Knowing Your Customer - The Versatility of CRM in Modern Banking

A case study of niche banks in Sweden
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Abstract

Niche banks emerged from deregulation of the financial market and from the increasing distrust of the established banking oligopoly in Sweden. From its establishment, niche banks narrowed their scope and targeted certain profitable segments of the banking market. The proliferation of the technological development of Customer Relationship Management (CRM) enables banks to collect information and gain more control over its customer base. To create meaningful relationships and retain customers, niche banks reaches out through the convenience of both online and offline channels to provide their products and services.

With the support of two Swedish niche banks, namely Länsförsäkringar Bank and ICA Bank, the objective of this study is to understand how Swedish niche banks operate their CRM strategies and how they retain customers across channels. A mixture of deductive and inductive approaches has been used in handling our data. The empirical data collected from interviews was analysed together with secondary data to fulfil our research purpose. The result from this thesis illuminates that there are contrasting views of how CRM systems are used practically within the chosen niche banks. LF Bank’s CRM system falls back on the human factor rather than the technological advancement, while ICA Bank utilizes their CRM as a digital fundament in customer building.
1 Introduction

This section will explain the background of the Swedish banking industry, the introduction of niche banks and the evolvement of CRM; it also introduces the problem formulation, purpose, delimitation, definitions and chosen case companies.

The Swedish banking market has for several decades been functioning as an oligopoly in a stable environment, where four large banks have been the main actors: Skandinaviska Enskilda Banken (SEB), Nordea, Svenska Handelsbanken (SHB) and Swedbank. These four companies, which still have a dominant position on the Swedish banking market, holds approximately 80 per cent of the total market share despite more than 100 different banks in total operate on the market. Oligopolistic dominance in the banking sector is fairly common for smaller economies, and this could be seen as an evidence of economies of scale, which means that for a bank to thrive, it has to be of a certain size (Howells and Bain, 2009).

The banking industry has moved from being a concentrated sector towards a more integrated and open market (Howells and Bain, 2009). Prior to the 1990s crisis, Sweden had a fixed exchange rate and regulated financial market. When Sweden liberated the market 1985, the expansion of asset value increased the household wealth, but as the real interest rate rose, asset prices collapsed and Sweden was forced to allow a floating exchange rate (Jonung, Kiander and Vartia, 2009). This provided the possibility for every actor to compete on the same legal terms to operate in both domestic and foreign financial activities (Zineldin, 2005). The deregulation implied that the previous credit and interest restrictions were eliminated, thus removing the industry entry barriers (Howells and Bain, 2009). Moreover, domestically driven changes in the lending caps and currency regulations, as well as the European Union (EU) reducing the legal constraints, subsequently made it easier for firms to enter the Swedish market (Revell, 1997). In combination, these changes enabled firms to merge through cross-border alliances, thus becoming larger and more influential actors (Howells and Bain, 2009).

To maintain their competitiveness and survive in this new, open and more competitive market, the banks had to embrace new business strategies, which emphasised a central focus on the customer. Nonetheless, when foreign firms had the legal right to operate on
the Swedish market, it was a challenge for them to survive. One reason for this is that the Swedish customers had created a deep-rooted trust and loyalty towards the already established banks. These barriers in the banking sector in the late 1980s inclined many foreign banks to focus towards the corporate sector, where customers were less loyal to the oligopoly (Revell, 1997; Zineldin, 2005).

Nevertheless, the affinity between the Swedish customers and the banks in the 1980s were soon to be reduced in the following decade. In the beginning of the 1990s, technological advancement was adopted by banks to a higher degree, which made diversifications for banks essential. However, the following banking crisis in the beginning of the decade diminished the public trust towards the established banks and this resulted in an advantage for non-established banks from the decreasing customer loyalty. Which opened a window of opportunity for new banks to target private customers (Revell, 1997).

From these new market changes, the state of conditions allowed for new entrants to focus on retail banking, which refers to financial offerings addressed to private customers (Pritchard, 2016). The niched banks also adapted to this change by narrowing their scope and exploiting profitable segments of retail banking. The new actors on the market has since its establishment increased the competition and gained market shares from the oligopoly, even though they were small in size, the overall impact the new entrants made on the industry was substantial (Revell, 1997).

With the technological advancements, new methods to understand and interact with customers were developed. One of these methods was Customer Relationship Management (CRM). “A CRM system is a technology-based management tool for developing, leveraging customer knowledge to nurture, maintain, and strengthen profitable relationships with customers” (Foss, Stone and Ekinici, 2008, p. 69). Banks have implemented CRM systems, and these systems have also equally benefited both niche banks and traditional banks to gain more control over the information of their customers (Bhat and Darzi, 2016; Zineldin, 2005).
Over the past decades, CRM has gained a lot of attention among academicians and executives (Bose, 2002). The fundamental idea behind CRM can be categorized into four different areas in building long-term relationships, and most importantly, loyalty (Bhat and Darzi, 2016). “(1) Effectively segment customers, (2) develop and maintain long-term relationships with profitable customers, (3) determine how to handle unprofitable customers, and (4) customise market offerings and promotional efforts” (Foss et al., 2008, p. 69).

This thesis will elaborate on three components of CRM, the analytical, collaborative and operational. Analytical CRM is about technologies that collect customer information and forms a basis of the customer data for managers to make strategic decisions and actions. The system is based on technologies such as data mining and warehousing (Rajola, 2013; Foss et al., 2008). The collaborative component emphasises the flexibility of offering the customer and the organization a mutual beneficial relationship. Building on this, when the customer is interested in products and services, he or she can choose the channel that suits them best and the organization is able to serve the customer optimally regardless of channel. This is possible because the system has allowed companies to build profiles about their customers (Rajola, 2013). From an operational aspect, CRM is considered to be a cross-functional organizational process that focuses on establishing, maintaining and enhancing relationship with target customers. In practice, when sales personnel make a sales call, the system will guide the employee through customer-related information to handle it most effectively (Rajola, 2013; Wang and Feng, 2012).

CRM is used in different ways in terms of communication; CRM strategies could be applied in an online channel and/or offline channel. To use offline channels means that firms focuses on traditional approaches, for instance, physical stores and large personnel forces. This incurs additional cost for the enterprise, but allows for personal and individual contact with each customer, which can result in higher customer loyalty. However, it appears to be more appealing for enterprises to switch to online channels since it reduces the costs of having physical stores and large personnel forces that must serve each customer individually. The implementation of online channels, such as websites is growing substantially. Universally, customers are adapting to online
channels because of the convenience and the availability. The online approach is also beneficial from a business perspective since companies are able to collect information about each customer on a constant basis, thereby, forecasting shopping behaviour and needs of individual customers (Kumar and Reinartz, 2012).

With the evolvement of CRM, companies are now able to handle heterogeneous customers significantly better than before (Zablah, Bellenger and Johnston, 2014; Payne and Frow, 2005). CRM is progressively becoming recognized as a tool of developing innovation. By collecting customer information, companies can understand its customers, which ultimately lead to enhanced capabilities of retention, forecasting demand and optimizing operations (Bhat and Darzi, 2016). CRM as a strategy regards customer loyalty as one of the most important factors for business profitability and long-term competitiveness (Ngo and Nguyen, 2016). Research suggests that companies can achieve customer loyalty faster, if the focus is shifted from attracting new customers, into focusing on retaining existing ones (Bhat and Darzi, 2016). The aim of customer retention is to develop, communicate, and deliver added value (Zineldin, 2005).

1.1 Problem formulation

In a competitive market, it can be a challenge for banks to keep their customers in a volatile economy. In the long term, this means that banks must constantly adapt to, and manage their CRM both in regards to the competition and consumer diversity in order to maintain customer supervision (Kumar and Reinartz, 2012).

The rate of which the banking industry is changing can depend on the technological advancements in society. It is becoming more frequent to reach out to consumers through digital devices. While some niche banks rely almost entirely on digital communication, other niche banks emphasise their customer relation on physical and local presence (Zineldin, 2005). With more competition on the market, banks use different CRM strategies to differentiate themselves to reach their target customers. Banks that offer a narrower scope of services and products indicate that they specialise towards a limited range of customers (Revell, 1997).
Regarding the competition in bank industry, the entrance of niche banks in Sweden has contributed to more diversified pricing strategies and the development of more specified product and service orientation. Providers must specialize their offerings accordingly to suit the demographic changes to get a competitive edge (Kumar and Reinartz, 2012).

The location of bank offices must be reconsidered to correspond to the changes of economic geography. The resource allocation will depend on the extent of customer interactions. A decentralized structure can cover a wider area at the expense of more activity costs, while centralizing in a location in denser areas compromises between cost-efficiency and customer availability. The urbanization signifies the need for adjustment to acquire business opportunities in the cluster of customer diversification (Chapain, 2011).

Consumer diversity may come in the form of demographic changes which include, among others, the aging population; the average age in developed countries increases while the birth rate diminishes. This means that the population decreases as it is becoming older at the same time (Kresl and Letri, 2010). Another aspect is the increasing individualization. The family unity is converting towards a more solitary consumer behaviour which means firms must reconsider family members as an entity and focus more on the individualistic properties. The emergence and use of digital platforms has furthermore strengthened the individualistic consumerism. As time has become a more significant commodity in developed countries, there is an escalating need for convenience. The emergence of self-service utilities has renewed our time management. Information can now be accessed individually and bypass the consultancy of human interactions. This creates a gap where the middle ground between self-service and customer interaction is becoming vaster (Kumar and Reinartz, 2012).

Kumar and Reinartz (2012), suggests that customers become more educated about existing banks with the appearance of newer and higher amount of options on the market. A more competitive market allows one to evaluate and compare the different possible services. The average customer has gained more knowledge and has become more demanding and less tolerant of failures. When demands are met, customers will
raise their expectations further, which leads to a progressive loop where banks must struggle continuously to satisfy the customers need. Furthermore, a wider selection of banks causes more effort to preserve customer loyalty.

1.2 Purpose

With the support of a multiple case study, we investigate Swedish niche banks with different business models, where the objective is to understand how various CRM strategies affect their customer relationships. From the bank's perspective, we aim to understand how niche banks in Sweden operate their CRM strategies to retain customers across various channels. This leads to the research questions:

1. How are Swedish niche banks operating their CRM?
2. How is the CRM implemented across channels?
3. How is customer loyalty achieved in terms of CRM and presence in various channels?

1.3 Delimitation

Empirical findings: The empirical finding provided in the report is limited to the two case studies conducted at the chosen niche banks. Since there are diverse CRM strategies that niche banks can undertake, the findings give a narrow view of CRM strategies within Swedish niche banks.

1.4 Definitions

Sales force automatisation (SFA): SFA system is a method of data collection imbedded in the CRM technology with the purpose of monitoring consumer behaviour. This allows for a tailored customer service and responsiveness to demands, which could lead to an increase to the overall productivity of the organisation (Mariadoss, Milewicz, Lee, and Sahaym, 2014).

Datamining: “Data mining, also known as knowledge discovery in databases, can be defined as the process of analysing large information repositories and of discovering implicit, but potentially useful information. Data mining has the capability to uncover
hidden relationships and to reveal unknown patterns and trends by digging into large amounts of data” (Siguenza-Guzman, Saquicela, Avila-Ordóñez, Vandewalle and Cattrysse, 2015, p. 499).

Data warehousing: Data warehousing focuses on collecting data from heterogeneous sources. The system functions in the way that it seeks information and tries to identify hidden patterns behind the data. This system is primarily used as part of the organization's decision-making process (Chai, Wu and Zhao, 2013).

MOSAIC: This is a segmentation of Swedish households that distinguishes between 44 separate lifestyles and 14 classified clusters. MOSAIC provides enterprises with a constantly updated picture of consumer’s preferences and habits. The classifications are based on socio demographic factors, as well as lifestyle, purchasing behaviour and values (Mosaic, 2017).

SAS: software with integrated tools for accessing, managing and analysing data. With this programme, companies are able to handle forecasting, data mining, text mining and operations research. SAS builds on industry-specific components, which can be categorized into customer intelligence, fraud prevention and risk management (Rodriguez, 2010).

1.5 Case studies
We have selected two different Swedish niche banks. The first one, Länsförsäkringar Bank, hereafter LF Bank, which accentuates their customer relationship towards physical presence. The second bank is ICA Bank, which relies entirely on digital services. These two banks are considered to have contrasting CRM strategies and by using a multiple case study we can get a comparative understanding of these strategies depending on business model and thereby strengthen the presented arguments in the text of our study.
2 Theoretical Framework

In relation to the banking industry this is an in-depth exploration to the concept of CRM, channels and loyalty. This section presents the underlying theories and literatures of the thesis.

2.1 Customer Relationship Management

Customer Relationship Management puts the customer in focus, and by using this approach; all company’s activities are pointed towards the customer. One important aim of using CRM is to become familiar with the customer; this will help the company to tailor appropriate offerings (Mandic, 2011; Rigby, Reicheld and Dawson, 2003). The CRM system is about collaborating with each customer and creating a win-win situation, the enterprise provides added value, and the customer gives the corporation loyalty in return (Bhat and Darzi, 2016; Kumar and Reinartz, 2012). CRM is also about creating long-term profitable relationships with customers, get closer to customers at each contact and maximize the use of their spending budget (Bhat and Darzi, 2016; Mandic, 2011). CRM is not a functional strategy, it should rather be considered as a business strategy, since it affects the organization as a whole: marketing, IT, service, logistics, finance, human resources, management et cetera (Rigby et al., 2003; Zindelin, 2005). A CRM system must be able to cope with the dynamic external changes. Customers constantly change their needs, lifestyle, consumption behaviour and demographics (Mandic, 2011). The enterprises that understand this change will be the ones that survives and becomes more competitive (Bhat and Darzi, 2016; Mandic, 2011). Behind the acronym CRM, the components that are the fundamentals of this system are ranked in hierarchical order:

1. **Customer**: reaching the customer is the very first objective for an enterprise. Starting as a general purchaser, the customer undergoes a series of steps in the CRM process. Subsequently, the customer starts to transform into a business partner in which they evaluate, correct and improve the company’s products and services (Rajola, 2013).
2. **Relationship**: This component complements the customer aspect. The biggest challenge for a CRM system is to create added value for its customers (Kumar and Reinartz, 2012). What is meant by the term relationship in this context is that it is a long lasting one. A relationship goes through a transformation over time and is developed as a planned occasion or an unplanned first contact (Rajola, 2013). By collecting information about the customer, the relationship is further developed. It becomes incrementally stronger as the customer makes the first purchase or transaction (Rajola, 2013; Rigby et al., 2003). Nonetheless, one of the most decisive periods, when loyalty is developed, is when the customer goes through critical periods (complaints or better offerings from competitors) (Bhat and Darzi, 2016; Zineldin, 2005). If the critical period is not handled correctly, the customer will most likely switch to another bank (Rajola, 2013).

3. **Management**: Relationships with customers can arise spontaneously, but they can easily be broken off if the corporation does not handle them in a correct way (Rajola, 2013). In order to develop successful, long lasting relationships, CRM systems have to be attributed with a customer-centric approach, as well as having employees that are able to understand the company’s strategy. For employees to reach the point where they are able to serve the customers optimally, management participation in the process of building relationship with customers is of high importance (Mandic, 2011).

Through technological developments, it has become possible to understand the actual need of each customer (Rigby et al., 2003). Technology has given banks the ability to operate on an ad hoc basis and offer services and products to each customer in the most appropriate and preferable channel (Bhat and Darzi, 2016; Rajola, 2013). Examples of “traditional” channels such as e-mail and automatic teller machine (ATM) have been developed thanks to technology. Along this development, customers are now able to use “new” channels such as e-banking, trading online and mobile banking. These new channels allow banks to push towards mass personalization, with the possibility to offer tailored products and services at the right time (Rajola, 2013; Rigby et al., 2003). In order to offer customers mass personalised offerings, an evolvement of CRM should include various steps:
1. Knowledge: It is of high importance to identify the most profitable customers (Bhat and Darzi, 2016; Rajola, 2013).

2. Listening: It is essential to understand the customer’s core values with the emphasis to build customer loyalty (Bhat and Darzi, 2016; Kumar and Reinartz, 2012; Rajola, 2013).

3. Growth: By communicating with each customer, the corporation is able to develop long lasting relationships, which is likely to result in a growing customer base, as well as economical growth (Rajola, 2013).

4. Results evaluation: When the corporation has gone through the previous series of steps properly, the company has to review its infrastructure and business processes. Two important factors have to be reviewed particularly; these are communication and knowledge sharing (Rajola, 2013). In terms of communication, four main classes have been recognized:

   • *Mass communication*: The company needs to decide whether it should pursue a more mass communicative approach, by using for example advertising (Rajola, 2013).

   • *Communication per market segment*: The corporation must decide how to reach an optimal usage of its channel relative to the frequency of use by its customers in order to reach the intended segments (Bhat and Darzi, 2016; Rajola, 2013; ).

   • *Direct marketing*: This approach should be pursued if the corporation aims to reach specific market segments. Tools that are useful if the corporation wish to use this approach are e-mail, regular mail and telephone marketing (Rajola, 2013).

   • *One-to-one communication*: Supported by CRM, if the enterprise wish to build a direct contact with its customers via e-mail, telephone, mail or use of a sales agent, this approach will then show the degree to which the company is able to use its CRM strategy on a company-to-customer level (Rajola, 2013).

In terms of knowledge sharing, these functions are recommended to be developed:
• “Collect information on customers;
• Organize data to be able to analyse customers optimally;
• Utilize the knowledge and implement initiatives that have value for customers;
• Share the knowledge within the company;
• Make the information available for all departments of a corporation” (Rajola, 2013 p. 38).

The success of technological developments in alignment with rethinking in terms of organisational approaches has enabled banks to incrementally integrate CRM with legacy systems. This paradigm shift created an opportunity for technological and organisational integration, which will help banks to achieve its business objectives easier. In addition, managers have realised to a higher extent that the organisation is the most important ingredient in CRM initiatives (Rajola, 2013).

Literature strongly emphasise that CRM must be considered as a business strategy, as mentioned previously. The objective of CRM is not mainly to create loyalty, it is also a way to understand the needs of existing customers and attract new ones that are interested in the services and products provided by the bank (Rajola, 2013; Rigby et al., 2003). Furthermore, the system should address the customer’s life cycle throughout the relationship with the bank. Moreover, a customer should be able to choose interaction channel with regards to the transaction being carried out (Rajola, 2013). It is highly important that these features are offered to meet the specific needs of each customer (Rigby et al., 2003). When the transaction is carried out, at the back-end of a bank, the systems updates and activates the supply chain and service delivery processes. The process of CRM architecture calls for an automatisation of front-end processes (sales, support services, marketing et cetera). The data flow is then forwarded through data warehouses and datamining (Rajola, 2013). Figure 1 explains the overview of this process; each perspective of CRM is mapped out and explained as an overview of the integrated components in detail further down.
2.1.1 The Analytical Component

When the data flow has reached the back-end of a bank’s CRM system, the customer data is analysed, with the objective of giving management a clearer understanding of each customer and to improve business performance. In specific terms of the architecture of the analytical component, the data is flowed to centralised data archives. This solution uses an informational platform that is fed by operational systems’ of databases. The analytical approach of CRM relies heavily on data warehouses and datamarts. Examples of practical usage areas are customer and product campaigns; the data is systematically transformed into evaluation criteria, where managers are able to evaluate the campaign. This system also enables corporations to separate heterogeneous groups into homogenous. By dividing the groups into homogenous clusters, the company is able to build up profiles (Rajola, 2013). This creates the possibility to understand the behaviour of each group, more specifically, the loyalty, profitability, solvency and sensitivity of marketing campaigns (Bhat and Darzi, 2016; Rajola, 2013). Thereby, the last mentioned factor could now be more efficiently planned and monitored (Rajola, 2013). The following are the main elements (shown in Figure 1) of an analytical approach:
1. Data warehouse (DWH): Data warehousing focuses on collecting data from heterogeneous sources. The system seeks information and tries to identify hidden patterns behind the data. This system is primarily used as part of the organization's decision-making process (Chai et al., 2013).

2. Datamining: This is the smaller archive that is fed by the DWH and the most common usage of this feature is when the corporation face smaller business related issues (Rajola; 2013; Siguenza-Guzman el al., 2015).

3. Other vertical applications: These applications are mainly used as a reporting system with the objective of observing specific situations that is related to the bank’s operations (Bhat and Darzi, 2016; Rajola, 2013). In this category, online analytical processing (OLAP) can be found. This system is used to find hidden relationships between data. Secondly, data mining is also part of other vertical applications, as it gives the bank a clearer understanding of a customer’s specific needs, as well as provides appropriate products/services to be offered through the most suitable channel for each client (Rajola; 2013; Siguenza-Guzman el al., 2015).

4. Marketing automation and campaign manager systems: When the corporation is launching a marketing campaign, marketing automation helps in designing and planning the campaign. When the campaign is launched, the system of transactional and collaboration will be used. When the campaign is over, the data is recorded and saved; this helps the company to keep record of all the events that occurred. The function provides the possibility to identify suitable products/services to be sold, association with another product/service, the potentially interested customer group and how the client should be contacted (Rajola, 2013).

2.1.2 The Collaborative Component

This component enhances the simplicity of bank to customer contacts and vice versa. By using this approach, banks can offer the right product/service at the right moment. From a customer perspective, they are able to choose the channel that suits them best. The collaborative component enables branch clerks to carry out marketing and
transactional activities. Before, branch clerks did not have the capabilities to perform these activities due to the absence of this component. This hindered branch clerks to initiate proactive marketing actions, as well as engaging in relationship management. Today, new information tools that have been implemented has given clerks the possibility to spot specific customer segments that are interested in particular products/services, thereby, branch clerks have been given the freedom to pursue marketing actions themselves. More specifically, clerks have now access to front-office tools, which will help them understand what they should push towards each customer (Rajola, 2013). Most importantly, the system also allows the clerks to receive an in-depth description of the products/services they wish to offer. By using this system, an overall profile of the customer can be produced; this enables the organization, as well as the customer to have personalized contact in all channels that are offered by the organization. Customers are also demanding alerts about financial events, and the technology can offer push notifications about daily variations of portfolio value, rise and fall in stock prices and constant updates about balance on the account (Bhat and Darzi, 2016). This feature gives banks the possibility to offer additional services to the customer and help them to improve their financial situation, simultaneously; the bank is earning more money since the customer is demanding more services (Rajola, 2013).

2.1.3 The Operational Component

The operational component is focused on where operations take place in the firm. This component includes customer interaction, mobile office (branch personnel, financial promoters), front office (service, marketing and sales force automation) and back office (order management, supply management) as illustrated in fig. 1. This feature allows for several utilities such as highlighting of attitudes among customers, customer interaction per channel, acquisition of an updated customer profile et cetera (Rajola, 2013). Furthermore, this component allows organizations to handle cross-functional processes that focus on establishing, maintaining and enhancing relationships with its target customers (Wang and Feng, 2012). According to Kumar and Reinartz (2012), the operational component must be constructed as a customer-centric approach with focus on the customer’s life cycle process. By having these factors in mind, the bank can
reach its objectives more easily. With this said, these three components falls back to technological advancements (Rajola, 2013).

Rajola (2013) suggests that CRM is an internal process that underlines the integration of the customer’s perspective. However, in today’s dynamic environment, customers are changing their behaviour constantly. This has opened a window of opportunity to use the CRM systems with an external focus on customer behaviour. When companies integrate this new customer perspective, the enterprise also makes a transition from a “structured company” into a “virtual company”, hence modifies its market approach. Along with this change, the focus transforms from a “reactive” into a “proactive” market strategy to predict changes. A transaction is no longer a reactive one-way action; with a proactive strategy, a dialogue is created. The company is able to turn each contact with its clients into opportunities, which will improve the organization’s knowledge about customer’s preferences. This will in turn help a company to create loyalty, as well as improving up and cross-selling initiatives (Bhat and Darzi, 2016; Rajola, 2013).

In order to achieve a better overall understanding of the different perspectives that exists on CRM, literature also suggests that a successful CRM approach does not mainly rely on technology as such. For an organization to succeed with its CRM initiatives, it is important to invest in training and motivating employees to achieve the full potential of the initiative itself (Cambra-Fierro, Centeno, Olavarria and Vasquez-Carrasco, 2016; Kracklauer, Mills, Seifert, 2004). When developing the right skills of employees, the organization can exceed the expectancy from its customers as well as outperform its competitors (Kumar and Reinartz, 2012; Zineldin, 2005). Also, from a practical point of view, it is not mainly about retaining existing customers; it is also about acquiring the right customers. Companies must strive to gain loyalty from profitable customers, while allocating fewer resources on relationships that are not profitable enough (Bhat and Darzi, 2016). CRM has evolved from technology, and it has created a possibility for enterprises to adapt the organization around their customers. Nevertheless, the technology plays an important role in future relationship building, but it is not enough just to obtain information without human activity. Therefore, systems and technological processes should focus on proper human interaction along the opportunities that this
technology has provided (Cambra-Fierro et al., 2016; Kracklauer et al., 2004).

2.2 Channels
As mentioned previously, technological advancements have allowed banks to use “traditional” channels, such as e-mail, which has been implemented in CRM systems. Moreover, the development has also created what the literature suggest as “new” channels which are e-banking, trading online and telephone banking (Rajola, 2013; Rigby et al., 2003). However, this notion can also be separated into offline and online channels in defining the concept of channels (Kumar and Reinartz, 2012).

Traditional direct offline channels allow for physical interactions and thereby creating a social bond between the bank and the consumers (Chirica, 2013). This in turn creates more loyalty among customers. But due to the high cost of physical interaction, banks are opting towards electronic intermediates and develop more self-service oriented utilities. These utilities come in the form of online banking where customers can manage their banking affairs on their own terms without the need to interact with a branch clerk. With the emergence of new internet-based forums such as blogs and social networks, the banking industry must stretch their communication space to reach out to existing clients and potential new ones. This has led to a transition from offline channel to online channels to a wider extent among banks (Kumar and Reinartz, 2012).

Technologies have supported the use of self-service tools such as e-banking and mobile application and have made some of the services provided by branch clerks substitutable (Campbell and Frei, 2010). The crossing from offline to online channels signifies the development of applications, websites and other electronic services to facilitate the interactions between company and customer. This new kind of dialogue provides the company with information that can be used to collect data and improve their CRM profiles (Kumar and Reinartz, 2012; Rajola, 2013).

Nevertheless, Levy (2014) argues that there are some negative aspects with e-services. Although the Internet enables a more convenient customer management, there is a demand for physical interaction that cannot be substituted with digitalization. Therefore, besides having an online presence, there is an incentive for banks to offer a more
personalized connection and provide a face-to-face solution for those who require it (Levy, 2014).

2.2.1 Multichannel

Banks must offer various communication channels according to preferences (Rajola, 2013). The concept of using several means of customer interaction is called Multichannel, which can be defined as “the design, deployment, coordination, and evaluation of channels to enhance customer value through effective customer acquisition, retention, and development” (Neslin, Grewal, Leghorn, Shankar, Peerling, Thomas and Verhoef, 2006, p. 96). The presence of different channels result in a more dynamic and voluminous contact with the consumers, which generates more customer data. However, the multichannel customer has shown to be more fluctuant in their choice of bank. In the current years of digitalization, multichannel solutions are no longer recognized as a competitive advantage as it was before when it was founded around the area of the world-wide web (Juaneda-Ayensa, Mosquera and Sierra Murillo, 2016).

![Image](image.jpg)

*Figure 2, Multichannel vs Omnichannel (CRM Magazine, 2014)*

2.2.2 Omni-channel

While the concept of multichannel suggests a separation between physical and online channels, the modern consumers can now interact with all channels seamlessly (Juaneda-Ayensa, et al., 2016). Today, we are talking about omnichannel, a concept that describes a communication structure where the average consumer accesses and interacts with all channels seamlessly through technology and mobility (Juaneda-Ayensa et al., 2016). This flexibility allows bank customers to be more aware of the current market
and increases the possibility of switching to another bank. The dominance that was once held by the financial institutions over the customer is now shifting towards a consumer empowerment. The technology has enabled customers to thoroughly evaluate their relationship with the bank and compare the services provided with the services offered by competitors. This freedom of information has compelled the banks to implement switching barriers to prevent customers from defecting. These barriers can be constructed using CRM systems where the bank creates a customer profile. The purchases and past interactions of the customer are registered and used for orienting relevant information to the customer so that future encounters will be more valuable. This CRM strategy needs to be integrated with an omnichannel/multi-channel structure for the bank to accurately monitor the demands of the customer (Kotarba, 2016). This will allow the bank to not only understand the consumer behaviour but also provide the individual targeted services to influence their attitude (Kotarba, 2016; Rajola, 2013; Rigby et al., 2003).

The interplay between firm and customer has been upgraded in line with the digital evolution. The communication in the direct offline channel is the traditional point of contact with the customer that provides a social interaction. In the banking industry, this channel is costly due the expensive employments of personnel. Throughout the Internet evolution, banks have been able to cut the costs of offline channels intermediaries and move on to online services where customer are able to choose between mediums in the multichannel network to approach the firm. As the technology has allowed for more mobility in multichannel, the points of interactions are boundless. CRM systems creates a synergy between channels so that all customer communication is registered and can be transmitted across channels in a structure that we today call omnichannel with a seamless intercommunication (Chirica, 2013; Juaneda-Ayensa et al., 2016).

2.3 Customer Loyalty
Loyalty is defined as “a deep commitment to constantly reacquire or promote products or services, in spite of the influence of particular situations and competition marketing efforts, which could potentially affect the company’s behaviour.” (Cited in Rajola, 2013, p. 139). This corresponds to a firm’s ability to characterise various circumstances,
which cause individuals to repurchase products or services from the same bank (Rajola, 2013). During the second part of the 20th century, organizations in various industries concentrated a substantial focus on understanding the needs of their customers. It is no longer sufficient to satisfy customers in the short-run, companies should also emphasize on retaining existing ones, rather than acquire new ones (Bhat and Darzi, 2016; Rajola, 2013; Rigby et al., 2003). Furthermore, literature suggests that it is of high value that a company establish social and personal relationships, as well as satisfaction with its customers, which eventually induces loyalty to the brand (Fraering and Minor, 2013).

However, for firms to create long-term relationships and retain customers, they should consider dividing their customers into different segments. As mentioned before, today it is important to recognize the individualistic characteristics, such as lifestyle, personal values, interests and preoccupations. This enables companies to acquire a more comprehensive knowledge of customer’s behaviour; the information can be used to tailor a product or service that is in line with the customer’s expectations (Chirica, 2013; Rajola 2013). Moreover, some advantages of customer loyalty are for instance, that loyal customers are less costly to serve than occasional ones, willing to pay higher prices and will serve as marketers through word-of-mouth (Gee, Coates and Nicholson, 2008; Rajola, 2013).

2.3.1 Choosing a loyalty strategy

Reinartz and Kumar (2002) introduced a matrix, which enables companies to segment customers into homogenous groups based on purchasing behaviour and level of profitability. Furthermore, Lowy, Hood, Gilmore and Pine (2004), claimed that the level of profitability is based on all costs associated with serving a certain customer, as well as the monetary value of the customer’s actual purchase. According to literature, for a customer to be defined as loyal, they have to make recurring purchases over time.
The matrix is divided into four segments: Butterflies, True Friend, Strangers and Barnacles.

- **Butterflies**: Customers that are profitable for the company but difficult to retain;
- **True Friend**: Both profitable and loyal, it is preferable to build and maintain a good relationship with these customers;
- **Strangers**: Neither profitable nor loyal, it is essential for the company to identify these customers early and avoid unnecessary investments in these relationships;
- **Barnacles**: A group that is loyal but rarely profitable (Gee et al., 2008; Reinartz and Kumar, 2002).

One main issue for managers when handling these segments is that they need to be identified early; subsequently managers need to administrate these groups differently. For instance, after establishing a relationship with True Friends, they become relatively self-serving which is a favourable quality for the company. Spamming or lavishing this group with information increases the risk of diminishing the loyalty (Reinartz and Kumar, 2002). Coequally, when dealing with Barnacles it is important to measure their
purchasing power to maximize the profit. It is desired by the corporation to convert this segment into True Friends; this can be done with various strategies of up and cross selling initiatives of different products and services, which increases the likelihood of achieving this transformation (Gee et al., 2008). When serving Butterflies and Strangers, it is important to only concentrate a moderate amount of effort on building relationships, considering that they rarely stay loyal over longer periods of time (Reinartz and Kumar, 2002).

2.3.2 Customer Satisfaction, Loyalty and Retention

The process of profiting from loyalty can be identified through three different steps (Fig. 4). To create loyalty, the firm must first make sure to meet or exceed the customer’s’ expectations and requirements of the product or service. This will generate customer satisfaction, meaning that it is more likely that the customer will repurchase through the same firm over again (Rajola, 2013). If the expectations are met repeatedly, the customer satisfaction will lead to loyalty, establish a relation and be more tolerant of the relative weaknesses of that firm. This is especially true in the banking industry as the competitive advantages rely more on the transparency, trust and relationship with the customer rather than pricing (Chirica, 2013).

![Figure 4. Relationship between loyalty and profits (Rajola, 2013)](image)

Customer data plays a central role in this relationship, as the customer profile must be constructed to best meet the specific demands of each customer. The loyalty thus facilitates a more tailored approach when providing services to customers as their repeated purchase serves as important information to understand behavioural patterns (Rajola, 2013; Chirica, 2013). Only by continuously meeting the customer satisfaction
throughout the loyalty life span, the bank will successfully reach customer retention. This can be challenging as the level of satisfaction is constantly adjusting in alignment with the customer’s expectations. Based on previous outcomes, customer will raise the bar of their expectation as their relationship with the bank grows (Gee, et al., 2008).

According to Chirica (2013), customer loyalty is achieved through two elements, the customer satisfaction and social relation. In order to retain customers, banks must thereby establish a meaningful bond with the customer. If the social ties are well established, the products and services offered by the bank can be based on friendship, which goes well beyond loyalty (Fraering and Minor, 2013). However, banks are adapting their services to the digitalization era and provide the customer with Internet based tools to handle their day-to-day banking, the result from using these digital tools means that the face-to-face interaction becomes less frequent and as a result, the customer relationship weakens. As online services offer value in terms of convenience, the traditional banking activities where branch clerks provide the service of the bank, is now merely limited to occasional encounters. Technology thus serves as a less costly instrument of customer interaction but is also a major reason to why loyalty is becoming more difficult to obtain within the banking industry. Since online banking creates a more impersonal customer relation, the pricing of products and services becomes essential on the competitive market. With no social connection to the bank, customers will be more inclined to switch to less expensive competitors (Levy, 2014). There are thereby incentives to have well-trained staff at the disposal of the customers who wish to have a personal interaction with the bank to ensure to minimize customer defection, retain satisfaction and provide switching barriers (Kumar and Reinartz, 2012; Gee et al., 2008; Zineldin, 2005).

According to Kumar and Reinartz (2012), consumer behaviour has become more individualistic. The banks can use the CRM system as an essential tool to gather the correct information of a customer and adapt their relationship strategy according to the customer needs and expectations of the service (Kumar and Reinartz, 2012). An effective CRM strategy would induce loyalty among customer by tailoring their services to individual needs. The customer’s CRM profile contains data of previous actions and interactions and communicates a personalized service based on this data. The customer
will become more invested in the firm and is less tempted to switch to a competitor (Levy, 2014; Rajola, 2013; Rigby et al., 2003). Rigby et al., (2003) states the importance of employee loyalty, it is challenging to substitute efficient human interactions with technology, since it is built on trust and is well established over time.

3 Methodology

The procedures and approaches of collecting data and using the collected data to attain results and to answer our research questions.

In order to fully comprehend the concept of CRM within Swedish niche banks and the underlying reasoning behind their strategies, also in terms of channels and customer loyalty; a qualitative study will be conducted. A semi-constructed approach is used when interviewing employees of relevant competence to our range of interest. Our chosen approaches are explained below and arguments are provided for choosing each strategy in terms of methodology.

3.1 Research philosophy

According to Saunders, Lewis and Thornhill (2009), a research philosophy is a system of knowledge creation that is constructed from assumptions and beliefs. Most commonly, researchers study the assumptions in order to choose an appropriate research philosophy. There are three different assumptions in terms of research philosophy:

Ontology focuses on the nature of reality. For example, when deciding upon a research topic, the author observes reality from the personal perspective and elaborates the research from his/her view.

Epistemology, this assumption allows for a broad range of methods to be used. Nonetheless, it is important to understand the strengths and weaknesses behind the chosen methods. In reality, when choosing material to present, the author must take into consideration if the knowledge is valid and reliable, as well as how others will perceive this type of knowledge.
Axiology describes two various factors that are important in the research process: values and ethics. In relation to this, the assumption is dealt with from a mutual aspect, both from the contributor to the research and the researcher him/herself (Saunders et al., 2009).

As mentioned, Saunders et al., (2009) argues that it is important to select a research philosophy in terms of assumption. Nevertheless, they also claim that it is important to choose a research approach. In relation to research approach, there are four different philosophies that will be elaborated:

**Positivism:** This philosophy reflects a philosophical stance of a natural scientist. In reality, the researcher prefers working with observable social reality and develops hypotheses based on existing theory.

**Realism:** The foundation of this philosophy is that it relates to what the senses observes as reality in the truth. More specifically, what the individual perceives is correlating to reality. This philosophy is critical to positivism.

**Interpretivism:** A philosophy that emphasises the importance for a researcher to understand differences between humans in our role as social actors. Interpretivism allows for own interpretations as well as assumptions about social life. This philosophy is also developed as a critical stance to positivism.

**Pragmatism:** Using a pragmatic position means that the researcher adapts his/her philosophy to the research question itself. Pragmatism considers the world from various aspects and interprets it differently. From a practical perspective, pragmatism enables the researcher to work with different methods, such as hypothesis, concepts, theories and ideas (Saunders et al., 2009).

This thesis uses a qualitative data collection with the aim to understand the nature of reality in terms of CRM within Swedish niche banks. Since we have conducted multiple case studies, several parties were involved, hence multiple views must also be taken into consideration when trying to understand the underlying reasoning behind each CRM
strategy. Therefore, the ontology pragmatism will be the assumption and philosophy for this thesis.

3.2 Research Approach

When conducting research, there are various collection methods that can be used, quantitative, qualitative or a combination of both. Depending on the degree of preliminary information about the topic and research question, authors distinguish which method that is most appropriate. Quantitative methods focus on gathering numeric data that can be analysed statistically, for instance, by using questionnaires where the researcher aims to find statistical significance in the data. In comparison, qualitative methods focus solely on non-numeric data such as interviews. This method is often used when authors wants to receive in-depth information about a topic (Saunders et al., 2009).

Inductive approaches emerge from collecting empirical results; by analysing and exploring the results, researchers might come across gaps that they will try to fill and subsequently applying a theoretical framework around the research area (Cash, Stanković and Štorga, 2016; Ghauri & Grønhaug, 2010; Saunders et al., 2009). This method is mainly used together with a qualitative research; since interviews might be preferred as it provides a more detailed and in-depth understanding about a specific topic, compared to quantitative research (Ghauri & Grønhaug, 2010).

However, it is argued that an inductive approach might be difficult to conduct for researchers that are inexperienced since it is likely to overlook the importance of examining data while collecting it. Which leads to an increased likelihood of missing shortcomings that could have emerged when analysing the empirical finding (Saunders et al., 2009). In comparison, deductive studies are mainly associated with quantitative research when trying to describe what instead of why something is happening. Furthermore, deductive research integrates existing literatures into frame of data collection. From a positive aspect, it is easier to apply and control the validity of the information in a more straightforward setting compared to an inductive research (Cash et al., 2016; Saunders et al., 2009).
It is likely that a research incorporates elements from both deductive and inductive approaches (Saunders et al., 2009). Since the aim of this report is to understand how niche banks in Sweden operate their CRM strategies, a qualitative research with a deductive reasoning (based on theory) including inductive elements (provides a deeper understanding) is used.

3.2.1 Case study
The purpose of our case studies is to include a practical incorporation of the theories within the framework of niche banks and CRM. A case study allows us to observe a real phenomenon and use it as evidence to support our findings (Yin, 2012). The case studies in the context of this thesis is one of the ground pillars as it represents one of the main subjects of our research purpose; niche banks and how they make use of their CRM. Considering the purpose of this report, the result of the case studies will impose a considerable meaning to the understanding and discussion of this paper.

According to Saunders et al., (2009) the research may consist of a multiple case study or a single case study. A single case study signifies that the researcher observes one unique and particular case where the phenomenon is strongly correlated to the research topic. We decided to carry out our case study through the multiple case study approach in the sense that we deeply investigate two banks separately. This signifies that we can gain a greater understanding of the phenomenon as we can use the case studies to compare, examine and measure the recurrence of niche banks CRM strategies and thereby giving us more credible findings and results.

3.3 Data/Theory Collection
The data collected can be divided into two different categories, primary and secondary data. The primary data has been collected by conducting in-depth interviews with several representatives from each bank; this data is used for the empirical results, analysis and conclusion. The secondary data has been gathered from relevant books and peer-reviewed articles from Jönköping University’s online library. The secondary data will be used throughout the entire thesis; therefore, some sections will be a combination of both primary and secondary data. Using both collection methods is common in research (Saunders et al., 2009).
The collected research constitutes an ensemble of theories regarding channels and loyalty through the lens of customer relationship management. We use several academically recognized theoretical models to strengthen the underlying assumptions of the literature. Thus, creating a theoretical framework that covers the most relevant information. The findings are thereby based on the theories that are best suited to the purpose of the thesis. This allows us furthermore to navigate through the cluster of available information and only acknowledge significant text material (Saunders et al., 2009).

3.3.1 Secondary Data
According to Bowen (2009), the secondary data is collected so that the overall value of the thesis stands upon a steady foundation. The data we have gathered comprises of academic articles that either describes an in-depth phenomenon related to our subject, or theorizes a broader concept of the domain of our study. The information we have gathered are extracted fragments of books and academic articles; both printed and online versions. The information collected are both directly or indirectly concerned with our research topic which can be summarized through the keywords: Customer Relationship Management, Loyalty, Multichannel, Omni channel, Banks, Customer Relations. The Jönköping University library database contains a vast amount of available information, which is the reason why it is our primary source of collection. The secondary quantitative data is gathered from primarily peer-reviewed articles, which are composed by a second party. The authors have not been able to control the collection, nor the amount of data provided. CRM is a dynamic topic; therefore, the time frame of the data collected might impact the information, depending on when it was gathered.

3.3.2 Primary Data
All the primary data in this thesis has been collected by in-depth interviews from single individuals, meaning that there is only one interviewee present during the interview. Saunders et al., (2009) regards this method as a one-to-one approach. There are positive and negative aspects with the collection procedure of in-depth interviews. The
advantage of collecting your own primary data is that the researcher is able to maintain control of the collection process. The disadvantage is that it is time consuming to both gather and interpret the data, as well as being costlier than collecting secondary data (Ghauri and Grønhaug, 2010).

Since we are both using primary and secondary data for our analysis, we can support our primary data with secondary data, and vice versa. Thereby, we support our data from two angles. Furthermore, we identified that a collection of primary data is more likely to help us answer how each bank works with CRM, what the underlying strategies are and why they have chosen a specific direction. These questions are not possible to be answered from collecting secondary data. Therefore, by using in-depth interviews with employees with positions relevant to our research area has helped us to understand CRM within the chosen niche banks and other factors such as channels and customer loyalty. In terms of the case study of LF Bank, only representatives from one regional office were interviewed. This could be considered as a poor collection of data. However, their CRM system is the same for all regional offices in Sweden, which validates our data collection for the bank as a whole entity.

3.3.2.1 Interviews

Interviews can be organized in three different ways, namely structured, unstructured and semi-structured interviews.

**Structured** interviews as the name suggests, are interviews with a script and set of prearranged questions. The researcher does not change questions nor deviate from the script when asking questions. This interview structure is often used when the researcher wants to receive quantitative data (Saunders et al., 2009; Wilson, 2014).

In contrast, when applying an **unstructured** interview, there are no predetermined questions. Instead the interviewer hopes to receive rich qualitative data based on previous experiences that the participants have regarding a general topic, by letting the interviewee express their feelings and beliefs freely (Saunders et al., 2009; Wilson, 2014). However, this openness might lead to issues regarding exposure of sensitive
information that the participant rather kept private, this is something the researcher must have in mind (Simons, 2013).

**Semi-structured** interviews are a combination of both structured and unstructured interview approaches. For instance, there are some predetermined areas that will be covered, however, the participants will talk freely around the various topics presented. In relation to the unstructured method, semi-structured is also used to gather qualitative data (Saunders et al., 2009; Wilson, 2014). This interview approach is useful to apply when dealing with complex questions since it promotes openness and free discussions. Moreover, this structure allows interviews to vary in lengths, which is supposed to be 30 - 120 minutes long (Wilson, 2014).

There are strengths and weaknesses behind every interview approach (Ghauri and Grønhaug, 2010; Yin 2012). The weaknesses when collecting primary data through interviews is that the interviewee may be reflexive, meaning that the participant responds what he/she believes the researcher wish to hear. It should also be noted that the respondent might be biased when answering the questions, as well as responding poorly to the question asked. Furthermore, from the researcher’s perspective, being biased is not an obstacle just for the respondent; the questions asked by the researcher might also be biased and poorly constructed (Yin, 2012).

The strength in our method is that we have chosen to use a semi-structured approach for our interviews. By using this structure, we are able to direct the interviewee on the topic while maintaining flexibility. For instance, depending on what answer you receive, the order of questions may be changed during the interview to maintain an optimal flow (Saunders et al., 2009). To strengthen our collection process, Saunders et al., (2009) suggest that the researcher should audio-record and take notes. We have taken this into consideration and followed the recommendation. In order to maintain some structure of the interviews, 15 questions were predetermined to act as guidance. With relation to this, a qualitative semi-structured approach is preferred in this thesis since it allows the authors of this paper to receive more in-depth information about the topic while sustaining adaptation to the answers given.
The interviews were held in Stockholm and Jönköping (18 - 28 of April), which is illustrated in the table below. The duration of each interview varied between 30 - 55 minutes. All interviews with representatives from Länsförsäkringar were conducted at the regional headquarter for Småland, which is located in Jönköping. The interviews with employees from ICA Bank were held in Stockholm at the headquarters’.

<table>
<thead>
<tr>
<th>Name</th>
<th>Company</th>
<th>Position</th>
<th>Location</th>
<th>Type of Interview</th>
<th>Duration</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Göran Lindell</td>
<td>Länsförsäkringar AB</td>
<td>Board Member</td>
<td>Jönköping</td>
<td>Face-to-face</td>
<td>44 min</td>
<td>18/4/2017</td>
</tr>
<tr>
<td>Katarina Wetterholm Jönköping</td>
<td>Länsförsäkringar Bank Director</td>
<td>Jönköping</td>
<td>Face-to-face</td>
<td>48 min</td>
<td>20/4/2017</td>
<td></td>
</tr>
<tr>
<td>Linus Axelsson</td>
<td>ICA-Bank</td>
<td>CRM Executive</td>
<td>Stockholm</td>
<td>Face-to-face</td>
<td>49 min</td>
<td>21/4/2017</td>
</tr>
<tr>
<td>Emma Karlsson</td>
<td>Länsförsäkringar Jönköping</td>
<td>Business Developer</td>
<td>Jönköping</td>
<td>Face-to-face</td>
<td>51 min</td>
<td>26/4/2017</td>
</tr>
<tr>
<td>Elin Rylander</td>
<td>Länsförsäkringar Jönköping</td>
<td>Business Developer</td>
<td>Jönköping</td>
<td>Face-to-face</td>
<td>34 min</td>
<td>26/4/2017</td>
</tr>
<tr>
<td>Mattias Olofsson</td>
<td>ICA-Bank</td>
<td>Brand and Communication</td>
<td>Stockholm</td>
<td>Face-to-face</td>
<td>46 min</td>
<td>28/4/2017</td>
</tr>
<tr>
<td>Sofia Hedlund</td>
<td>ICA-Bank</td>
<td>Brand and Communication</td>
<td>Stockholm</td>
<td>Face-to-face</td>
<td>31 min</td>
<td>28/4/2017</td>
</tr>
</tbody>
</table>

*Figure 5. List of conducted interviews.*

### 3.4 Data analysis

The interviews are recorded on audio files and then transcribed. To not miss out on any information, all the actual words spoken during the interviews are written down. The transcription is organized and filtered through the process of data cleaning. Since spoken words and written language can vary, one must consider all the factors that impact the responses. These factors include not only the spoken words but also the mannerism in which the interviewee respond to the questions such as non-verbal reactions. The content can then be restructured to a more comprehensible text (Saunders et al., 2009; Patton, 2002). From the transcription, we then retrieve the sections that are pertinent to our thesis and sample the data that are useful.

The combination of inductive and deductive approach generated a more conclusive explanation of the findings, from this aspect; our theoretical framework will support the categorization and interpretation of data. The practice of analysing data from the semi-structured interviews is structured according to narrative since it will rely on our own
interpretation. Using narratives allows the researcher to understand and describe the content of the interview in the purpose to portray a general comprehension of the text. As opposed to fragmentation, which extracts parts of the raw primary data, the narrative approach is the appropriate setting for the report since it requires a contextual understanding of the transcription to complement the thesis (Saunders et al., 2009; Yin, 2012).

3.5  **Validity**

Validity refers to the trustworthiness of the findings presented in a report; in this case it corresponds to the empirical findings gathered through the interviews, as well as the interview approach (Cash et al., 2016; Saunders et al., 2009). Validity can also be divided in two subcategories, internal and external validity. Internal validity refers to the interviews and how the design of the research was made in order to prevent information from becoming biased. External validity targets the results from the empirical findings, whether or not the results will hold true for other studies. For example, if other researchers could conduct a similar study with similar results (Cash et al., 2016). The questions we asked during the interviews were characterized by existing literature and applicable to the research topic while refraining from being biased towards any of the banks. Our ambition is that this increased the validity of the report.

Since both semi-constructed and unstructured interviews are a snapshot of current feelings and notions of the participants, the reliability can be questioned. However, researchers are recommended to keep detailed notes regarding the conducted interviews as well as the research design throughout the research period (Marshall and Rossman, 2011). Furthermore, when conducting interviews, one needs to have in mind the risk of participants being biased (Vartanian, 2011; Yin, 2012). Therefore, all the interviews presented in this report have been conducted in rooms where only the authors of this paper and the interviewee were present. This might have reduced the risk of participants being influenced by co-workers. Moreover, the questions and interviews were held in Swedish, which is the native language of both the participants and interviewers; this was used to maintain fluency.

One member in the group has worked for Länsförsäkringar Jönköping, hence the
objectivity could somehow be jeopardised. However, the member has only worked as a part-time employer and not had full access to the systems used by the bank. This bank offers both insurance and bank services, and the member has worked for the insurance department from his very beginning at the company.

4 Empirical findings

The answers collected through interviews from each bank in relation to CRM, loyalty and channel. We have included the most relevant parts of the responses and provide a brief description of ICA Bank and Länsförsäkringar Bank.

4.1 Länsförsäkringar Bank

Länsförsäkringar has in total 3.7 million customers and consist of 23 local, customer-owned companies, where the geographical location of each entity is bound to its county. The locally based companies offer a broad range of products and services, more specifically, insurance, bank and real estate (Länsförsäkringar AB, 2016). The banking business was established in 1996. All banking operations of each local entity are governed via the commonly owned, parent company Länsförsäkringar AB (LF AB) as illustrated underneath (Länsförsäkringar, 2017). The services and products of LF Bank are distributed from LF AB in Stockholm via the local companies. LF AB holds all the legal certifications to operate banking in Sweden. The bank qualifies as the fifth largest retail bank in Sweden with 419 000 customers in the business and private sector (Länsförsäkringar AB, 2016).

Figure 6, (Länsförsäkringar AB, 2016)
4.1.1 CRM

All 23 companies of LF Bank utilize a CRM system called EttKund. Since LF has operations in banking, insurance and real estate, handling the various business operations require a system that monitors customer involvements. With EttKund, LF is able to see an overall profile of the customer, regardless of business area. This system further enables to see historical and present activities such as the customer's level of involvement, business volume, previous offerings and the insurance activities connected to the customer (K. Wetterholm, personal communication, 2017-04-20).

Based on all the mentioned advantages this system provides, it is up to the employees of LF Bank to register all the information/signals they are provided with from each customer in EttKund. More specifically, when talking to a customer on chat, telephone, face-to-face or any other interaction channel, the employees are encouraged to add general information that the customer communicates. It is also possible to register indications of future interests in products and services the customer might have. For example, the customer might be tied to a contract with another bank for two years, a reminder would then be registered to EttKund, and when the 2-year contract expires, the customer can be contacted. When employees register all information in EttKund, LF Bank is also able to better understand what life-stage the customer is in, and relate to this customer accordingly (K. Wetterholm, personal communication, 2017-04-20).

EttKund itself is considered as the hub with sub-connected systems that feeds the hub with information (K. Wetterholm, personal communication, 2017-04-20). The integration of subsystems to EttKund provides the possibility to structurally approach the customer (E. Rylander, personal communication, 2017-04-26). Since the system enables a constant documentation of the customer, LF Bank has the possibility to deepen the relation with each customer. When an employee is able to achieve an understanding of what products and services the customer currently has, the organization is able to use the information and provide additional offerings that might suit the individual. With this said, the information must be applied correctly and when it is used in a proper way, the organization is able to build a personal relation with the customer and ultimately, loyalty (E. Karlsson, personal communication, 2017-04-26).
Moreover, when working with campaigns in various business areas, the CRM system allows a selection of different target customers depending on what they are predicted to be in need of. Subsequently, after selecting these customers, the marketing activities are directed towards them (E. Rylander, personal communication, 2017-04-26). The weakness is that EttKund itself does not explicitly say what the customer might be interested in; it is rather up to the salesperson to manually analyse what the customer might be interested of with the information EttKund provides (E. Karlsson, personal communication, 2017-04-26). Furthermore, the system does not register each customer’s channel preferences; the information might therefore not be delivered according to the customer’s communication customs (K. Wetterholm, personal communication, 2017-04-20).

In the future, the company’s intention is to collect more data, and use the accumulated transactions to create possibilities for analytical purposes to understand the customer better (E. Rylander, personal communication, 2017-04-26). Furthermore, the ambition is to move from a reactive position into a more proactive approach towards the customer (K. Wetterholm, personal communication, 2017-04-20). Nonetheless, the ambition of LF Bank is not to be in the front of digitalization, the goal is rather to be at the customer’s disposal wherever the customer wants to communicate (E. Karlsson, personal communication, 2017-04-26).

### 4.1.2 Channels

The services of LF Bank expand over different channels. The customer can interact with the bank through the local office, telephone, the mobile application, the official web page, email and social networks (E. Karlsson, personal communication, 2017-04-26).

#### 4.1.2.1 Human interaction

All the interviewees at Länsförsäkringar stress the importance of the face-to-face contact with the customer. LF Bank offers the option for customers to interact physically and locally. LF Bank made the decision to keep their local offices so that they can remain in close contact with customers. Katarina Wetterholm explains that there is a need of being available for a personal meeting if the customer desires this. She states that the world cannot become fully digitized and that humans will always at some
point need a physical person’s advice (K. Wetterholm, personal communication, 2017-04-20). LF Bank are currently developing a function that would enable a customer identification through phone service, which would help the customer to manage many of the enquires with the help of a human representative (E. Karlsson, personal communication, 2017-04-26). Concerning more important bank and insurance errands, it is more assuring to manage these with the consultation of an advisor (G. Lindell, personal communication, 2017-04-18).

4.1.2.2 Digital interactions

Today, 97% of LF Bank’s customer interactions are digital, Katarina Wetterholm expresses the need to offer good service throughout digital channels as the technology progresses. LF Bank therefore responds to the need of the customer by having their services accessible over different channels (K. Wetterholm, personal communication, 2017-04-20). The use of digital tools might have a generational correlation. The younger generation adapt to the digital development such as website and app utilization to a higher extent. The services of the app and website must be easy to navigate through and the functionalities must be available 24/7 to be reliable (G. Lindell, personal communication, 2017-04-18). LF Bank has presence on both email and social networks; however, there is no possibility for identification through these platforms. Therefore, there are limitations to what can be managed through these channels (K. Wetterholm, personal communication, 2017-04-20).

4.1.3 Customer Loyalty

LF Bank’s strategy to create customer loyalty is to exceed their customer’s expectation (E. Rylander, personal communication, 2017-04-26; G. Lindell, personal communication, 2017-04-18). In order to create a positive customer experience, LF Bank tries to create a comfortable and secure business environment for the customers, as well as tailoring solutions of different products and services that are in line with the customer’s demand (E. Rylander, personal communication, 2017-04-26). What has been discovered is that even if the customer is using the bank-app or is performing any errands at the office, the different channels should operate without any major disturbances to avoid dissatisfaction (G. Lindell, personal communication, 2017-04-18).
Emma Karlsson argues that every action the company makes should be favourable for their customers, since they are the owners. Furthermore, in order for LF Bank to create profits in the long run, they have to have satisfied and loyal customers. The more satisfied and the more involvements an individual has in LF Bank, the less likely he or she is to switch bank. Therefore, the company tries to communicate incentives in terms of volume discounts, to stimulate the increase of involvements (E. Karlsson, personal communication, 2017-04-26).

LF Bank strives to pay attention to all their customers, since they believe it is more affordable to retain than attract new customers, the longer you retain the customer, the more profitable they become (E. Rylander, personal communication, 2017-04-26). However, LF Bank is also targeting younger potential customers and endeavours to develop a relationship with them early in their life cycle. LF Bank is trying to work proactively towards this group; the reason is that younger customers have a future potential. If LF Bank is able to attract them early; they are also more likely to retain them in the future (E. Karlsson, personal communication, 2017-04-26; K. Wetterholm, personal communication, 2017-04-20). Katarina Wetterholm argues that LF Bank does not segment their customers by profitability, rather segment them depending on their level of involvement (K. Wetterholm, personal communication, 2017-04-20). It is important that LF Bank does not favour a group of customers, since it can create a badwill if customers become aware that they are treated unequally. However, under the right circumstances, segmentation can create a positive customer experience, hence a motivation should be provided (G. Lindell, personal communication, 2017-04-18).

### 4.2 ICA Bank

ICA Group is a leading retailer with high prominence in food and health products. The ICA Group includes Rimic Baltic; a commodity retailer, ICA real estate, pharmacy and lastly ICA Bank, which offers financial services. ICA Bank was founded in 2001 and provide services towards private and business sector. ICA Bank operates mainly digitally and provides today financial, economic and insurance services to 713,000 customers in Sweden. The ICA Bank contributes to the ICA Group by strengthening brand loyalty and reduces the transaction costs. ICA Bank has in total 356 employees
with the objective to develop a wider range of services in both financial and insurance products with competitive prices (ICA gruppen, 2016).

4.2.1 CRM
ICA Bank has embraced the digitalization, the traditional marketing, such as direct marketing is not as cost-efficient as utilization of marketing with the help of digital systems such as CRM. ICAs CRM system consists of a data warehouse that is fed with customer information from sub-connected systems, more specifically, customer behaviour, trends, preferences, transactions, payments and loans. With the use of this information, ICA segments their customers with something called MOSAIC segmentation. The use of this segmentation can generate an understanding of consumer behaviour (L, Axelsson, personal communication, 2017-04-21). All these processes do not automatically provide a complete profile of the customer; instead, it provides a foundation to analyse the individual with help of a programme called SAS. This programme allows ICA Bank to analyse the probability of what the customer might be interested of, as well as how the personal life is characterized (M, Olofsson, personal communication, 2017-04-28). For example, due to their remote location, the probability for owning a car is higher for an individual who purchases groceries at ICA Maxi, compared to individuals that purchase their groceries elsewhere. With the use of this information, ICA Bank targets these customers with offerings related to car loans (L, Axelsson, personal communication, 2017-04-21).

ICA Bank uses the aggregation of customer data in their marketing campaign as a foundation, support and selection for what their potential or existing customers are interested of. When the campaign has been launched, the data is also used to evaluate the campaign, this whole process is considered as marketing automation (S, Hedlund, personal communication, 2017-04-28). Using customer data to personalize offerings and understand the life-stage of their customers is embedded in ICA Bank’s CRM strategy. For instance, a childless person should not be targeted with promotional activities that offer a discount for saving accounts for children (L, Axelsson, personal communication, 2017-04-21). Building on this argument, it is not about targeting the broad mass with promotional activities, or assuming that customers have the same preferences. The focus is on reaching the single most appropriate customer, which is
considered as one-to-one marketing (S, Hedlund, personal communication, 2017-04-28). The aim has shifted from mainly reaching short-term sales objectives; instead the ambition for ICA Bank is to offer products and services that are beneficial for their customers. With this said, today banks know more about consumers compared to before, but according to Mattias Olofsson, Swedish Consumer Index indicates that customers feel more distanced to their banks than ever before (M, Olofsson, personal communication, 2017-04-28).

A weakness in ICA Group’s customer data collection is that ICA groceries, insurance, pharmacy and the bank do not share the same CRM system, which means that the corporation is not able to have a full profile of each customer, regardless of business area. The reason for not connecting the banking operations with other CRM systems is because there is a rigorous legal barrier in Sweden affecting how much information you can share about each bank customer (L, Axelsson, personal communication, 2017-04-21). In the future, ICA Bank will be able to personalize each offering of their products and services. When a customer accesses the mobile-app, webpage or the Internet bank, he or she will be exposed to offerings based on their behaviours. Today, ICA Bank can only provide general offerings, which reduces the probability that a customer would increase their level of involvement (L, Axelsson, personal communication, 2017-04-21).

4.2.2 Channels
ICA Banks’ services are almost solely available through digital mediums, where the mobile app and web page are the most trafficked. Users are also able to contact ICA Bank through telephone, social media and email. The customer can receive further information and offers through regular mail. While the content of some correspondences is adapted to personal needs, other messages are more generalized. This depends on regulation and customer identification services (M, Olofsson, personal communication, 2017-04-28).

4.2.2.1 Human interaction
The possibilities to manage everyday banking errands through human interactions are limited. ICA Banks’ customer service is available through telephone and a few local
ICA stores. However, the CRM system is not connected to their telephone service, which means that customer data cannot be used for promotional purposes. The physical direct service is scarce and limited. With no public offices, the cashiers at ICA groceries must also act as branch clerks and the challenge lies therefore in finding personnel with suitable education to handle both bank and store customers. Due to this, ICA Bank relies heavily on digital services (L, Axelsson, personal communication, 2017-04-21).

4.2.2.2 Digital interaction

The clear majority of customer interaction takes place on the website and mobile app where the customer can login and administer their account. Linus Axelsson expresses heavily the importance of having a tied connection between the app and the website. The information put in and actions carried out on one platform must be inter-managed through the other. The customer should not have to communicate the same information twice. The seamless buying is currently feasible through web and app, but the long-term goal is to allow customers to handle their banking activities independently of channel (L, Axelsson, personal communication, 2017-04-21). With emphasis on the app and website, the navigation and ease of use is imperative to satisfy customers. In self-service tools, that are used regularly, the customer cannot be bothered by inconveniences. The products, services and general information must therefore be communicated under seamless conditions without inaccuracies. This is manageable with the help of customer data. Regarding email and social media, the communication is less personally directed. Email services and social media may not include any personal customer details (confidentiality), therefore messages containing personalized offers and information are sent out through regular mailboxes (L, Axelsson, personal communication, 2017-04-21; S, Hedlund, personal communication, 2017-04-28).

4.2.3 Customer Loyalty

ICA as a brand has strong loyalty among its customers, which is synergized with the banking operations (M, Olofsson, personal communication, 2017-04-28; S, Hedlund, personal communication, 2017-04-28). The bank has started to focus more on their services being user-friendly, as well as personalize offerings. The traditional approach
of lavishing customers with general information is no longer attractive for both parties; it is costly for ICA Bank and the customers associate advertisement as something negative (M, Olofsson, personal communication, 2017-04-28). In contrast to modern marketing, direct marketing that ICA Bank is sending to customers is still successful. In short, this marketing activity is generating sales, but the general attitude towards this marketing activity is still negative (L, Axelsson, personal communication, 2017-04-21).

ICA has a bonus programme that is based on how much groceries each consumer purchases, as well as involvements within the ICA Group. Their intention is to achieve loyalty among its customers and provide incentives for repurchases (L, Axelsson, personal communication, 2017-04-21). The level of involvements by a customer has a dual significance, firstly, the more involvements a customer has in the bank, the more bonus he or she receives that can be used for purchasing groceries to a discounted price. Secondly, the bank strives to increase the involvements since a customer becomes less likely to switch to a competitor. Nevertheless, Linus Axelssons personal opinion is that there is no longer anything called loyal customers since too strong loyalty has a negative effect on the competition (L, Axelsson, personal communication, 2017-04-21).

ICA Banks’ customer strategy is to develop, preserve, retain and recapture customers (M, Olofsson, personal communication, 2017-04-28). Since the bank has over 700,000 customers, they focus more on retaining than acquiring. However, it has become increasingly important to convince and win customers on a daily basis, this emphasize on having high standards for the customer experience. Customers generally value good services than price, if ICA Bank is able to give every customer a satisfactory service; they become less sensitive of the price (L, Axelsson, personal communication, 2017-04-21). Furthermore, every conversation with a customer should not be characterized by sales, it is equally important to have a carrying and transparent communication with the customers. For instance, the ICA student card, which is highly beneficial for students, will become less beneficial when they have graduated. Therefore, this information is clearly communicated in advance, in order for the individual to be prepared (S, Hedlund, personal communication, 2017-04-28).

Today, ICA is segmenting their customers based on socio-demographic differences
(MOSAIC segmenting). The bank strives to develop a strategy to identify and segment customers based on current and future profitability. Building on this notion, some customers might not be profitable today (students), thus have a strong future economic potential (L, Axelsson, personal communication, 2017-04-21; M, Olofsson, personal communication, 2017-04-28).

5 Analysis

A combination of the empirical findings and theoretical framework. In this section we provide answers to our research questions and interpret the results from the case studies to present our findings.

5.1 How are Swedish niche banks operating their CRM?

Customer Relationship Management should be operated with a customer-centric focus, with the aim to become familiar with customers on a large scale. By developing relationships, the company is able to tailor offerings for their customers (Mandic, 2011). According to Katarina Wetterholm, LF Bank strives to use their CRM system EttKund to achieve familiarity and learn more about the their customer’s life-stage. However, the system does not automatically provide relevant offerings, it is rather up to the branch clerk to intuitively use the information about the customer and offer additional products and services (K. Wetterholm, personal communication, 2017-04-20).

EttKund itself is the main hub where the information is distributed through subsystems. All 23 companies of Länförsäkringar bank, insurance and real-estate uses the same CRM system (K. Wetterholm, personal communication, 2017-04-20), and with a customer-base of 419,000 banking customers and 3.7 million customers in total (Länsförsäkringar AB, 2016), the authors of this thesis argue that LF Bank has not realised the potential the CRM system brings. The volume of transactions and customer data EttKund provides could be used to a larger extent to understand their customers on an individual basis and provide up-sell initiatives. From a synergetic perspective, Rajola (2013) argues that for a CRM system to be successful, knowledge sharing should be developed. Building on this argument, a knowledge sharing in CRM should consist of: “1. Collecting information on customers 2. Organize data to be able to analyse
Utilize the knowledge and implement initiatives that have value for customers.
Share the knowledge within the company. Make the information available for all departments of a corporation” (Rajola, 2013 p. 38). With regards to the second and third function of knowledge sharing, the CRM function is not automatized to provide the branch clerk with tailored offerings for the customer. Instead, the analysis has to be done by the employee using the information from EttKund (E. Karlsson, personal communication, 2017-04-26), as mentioned earlier in this section.

Since LF Bank is a customer-owned company, the strategy is to treat each customer equally independently of their current economic situation, while maintaining a lasting relationship and thereby achieve long-term profitability (E. Karlsson, personal communication, 2017-04-26). Bhat and Darzi (2016); Rajola (2013) argues that a successful long-term relationship can be achieved if the company is able to have knowledge about their customers and listen to their needs. By fulfilling these criteria, the company is able to grow and achieve loyalty among its customers. Interestingly, the interviewees had a consensus of opinion that LF Bank must maintain their local offices at the disposal of their customers, as opposed to the generally known trend of closing down bank offices in Sweden. According to Rajola (2013), if the company wish to have a direct contact with its customers, such as physical interaction, then this will demonstrate to what degree the enterprise is able to make use of its CRM strategy on a company-to-customer level. This whole concept is considered as one-to-one communication.

In terms of the analytical, collaborative and operational component, LF Bank indicates to have elements of all three. From the analytical aspect, Rajola (2013) argues that the architecture of CRM is built on a centralised data warehouse. EttKund as the centralised hub allows for data flow from sub-connected systems to enable LF Bank to use the analytical component in activities, such as marketing campaigns. Elin Rylander claimed that EttKund allows the employee to identify different customers depending on what they might be in need of. Subsequently, marketing activities can be directed towards selected individuals (E. Rylander, personal communication, 2017-04-26). From the collaborative perspective, CRM has allowed front-office personnel to pursue sales
activities. Since EttKund provides employees with an overall profile of the customer, they are now able to understand what kind of product or service to push towards the customer (Rajola, 2013). Lastly, the operational component is utilized for focusing on establishing, maintaining and enhancing relationships with its customers (Wang and Feng, 2012). This feature also enables enterprises to understand the individual’s life-stage (Kumar and Reinartz, 2012). Katarina Wetterholm stated the importance of adding general indications about the customer in EttKund to relate to the customer accordingly, such as up-selling initiatives (K. Wetterholm, personal communication, 2017-04-20).

This boils down to the question; does the creation of CRM fall back to technology? Cambra-Fierro et al., (2016); Kracklauer et al., (2004) argues that a successful CRM strategy does not mainly rely on technology as such. As Emma Karlsson argues, the objective of LF Bank is not to lead the technological advancements; the ambition is to interact with the customer on their preferred conditions (E. Karlsson, personal communication, 2017-04-26). Technology plays an essential role in building relationships in the future, but it is not sufficient to collect information without human activity (Cambra-Fierro et al., 2016). Therefore, Cambra-Fierro et al., (2016) argues that companies should focus on proper human interaction along the opportunities technological advancements such as CRM as a digital tool can provide.

Contrary to LF Bank, ICA Bank has fully embraced the digitalization. Rigby et al., (2003); Zineldin (2005) stated that CRM is not mainly a functional strategy; it is a business strategy since it affects the enterprise as a whole. As Linus Axelsson argued, the traditional marketing is not as cost efficient as the utilization of marketing with help of customer data from CRM (L, Axelsson, personal communication, 2017-04-21). The very first objective for an enterprise is to reach the customer (Rajola, 2013). ICA Bank uses its CRM system extensively to reach and understand its customers. The data provided from sub-connected systems into CRM is used to analyse customer behaviour, trends, preferences, transactions, payments and loans (L, Axelsson, personal communication, 2017-04-21). When this data is analysed, the ambition is to provide customers with offerings that are beneficial (M, Olofsson, personal communication, 2017-04-28). This in turn creates a win-win situation, the enterprise provides added
value and the customer becomes satisfied, subsequently leads to loyalty (Bhat and Darzi, 2016).

According to Rigby et al., (2003), with the evolvement of CRM, it has become possible to understand customers on a mass scale. The CRM processes of ICA Bank do not automatically provide a full profile of the customer; it provides statistical data to understand the probability of customers buying a particular service and product, as well as how their life is characterized by their habits (L, Axelsson, personal communication, 2017-04-21). The mass approach of providing customers with personalized offerings is enabled through the use of a programme called SAS, as well as segmentation via MOSAIC. As we mentioned earlier, the use of these functions cannot explicitly say that this customer will purchase this product; it is merely based on probability (L, Axelsson, personal communication, 2017-04-21). To be able to create these offerings, the company must have customer knowledge, listen to trends and preferences, ultimately, growth can be achieved if customers feel that they are treated as single individuals (Rajola, 2013). Linus Axelsson exemplifies ICA’s CRM strategy by saying that: “A childless person should not be targeted with promotional activities that offer a discount for saving accounts for children” and “The probability for owning a car is higher for an individual who purchases its groceries at ICA Maxi (remote location), compared to individuals that purchases its groceries elsewhere” (L, Axelsson, personal communication, 2017-04-21).

Communication and knowledge sharing is key for successful CRM strategy (Rajola, 2013). Sofia Hedlund claimed that the focus for ICA Bank is to reach the most appropriate customer with one-to-one communication (S, Hedlund, personal communication, 2017-04-28). This marketing approach shows the extent of CRM capacity on a company-to-customer level (Rajola, 2013). ICA Bank also uses direct marketing with the aim to reach specific market segments (M, Olofsson, personal communication, 2017-04-28). In terms of knowledge sharing, as we mentioned earlier in the section of LF Bank, ICA Bank strives to fully utilize the power of sharing knowledge within the ICA Group. The bank is more benefitted by the knowledge sharing in comparison to ICA Group since the bank department cannot from their end share classified information about their customers due to legal reasons, which also
applies to LF Bank. Moreover, ICA groceries, insurance, pharmacy and the bank do not share the same CRM system; hence the knowledge sharing is therefore limited (L, Axelsson, personal communication, 2017-04-21).

In relation to the analytical, collaborative and operational component, the clear indication is that ICA Bank focuses on the analytical aspect, but has to some extent elements of all three. The analytical component relies heavily on technology as such. The most commonly used area for this component is in marketing activities. The data collected is used to build up profiles for marketing purposes. When the marketing campaign has been launched, the analytical component allows managers to evaluate the campaign (Rajola, 2013). Building on this theory, Sofia Hedlund argued that the marketing automation of ICA Bank uses the accumulation of customer data as a foundation, support, selection and ultimately evaluation for their marketing activities (S, Hedlund, personal communication, 2017-04-28). Moreover, as part of the analytical component, there is a feature that is called online analytical processing (OLAP) (fig. 1). This function gives the corporation a clearer understanding of customer’s specific needs, as well as appropriate products/services to be offered (Rajola, 2013; Siguenza-Guzman et al., 2015). We have discussed that the ICA Bank uses a programme called SAS to understand the probability of what a customer might be interested of, which is in line with the OLAP structure (fig. 1).

The collaborative component enhances the simplicity of contact between customer and bank (Rajola, 2013). In comparison to LF Bank, ICA Bank has to a small degree the possibility to provide its customers with physical contact (L, Axelsson, personal communication, 2017-04-21). The strength in terms of interaction is that ICA Bank relies more on the digital services such as e-mail, which is illustrated in fig. 1. Lastly, the operational component is connected to the analytical by legacy systems (fig. 1). The operational component emphasises on anticipating customer behaviour (Rajola, 2013) as well as establishing, maintaining and enhancing relationships with target customers (Wang and Feng, 2012). According to Kumar and Reinartz (2012), the operational component must be constructed with a customer-centric approach with focus on the customer’s life cycle. We have argued that ICA Bank strives to understand how their customer’s life is characterized (the example of promoting a one man household with...
offers of saving account for children). With this said, ICA Bank qualifies for utilizing this component as well.

In contrast to LF Bank, we argue that ICA Bank’s CRM falls back to technology since the company has embraced digitalization and operates virtually. According to Rajola (2013), this market approach is in line with proactivity in order to predict and adapt to changes in terms of consumer behaviour. In the future, interaction on digital platforms with ICA Bank will be based on behaviour and essentially personalized (L, Axelsson, personal communication, 2017-04-21).

5.2 How is the CRM implemented across channels?
LF Bank is available on both physical and digital channels. The latter is according to Rajola, (2013); Rigby et al., (2003) considered as “new channel” which is characterized by digital channels such as the mobile app and e-banking. In accordance to the study by Kumar and Reinartz (2012), their research discusses the adaptation to digital channels among banks in general. We argue that LF Bank has to a slight degree embraced the technological advancements and created digital solution for communication, which indicates that they are adapting to the market and following the trend of digitalization among banks. The digital solutions are more affordable and substitute the costs of branch clerk as self-service tools become more widespread (Campbell and Frei, 2010). However, LF Bank is firmly determined to keep their local offices to provide closure to those who wish to have a personal meeting (G. Lindell, personal communication, 2017-04-18). This falls in with the literature of Levy (2014) about creating customer relationships with face-to-face meetings.

The communication network LF Bank has developed and the possible actions that can be carried out through each channel resembles the structure of multichannel as explained by Neslin et al., (2006) in the sense that some channels have different functionalities. We understand that the customer may be contacting LF Bank using different mediums, but are limited by the range of capabilities of each medium and cannot progress their activity seamlessly among all channels. On the other hand, it is arguable that LF Bank is approaching an omnichannel structure; there is an informational bridge between the mobile app, website and the face-to-face interaction
where the user can manage their banking account. The interplay of information between those channels corresponds to the description of omnichannel by Chirica (2013); Juaneda-Ayensa et al., (2016). However, the characteristics of LF Bank’s overall communication structure with regards to the possible solutions given, all channels are not compatible to offer personalized service, such as the email or social media due to the lack of identification features (K. Wetterholm, personal communication, 2017-04-20). LF Bank’s communication network can therefore be considered as a multichannel structure with elements of omnichannel.

The services of ICA Bank are almost entirely digitalized, except for regular mail service and some ICA stores. ICA Bank binds the customer’s banking management to digital platforms (L, Axelsson, personal communication, 2017-04-21). According to the concept of channels by Kumar and Reinartz (2012), ICA Bank is almost entirely an online-based service. Unlike LF Bank, ICA Bank has never undergone the integration from offline to online channels. From the very beginning, ICA Bank substituted the branch clerks with e-banking and mobile application (ICA gruppen, 2016) and encourages the use of self-service tools (L, Axelsson, personal communication, 2017-04-21). The physical customer interaction at ICA Bank is nearly non-existent. As this reduces the cost of staff, it allows for ICA Bank to have more competitive prices. This is supported by the study of Kumar and Reinartz (2012). In retrospect, Linus Axelsson and Mattias Olofsson explains that ICA Bank uses the customer data flow in the CRM system to personalize their customer interaction and adapt the messages to each user and thereby attempting to improve customer satisfaction (L, Axelsson, personal communication, 2017-04-21; M, Olofsson, personal communication, 2017-04-28).

ICA Bank’s network of communication resembles the research of what Neslin et al., (2006) describes as a multichannel structure. By acknowledging all forms of possible interactions, Mattias Olofsson points out that customers can interact with the bank through several channels. In addition to the website and phone app being the main platforms, other intermediaries include email, telephone, social media and regular mail. However, only the mobile application, website and the telephone service allows the user to login on his/her account (M, Olofsson, personal communication, 2017-04-28). The high functionalities of website and mobile application is emphasized by Linus Axelsson
who stress the importance of developing user friendly navigation on these platforms with the aim to increase frequency of use and thereby collect customer data, which can then be processed in the CRM system. The customer can in turn manage their banking under seamless omnichannel conditions through the mobile application and website, thereby experience a more convenient digital service (L, Axelsson, personal communication, 2017-04-21). We argue that ICA Bank has a multichannel network but in comparison to LF Bank, ICA Bank measures the points of interaction of users in a more complex analytical data process to customize promotions and offerings based on consumer behaviour. In the context of interpretation, by viewing ICA bank as a sole entity, they offer fewer possibilities across channels compared to LF Bank. However, from the perspective of ICA as a brand, ICA Bank is an extension to the many encounters of ICA Group, which could be perceived as a compensation for not having physical bank offices.

5.3 How is customer loyalty achieved in terms of CRM and presence in various channels?

According to Rajola (2013), the first step of creating loyalty is to meet or exceed the customer’s expectations of products and service. Interestingly, this opinion was shared among the majority of the interviewees from both banks. Chirica (2013) states the importance of meeting expectations repeatedly, since the customer will become more tolerant of the relative weaknesses of that firm. This is particularly true for the banking industry as competitive advantages relies more on transparency, trust and relationship rather than price. LF Bank’s ambitions are to achieve a sense of caring among its customers and make every action favourable for them (E. Rylander, personal communication, 2017-04-26). The authors of this thesis argue that the combination of these values enables LF Bank to exceed their customer’s expectations. Fraering and Minor (2013) argues that in order to retain customers, the bank has to develop satisfaction, as well as establishing meaningful bonds, where the social connection plays an important role. To achieve the social bond with the customers, LF Bank is convinced to preserve their local offices (G. Lindell, personal communication, 2017-04-18). However, it can be arguable if this bond is the most influential in building loyalty since 97 % of LF Bank’s interactions are digital.
Further discussing the fact that LF Bank stresses the importance of local presence, Levy (2014) raises the issue where digitalization acts as a less costly instrument compared to the physical presence. With less frequent face-to-face interactions, customer becomes less likely to remain at the same company over a long period of time. To prevent customers leaving the company, it is imperative to have well-trained staff at their disposal. This provides a switching barrier and minimizes customer defection (Kumar and Reinartz, 2012; Gee et al., 2008; Zineldin, 2005). Another switching barrier for customer is also the overall discount they receive based on their involvement (E. Karlsson, personal communication, 2017-04-26). However, building on the notion whether LF Bank makes the right decision to keep their local offices, despite the vast majority of interactions being digital, Rigby et al., (2003) states that it is challenging to substitute efficient human interactions with technology, since it is built on trust which is established over time. It also allows for front-office personnel to collect information about customers and add sales signals in the CRM system (K. Wetterholm, personal communication, 2017-04-20).

As mentioned in the section of CRM, LF Bank does not segment their customers based on profitability. The strategy is rather based on the fact that the longer you retain them, the more profitable they become (E. Rylander, personal communication, 2017-04-26). This is in line with figure 4 “Relationship between loyalty and profits” (Rajola, 2013). Gee et al., (2008); Rajola (2013) argued that loyal customer is less costly to serve than occasional ones. LF Bank wishes to attract young customers early in their life cycle, due to their future potential (E. Karlsson, personal communication, 2017-04-26; K. Wetterholm, personal communication, 2017-04-20). Attracting young customers in an early stage with the intention to develop their involvement is related to Reinartz and Kumar’s (2002) matrix - “choosing a loyalty strategy” (fig. 4). Young customers have a low level of profitability, but strong future potential (Barnacles) and with time, when these individuals have a full-time job and their level of involvement increases, they become more profitable (True Friend).

It has become increasingly important to recognize individualistic characteristics; which enables a more comprehensive knowledge of customer’s behaviour and can be used to
tailor product and services (Chirica, 2013; Rajola 2013). ICA Bank rarely has any physical connection with its customers; therefore, this has to be complemented with something else. Through their CRM system, ICA Bank emphasise a strong focus on personalized offerings. Moreover, their strategy to create a relationship with its customers is to concentrate on user-friendliness of its services. These two purposes might lead to creation of loyalty. Firstly, by providing customers with personalized offerings. Secondly, providing services that are easy to navigate through (L, Axelsson, personal communication, 2017-04-21).

Customer data plays a central role in the relationship between loyalty and profit. Repeated purchases serve as useful information in understanding the constant change in customer’s behaviour (Rajola, 2013; Chirica, 2013). Depending on previous interactions, customers might change their expectations as their relationship grows, it is therefore important to constantly meet the new demands (Gee, et al., 2008). It has further become increasingly important to convince and win customers on a daily basis, which emphasises on a higher standard on the services. The bonus program is based on how much groceries a customer purchase, as well as involvements within the ICA Group, this provides incentives for repeated purchases (L, Axelsson, personal communication, 2017-04-21). We argue that the bonus programme might help ICA Bank to further improve their customer data collection, hence, improve the understandings of customer behaviours and also create switching barriers.

Linus Axelsson argues that even though ICA student premium is not as profitable as other initiatives of the bank, the intention is to retain these customers on the long-term and receive future profitability. This can be in line with what they develop to be their future segmentation strategy, which is based on current and future profitability (L, Axelsson, personal communication, 2017-04-21; M, Olofsson, personal communication, 2017-04-28). According to fig. 4, the ICA student premium customers can be classified as Barnacles today. However, this group might become long-term profitable customers for the bank, True Friends. This group becomes relative self-serving and responds in general negatively towards spamming or lavishing of information (Reinartz, 2013). This can be seen as something positive for ICA Bank, since they do no longer see the
traditional approach of lavishing customers with general information as something appealing (M, Olofsson, personal communication, 2017-04-28).

6 Conclusion

Our aim has been to understand and contribute to the field of use and strategies behind CRM within Swedish niche banks, how gathered customer data across channels supports the development of the bank’s strategy in regard to customer relations. With the help of ICA Bank and LF Bank, we shed light and make aware of the practical differences within the use of CRM in the context of niche banks.

The result from this thesis illuminates that there are contrasting views of how the CRM system is used practically within the chosen banks. It appears that both banks have elements of the analytical, collaborative and operational component. However, one of the most apparent findings is that ICA Bank consider their CRM system as part of their business strategy and emphasise the use of the analytical component, hence CRM relies on digital solutions. It is our conclusion that LF Bank uses their CRM system as a complementing tool for their customer relationship. In this case, CRM and use of channels falls back on the human factor rather than technological advancements. We conclude that ICA Bank strives to fully utilizing the power of digital CRM to handle their customers heterogeneously in the attempt to compensate for their lack of physical presence. LF Bank however could further develop their CRM system in terms of customer knowledge. With a customer base of 3.7 million customers in banking, insurance and real estate, the number of data that flows in could be used more extensively to provide cross- and up-selling initiatives.

The amount of communication intermediaries has increased in line with digitalisation. Technology creates new conditions for communication across channels. In a multichannel structure, both niche banks aim to meet the demand of their customers. ICA Bank uses digital channels as substitute to traditional offline channels such as physical presence while LF Bank preserve their offline channels and extend their services to online channels to complement their communication range. Digital channels provide self-service solutions to customers and contribute with customer data to the
CRM system, but the complete lack of physical presence can come at the expense of customer loyalty.

We have identified that there are various strategies of how niche banks retain customers. ICA Bank emphasises on accumulating customer data for the purpose of personalizing offers. LF Bank, on the contrary, accentuates the importance of local and physical presence. The Swedish banking industry is undergoing drastic changes due to technological advancements. Today, CRM systems and digitalization allow banks to know their customer base more than ever before but paradoxically, customers feel more distanced and overlooked by their banks than ever before.

7 Discussion

Throughout the writing, the thesis has been subject to limitations. We are thereby inclined to share these limitations so that the reader is given a fair and better understanding of the writing process. Regarding our multiple case studies, the interviewees from the different banks did not have the same working title or the same expertise. Therefore, the comparative results collected might be divergent depending on the individual being interviewed. Secondly, we have no control over the responses given by the interviewee, meaning that answers received had to be endorsed and accepted as truthful empirical data. Our strength is that the interviewees consisted of both females and males, which we believe increases the constancy and credibility of our study. Elements that come across as weaknesses are among others, the fact that we only used two banks for our case study, including more banks could have added more credibility and added value to the results.

The literature of CRM and its underlying theories creates a pre-defined notion of the praxis of CRM, channels and loyalty in niche banks. In the observation of LF Bank and ICA Bank and their use of CRM in practical context, we identify consistencies with the literature. None of the banks explicitly claimed to use their CRM analytically, organizationally or collaboratively. However, these banks apply these components in line with the theoretical framework. Our research will contribute to the field of Swedish
banking with regard to the application of CRM and how two diametrical strategies can both be successful. Throughout the writing process, we have learned that market and technology is in a constant state of change and banks are adapting to the rapid technological advancements, but regardless of how much the banks integrate digital tools, it all boils down to respond accurately to customer needs. The study has also given us an understanding that banks are unable to foresee where digitalization is heading and how the market will react to the exponential changes of technology.

As we delved into the concept of CRM, we identified gaps that could be further explored. As more banks provide self-service tools in the goal of providing better services, the relationship between bank and customer becomes more distanced as the need for personal interaction is fading. It would therefore be interesting to investigate the customer’s perspective of the versatility of CRM; to what degree they value physical interaction and how they perceive the digital substitutes in banking. Another proposition for further research would be to redefine the meaning of customer loyalty in the age digitization: Is loyalty a dying concept? As more self-service tools are being used, how can vicinity between customers and banks be retained?
8 References


9 Appendix

Interview questions

Swedish

1. Hur skulle du vilja beskriva ert CRM system?
2. Hur använder ni ert CRM system?
3. Vad är strategin med ert CRM system?
4. Hur bygger ni kundrelationer via ert CRM system?
5. Hur har utvecklingen av CRM system hjälpit er i den dagliga verksamheten?
6. Vad är det viktigaste med ert CRM system?
7. Vilka kanaler finns ni tillgängliga på?
8. Med hjälp av digitaliseringen, hur förhåller ni er till de kanaler ni finns tillgängliga på?
9. Anser ni det viktigt att kunna tillgodose behovet av face-to-face kontakt med era kunder?
10. Hur bygger ni kundrelationer via de kanaler ni finns tillgängliga på?
11. Anser ni att kunderna kan göra alla former av ärenden oberoende av kanal?
12. Hur skapar ni lojala kunder?
13. Delar ni upp era kunder i olika segment baserat på lönsamhet?
14. Hur bevarar ni era kunder?
15. Utifrån CRM, kanaler och kundlojalitet. Hur drar ni nytta av er kärnverksamhet i förhållande till dessa områden?

English

1. How would you describe your CRM system?
2. How do you use your CRM system?
3. What is the strategy with your CRM system?
4. How do you build customer relations through your CRM system?
5. How have the development of the CRM system helped the daily business?
6. What is most important with your CRM system?
7. In which channels are you available?
8. With the help of the digitalization, how do you use the channels you are available on?
9. Do you consider that you are able to supply the need of face-to-face connection with your customers?
10. How do you develop customer relations through the channels you are available on?
11. Do you consider that the customers are able to manage all forms of errands independent of channel?
12. How do you create loyal customers?
13. Are you dividing your customers in various segments based on profitability?
14. How do you retain customers?
15. According to CRM, channels and customer loyalty. How do you take advantage of the core business in relation to these fields?