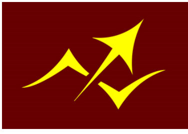

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The Importance of Customer Relationships and the Need for Competitive Analysis in the Banking Sector

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Abstract: *The relationship between banks and their customers, especially corporate clients, plays a crucial role in financial stability and business growth. This paper explores the importance of understanding customer behaviour, the benefits of banking services, and corporate decision-making in financial transactions. By incorporating established marketing and service theories (Kotler & Keller, 2016; Zeithaml, Bitner & Gremler, 2018), the study highlights factors that influence banking relationships, corporate customer needs, and decision-making units. Additionally, it discusses the role of strategic partnerships and long-term banking commitments (Grönroos, 2007) in enhancing customer retention and financial performance. The findings demonstrate that a deeper understanding of corporate banking behaviour leads to better financial service offerings and improved customer satisfaction.*

Keywords: *banking marketing; corporate customers; decision-making units; financial services; customer retention; service quality; financial strategy.*

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1. Introduction

Customers frequently rely on banking services, but understanding them better is the first step toward fostering strong relationships. Whether an individual or a legal entity, every customer either currently utilizes or will utilize banking services in the future. For instance, those seeking currency exchange services often already have a bank account.

Customers can be classified based on several characteristics:

- A customer is defined as an individual or a legal entity engaged in business transactions with a financial institution.
- Customers occasionally visit bank branches to request specific financial actions.
- Customers utilize or will utilize certain banking services, if not all, over time.

The relationship between a bank and its customers is legally regulated, obligating banks to act with due diligence while ensuring their infrastructure and technology meet the security and operational needs of both the institution and its clients. Fundamentally, the bank-client relationship represents a debtor-creditor dynamic. (Berry, 1983) A customer can be a creditor when depositing funds, making the bank the debtor. Conversely, when a customer takes out a loan, the roles are reversed.

For a bank to sustain and grow its business, it requires a strong customer base. Since customers have diverse needs—whether for business or personal reasons—the banking sector benefits significantly from an expanding client portfolio. However, customer preferences and demands evolve over time due to economic and social factors.

Banks view having a variety of customers as a privilege, allowing them to grant loans to both businesses and individuals. As banks leverage their customer base to expand financial operations, both the bank and its clients benefit.

2. Customer Benefits in Banking

Customers gain multiple advantages from banking services, including:

- Security for deposits stored in bank accounts. (Parasuraman, Zeithaml & Berry, 1985)
- Interest earnings on deposits.
- Liquidity, as funds in bank accounts can be withdrawn upon request.
- Ease of transactions, reducing the need for large cash holdings through electronic transfers and payments.

By fulfilling customer needs and delivering high-performance services, banks can retain customers and introduce new services. (Kotler & Keller, 2016) In the economic marketplace, it is well established that existing customers are more likely to adopt new banking products than new customers. Therefore, identifying customer types and their specific demands is crucial.

3. Understanding Different Types of Corporate Customers

Corporate clients have varying financial needs depending on their size and industry. (Lovelock & Wirtz, 2016) For example:

- Small businesses may require short-term loans to support production and operational needs.
- Large corporations may seek long-term financing for infrastructure expansion or investment in new technologies.

Customer selection of a bank depends primarily on their financial needs and the services offered. This principle remains dominant within advanced banking enterprises, where customers choose institutions that best align with their financial goals.

Additionally, competition among financial institutions and evolving customer demands continuously drive changes in the banking system. To remain competitive, banks must refine their services and introduce new products that align with international banking standards.

4. Corporate Customer Decision-Making in Banking

When analysing corporate customer behaviour, banks must consider unique financial conditions and tailor their offerings accordingly. Some key factors influencing corporate banking decisions include:

- Organizational complexity: Business clients often have more intricate financial needs than individual clients.
- Strategic partnerships: Some businesses require specialized banking solutions.
- Long-term banking relationships: Corporate customers prefer stable, long-term financial partnerships, making retention strategies crucial for banks.
- Comprehensive financial insights: Banks must understand a corporate client's entire financial ecosystem, including market trends and internal business operations.

Multiple factors determine how firms interact with banking services, including:

- Company size
- Industry sector
- Management structure
- Decision-making hierarchy
- Financial and commercial positioning
- Regulatory framework
- Executive experience and expertise
- Investment strategy
- Geographical location and market presence

Among these factors, company size, industry, and management structure significantly influence financial service requirements. Understanding corporate purchasing behaviour helps banks segment their market and classify businesses into small, medium, and large enterprises.

5. Decision-Making Units in Corporate Banking

The decision-making process within a company is conducted by Decision-Making Units (DMUs). (Webster & Wind, 1972) Financial service providers must consider:

- How decisions are made within a DMU
- The composition of the DMU
- The key decision-makers within the DMU

DMU members generally fulfil different roles, such as:

- Users: Individuals who utilize financial services.
- Influencers: Those who shape the decision-making process by providing relevant insights.
- Decision-makers: Individuals with authority over financial agreements.
- Approvers: Personnel responsible for validating and finalizing agreements.
- Buyers: The entity that officially procures banking products and services.

Understanding how DMUs function within corporate clients is essential for banks, as their goal is to identify and engage with key decision-makers, build relationships, and tailor financial solutions to meet client needs.

6. Organizational Buying Behaviour in Financial Services

A well-recognized model in banking marketing is the Webster & Wind Model, which identifies factors influencing corporate purchasing decisions:

1. Personal characteristics of corporate decision-makers
2. Inter-organizational relationships within DMUs
3. Organizational characteristics affecting purchasing behaviour
4. Environmental conditions influencing financial decisions

By applying these insights, banks can effectively tailor financial services to the needs of corporate clients, ensuring long-term business relationships and financial growth.

7. Competitor Behaviour Monitoring

Analysing competitors involves understanding their objectives, strategies, strengths, weaknesses, and expected market reactions. Several factors influence a competitor's goals, including company size, history, current management, and financial data.

To better assess market positioning, financial institutions must gather critical data such as market share, profitability, interest rates, and capital structures. Some of this data may be proprietary and difficult to obtain; however, annual financial reports and other publicly available sources can provide valuable insights.

Additionally, evaluating market positioning requires assessing:

- Market share: The proportion of the market controlled by a financial institution.
- Awareness share: The number of customers who, when asked to name the first bank that comes to mind, identify the institution.
- Preference share: The number of customers who, when asked which bank they would like to work with, name the institution.

Once collected, these insights should be transformed into actionable strategies. This involves identifying competitive advantages and weaknesses in comparison to rival institutions, allowing for the development of strategic responses.

8. Identifying Competitor Strategies

Financial institutions regularly analyse and adjust their strategic approaches to remain competitive. Competitors frequently modify their strategies based on market shifts and may adopt distinct methods for different financial services.

A key tool for evaluating competitors is the SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats), which helps identify key differentiators. Understanding how competitors react to market changes allows financial institutions to anticipate responses to their own strategic shifts.

9. Marketing Strategies in Competitive Banking

A financial institution's marketing strategy defines its direction in achieving business objectives. However, there is no universal competitive strategy applicable to all financial institutions. Instead, banks must be innovative in their approach. The ultimate goal is to gain a strategic advantage—ensuring that their financial products and services are more recognizable and appealing to customers than those of competitors. (Porter, 1985)

Competitive strategies in banking are classified based on the institution's market positioning:

- Market Leaders
- Challengers
- Followers
- Specialized Financial Institutions
- Market Passives

A market leader focuses on maintaining and expanding market share. To protect its market position, a leader may implement various strategies:

- Defensive Positioning – Preserving the existing customer base through robust customer retention strategies.
- Flank Defence – Expanding financial products and services while capturing competitor market share.
- Pre-emptive Defence – Attacking competitors' weaknesses before they establish a stronger market presence.
- Counteroffensive Strategy – Responding to competitor advances through price reductions, product promotions, and service improvements.

- o Mobile Defence – Engaging in continuous innovation to expand market reach and diversify financial products.
- o Strategic Withdrawal – Retreating from less profitable customer segments to focus on core, high-value segments.

Market leaders also seek market growth by attracting new customers, identifying evolving needs, and increasing the usage of existing services. To acquire new customers, banks may adopt:

- ▪ Market penetration strategies.
- ▪ Entry into new market segments.
- ▪ Geographic expansion.

Market challengers aim to disrupt market leaders and other competitors by increasing their market share. These institutions use several strategic approaches:

- Frontal Attack – Competing directly with market leaders by improving pricing, service offerings, and promotional efforts.
- Lateral Attack – Targeting underserved segments or niche markets ignored by major competitors.
- Encirclement Attack – Creating superior financial offerings in multiple aspects to outshine competitors.
- Bypass Strategy – Ignoring direct competition by introducing entirely new products, entering new markets, or leveraging technological advancements.
- Guerrilla Strategy – Launching small-scale but disruptive marketing efforts to weaken larger competitors.

Market followers prefer to avoid direct competition with market leaders, focusing instead on customer retention and incremental business growth. This approach is common in the financial sector, where competing directly with dominant players can be challenging.

Followers rely on market stability, competitive pricing, and customer service differentiation to maintain a steady position without engaging in aggressive competition.

10. Conclusion

Understanding customer behaviour in the banking sector is essential for financial institutions to provide optimal services and maintain long-term relationships (Grönroos, 2007). By implementing strategic marketing approaches (Kotler & Keller, 2016) and enhancing service quality (Zeithaml, Bitner & Gremler, 2018), banks can meet the evolving needs of both individual and corporate clients. Additionally, recognizing the complexity of corporate decision-making (Webster & Wind, 1972) and adapting to modern financial trends strengthens customer loyalty and promotes business growth. Future banking strategies should focus on innovation, digital transformation, and personalized financial solutions to sustain a competitive advantage.

In the highly competitive banking industry, institutions must continuously analyse their competitors, anticipate market shifts, and develop strategic responses to maintain a competitive advantage.

By leveraging tools such as SWOT analysis, market positioning assessments, and financial performance analysis, banks can enhance their market presence and improve customer acquisition and retention.

Financial institutions must also adopt adaptive competitive strategies, ensuring they can respond effectively to new market entrants, technological advancements, and changing consumer expectations. The ability to differentiate through innovative products, strategic positioning, and customer engagement will define long-term success in the banking sector.

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