measurement and gathering of data resulting in extremely reliable data stores. CVM further pursues to get maximum value from such predictions through suitable interventions and techniques. CVM is great for changing the leads recognized.
- CVM is entirely goal-based. The customer gives a one-page explanation, which brings out their present scenario and where they plan to be. CVM assists the client through suitable process re-engineering and interventions to accomplish their promotion goals. CRM can deliver leads but is not a goal-based marketing procedure.
- CVM uses a Measure – Manage – Maximize method that aids customers accomplish their marketing objectives and go on to attain maximum returns from their marketing.

### **Conceptual Framework for CVM in Banking**

In modern days there had been widespread research in the CVM sector and its precursors. It has been among the highest seriously investigated subjects in the marketing science[7].c The conceptual structure is shown in Fig 1. It exposes that the customer strategies development is in accordance with the analysis of customers. Customer approaches impact customer acquisition as well as customer behavior, however also include costs. Customer life time value (CLV) is an outcome from that produced incomes also the expenses of such plans and must lastly connected to the company assessment.

On the basis of this model, six general investigation themes come into sight:

1. Customer Analysis Research : Technical and Methodical Issues
2. Customer Acquisition Approaches Examination

3. Examining the Factors that affect Customer Retention as well as Customer Expansion
4. Investigation on CLV and associations with determined Value
5. Research on the gutters in CVM
6. Implementation of CVM research.

### **Customer Analysis**

This argument can be separated into 2 sub-themes:

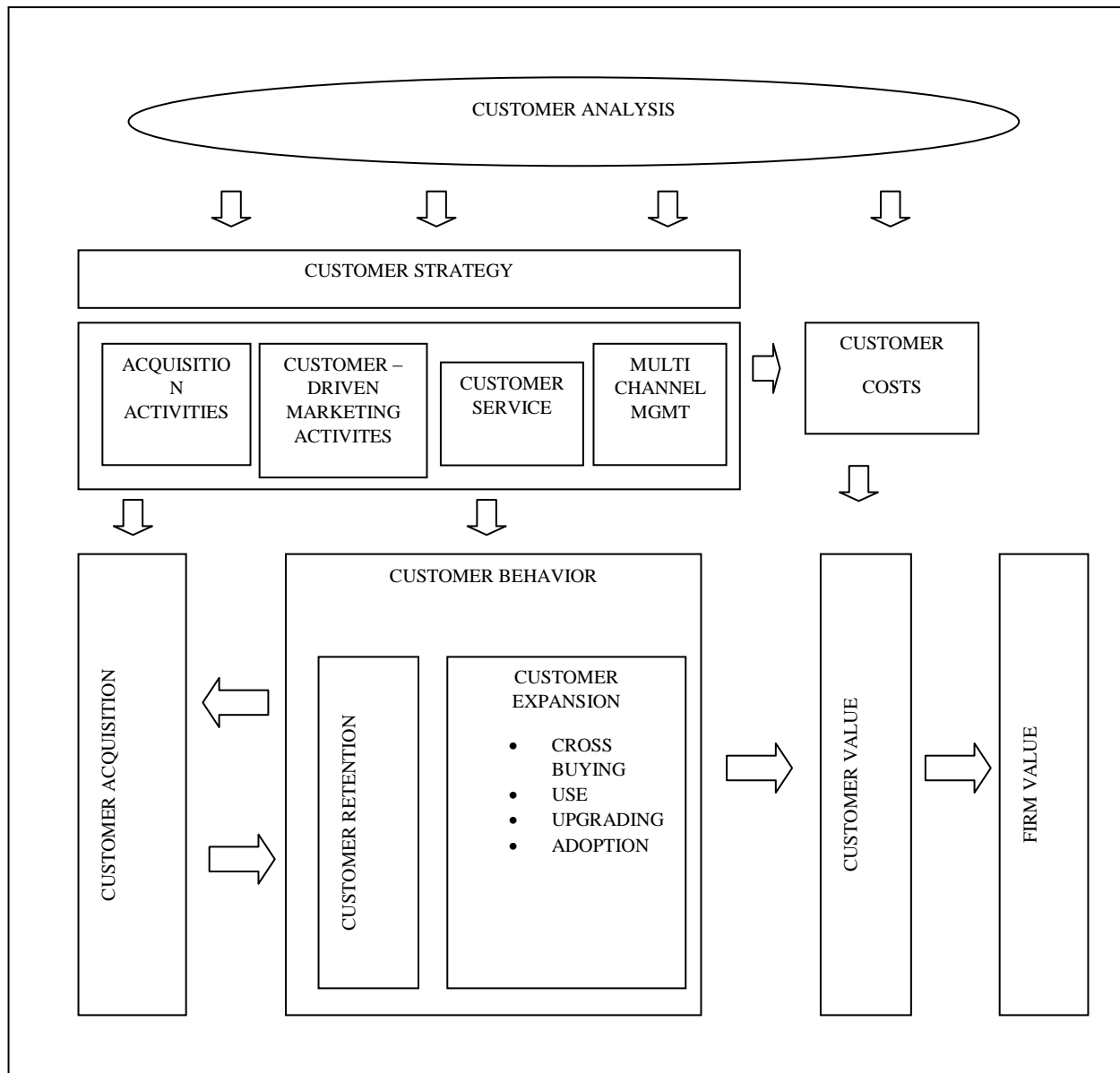
- Models forecasting customer behavior, also
- Specific technical issues along with the modeling of customer behavior.

In the primary sub-theme, the researchers have established frameworks to forecast the customer behavior, like customer retention/churn along with response to mailings.

These models typically concern econometric methods such as decision trees (For example, CHAID) and logit models. In 1995, the paper named Bult/Wansbeek is the foremost paper which deliberates the usage of logit models for forecasting answer towards mailing. A remarkably perceptive paper done by Neslin et al. in (2006), who deliberate consequences of a churn contest. They define, tentatively categorize and examine numerous process to forecast consumer churn. Decision and Logit tree-models are used to accomplish the greatest.

### **Customer Acquisition Methods**

The foremost stage of any basic customer acquisition strategy is to recognize the quality of prospective customers. One customer acquisition approach includes reaching out to potential customers over mailing lists and call centers. These customer acquisition approaches permit banks to define which businesses and individuals express interest in or previously use products parallel to those of the business.



**Figure 1 The conceptual framework for CVM in Banking Sector**

### Determinants of Customer Retention and Customer Expansion

Customer retention may be done in so many ways, for instance, by the usage of the customer loyalty software. Another way to preserve customers is by constantly offering a gratifying service or by providing the utility that is beyond the expectation of customers to retain the satisfaction and trust of the customers. Customer development can be made by selling new products or utilities to a consumer, upgrading the customers to the higher levels of service, increasing the use of services, also by the implementation of newly advanced products or the services.



## **Customer Lifetime Value and Links**

For CVM, it is very imperative to gain perceptions into an estimated long-term prosperity of the customers. CLV is a measure which denotes the overall net profit that a bank produces from any particular customer. It is an estimate to evaluate a consumer's financial value to a trade after forfeiting in the relationship assessment with a customer through time. It is an imperative metric for establishing how much funds a company needs to spend on getting new customers also how much recur business a firm can expect from assured consumers.

## **Research on Gutters in CVM**

An important progress in today's trade practice is the enhancing number of ducts used by the firms as well as customers. The establishment of channels, like the Internet as well as mobile commerce, has made tremendous opportunities for companies to be in contact with their consumers. For the banks, it is very important to develop a multi-channel map that fits the needs of the customers also optimizes CLV.

## **Implementation of CVM**

It shows a positive rapport between the firm's performance and CRM-implementation. Yet, a too nominal focus can have detrimental impacts on the firm's performance. CVM inspects the outcomes and key drivers of relational data procedures and the function of technology in executing CRM. The outcomes show that the relational info developments take part in a dynamic position in improving a bank's client relationship performance[7]. By controlling the effect of relational info progressions on the performance of customer relationship, the technology utilized for the CRM plays a supportive and important function in the improvement of the business.

## **Conclusion**

This paper has presented a conceptual framework for Customer Value Management in Banking Industry to enhance the business in terms of customers and profit. This paper has identified some methodological issues of the CVM method, namely 1) consumer retention, 2) consumer expansion, 3) consumer retention value, 4) consumer acquisition. This paper also outlines the characteristics of CVM. This is due to the anticipation that it may lead to other problems. Therefore, this model can direct management thinking in setting CV in a banking scheme and also conceptualized the CV in a banking system since

the interactions between customer service, costs, acquisition factor, and customer feedback.

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