UNIVERSITY OF LJUBLJANA
SCHOOL OF ECONOMICS AND BUSINESS

MASTER'S THESIS:

THE RELATIONSHIP MARKETING AS A RETENTION TOOL IN COMMERCIAL BANKS

Ljubljana, April, 2019   IVANA SPIROVSKA

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INTRODUCTION

One of the emergent themes in marketing theory and practice has been the need to manage relationships with customers. This has given rise to the relationship marketing concept which assumes a number of forms in management literature: customer relationship management (hereinafter: CRM), mass customization and one-to-one marketing. It is possible such impact of this emerging paradigm to argue that marketing as an academic discipline is redefined, moving away from a transactional towards a relationship focus. Its impact is particularly significant in the area of services marketing and management. This is due to the characteristics of services, particularly in those instances where consumption creates an ongoing series of interactions that can be viewed as a 'relationship'. The interactions between financial service providers and their customers are obvious examples of such ongoing interactions. Relationship marketing has become a key strategic objective for firms in the financial services industry. Financial service firms are primarily focused on the creation and sustaining of customer relationships (Chitra and Subashini, 2011). Relationship marketing comprises of marketing activities that are aimed at developing and managing trusting and long-term relationships with larger customers (Hall, 2011).

One very important marketing function in any bank is to make sure that everything possible is done to keep existing customers. Marketing programs designed to bring in new customers make no sense if the bank does not have a program to keep them once they come. And no matter how successful a new business development program is, the bank will not be successful if it loses existing customers as rapidly as it attracts new ones. Marketing success occurs only when a bank attracts significant number of new customers while retaining the ones it has got. The way a bank keeps its customers is by managing those relationships with quality service and on-going attention to customers' needs and wants. High quality customer service is a high priority activity in a bank. It is a responsibility of each bank employee, learned at the first day at work and repeated on a daily basis. High performance banks tend to be high quality banks. Profitability and service quality are interdependent. A bank that offers significantly better service than its competitors automatically has customers that are much more loyal, and with the loyalty, less sensitivity comes for pricing (Krasnikov, 2008).

Relationship marketing implies establishing a personalized relationship with customers in order to achieve greater loyalty. Relationship marketing is based on the importance of customer trust. Thus the process is a result of evolutionary strategies adopted by banks to benefit from competitive advantage. Relationship banking marketing is based on three pillars: development of further links with customers, keeping existing customers and attracting new ones. It relies upon learning about consumer requirements directly from the existing customer base. Data on customer profile, buying patterns, and history of contacts are maintained in a data warehouse, and an account executive is assigned to one or more

major customers to fulfill their needs and maintain the relationship. The relative price and quality of banking services sold throughout a particular bank alongside customer service determine the volume of sales relative to that of the competitors. Although groups targeted through relationship marketing may be large, accuracy of communication and overall relevancy to the customer remains higher than that of direct marketing (Al-alak and Alnawas, 2010).

The purpose of this master's thesis is to demonstrate that creating and maintaining long-term relationships with customers is of crucial significance for strategic development and outstanding performance of a certain company, especially today when the competition is fierce and the market is saturated with many companies trying to acquire a piece of the market share. Competitive advantage is not only achieved by offering superior products and services, but by taking a personal care and devotion to certain customers as well as adapting marketing mix to some of their specific needs. More specifically, the main goal of this master's thesis is to elaborate how relationship marketing is an effective retention strategy adopted by banks in order to keep the existing customers and attract new ones.

The company in focus for this research is NLB Banka, one of the largest and most profitable banks in Macedonia. The banking sector in the country at this particular time is one of the most developed sectors, especially in the past decade. Thus, the market is comprised of couple of large banks with significant market share, but also with many smaller players constantly trying to acquire more customers and fiercely attacking the competitors' client base by offering them more flexibility and availability.

As most banks offer similar services and there is less and less space for innovation, the competitive advantage is now achieved by creating personal relationships with customers, and by tailoring the products of the bank according to some of their specific needs. This personalized approach provides opportunity for long-term relationship management and significantly lowers the probability for customer defection which is a real threat, as switching banks currently is an action that can be taken without any difficulties and significant penalties. Hence, it is evident why most banks should use more of their resources in retaining existing customers than in acquiring new ones.

NLB Banka has got a department devoted to working with customers of strategic importance for the bank as well as private banking program which is devoted to creating a personalized relationship with some customers offering them more than just banking services, it also includes complete financial advising and management. These actions are undertaken in order to strengthen the image of the bank in the mind-set of the clients and make them loyal customers that will not easily switch to another bank. In addition, by creating such close relationships the bank can offer more products to such customers and

provide them with more benefits individually tailored to fit their needs (NLB Banka, Annual Report).

This thesis begins with introduction followed by the literate review and theoretical grounding of the concepts explored in the thesis, followed by the chapter that explores these concepts within the banks and financial institutions in Macedonia. The usage and practices of relationship marketing and CRM are firstly explored in the entire banking sector, and then specifically in the bank in focus, NLB. The second part of the thesis presents empirical research of the relationship marketing in the Macedonian banking sector using qualitative research methods. Data obtained from the interviews with relevant stakeholders are presented and analyzed. Finally, implications and recommendations for NLB Bank are offered, as well as a framework for future research.

1 RELATIONSHIPMANAGEMENT CONCEPT AND TERMS

1.1 Defining Relationship Management

Customer relation development is a logical continuation on relationship marketing which gained its popularity in 1990 due to focus on the customer relations instead of the previous focus of customer transactions. Relationship marketing was first used by Lenart Berry (Berry, 1983) in his paper, "Relationship marketing".

This theory has made a significant impact on the development of this field since its first introduction. Primarily, relationship marketing was a main interest by well known marketing scientists such as Fournier, Hallowel, Gummeson etc.

The next significant empirical contribution in the field of relationship marketing theory and practice was made when the effects of relationship marketing on customer satisfaction, retention and prices were determined (Crosby and Stephens, 1987). The model, which was developed and tested, proved that the client-agent relations in great scale influence the satisfaction of the clients and ultimately affects the amount of business conducted (Crosby and Stephens, 1987).

Further acknowledgements to this field were the ideas that suggested a focus on organizational behavior. The recognition of organizational behavior importance and its correlation with better marketing and business performance completely changed the perspective of previous customer treatment by the organizations. Reasons for this change of perspective could be found in the popularity of mass marketing and media technology advancements, which defocused the well-established customer-company relations. However this was not a step back to the previous intimacy of the relations with the clients,

but adaptation of the relations aspect to the new dynamic marketing environment (Gronroos, 1990).

Quality customer service has always been of interest of the companies. The aspect of quality customer service as important part of customer relations and relationship marketing is introduced in order to retain customer satisfaction on higher levels (Christopher et al., 1991).

Besides the relations with the customers, relationship marketing also takes into account the relations with all non-customers involved in business process of the companies. This treatment of all relationships involved in business and its influence, in some points promote the modern change into the marketing mix taking into consideration the relationship marketing (Grönroos, 1994).

One of the areas of relationship influence is the brand perception of the consumer. Practically, when a customer establishes high-level relationship with the company or the company's employees, the customer contributes towards a development of a stronger brand image and promotes higher consumer loyalty to the brand. This certainly motivates the companies to work on the communications skills of their employees, as it is a relatively cheap and effective way to achieve stronger brand image and loyalty (Fournier, 1998).

One of the definitions of customer relationship management promotes the need of better understanding of the customer behavior, as a driver for the improvement of the customer relations (Winer, 2001). At the same time, it is constant managers' desire and previously determined interest of the companies to focus on "profitable" customers. The competitors' customers are considered as a target for the search of potentially profitable customers, besides the company's existing customers. In order to implement this kind of strategy and approach it is suggested the usage of cost benefit analysis in order to evaluate whether the desired effect can be accomplished with the planned customer relations management activities (Winer, 2001).

In the global consumption society and massive production there is a barrier between consumers and sellers. One of the solutions is customization of generally standardized products based on different customers' needs. Customization of generally standardized product can be achieved with a very little deviation from the original product or service, just enough to attract or retain the customers to the seller. In this process, the crucial role belong to the technology which must provide the customization of the product, in order to adapt to customer needs (Chen and Popovich, 2003).

One significant aspect of customer relations management is the measurement of the impact from the performed management activities. Without significant effect from the customer

relation activities, there is no logic for further engagement in this process. On the other hand, quality performed measurement can provide support for the performed activities and can suggest the change in certain activities for better performance achievements (Reinartz et al., 2004).

Precise and widely accepted definition of customer relationship management is a problem not just for the managers, which already use customer relations management, but also for marketing scientists and researchers who try to provide support and upgrade in this field. Payne and Frow (Payne and Frow, 2005) define customer relations management as a value creator with the appropriate approach to the customers. Customer relations management integrates IT assets and marketing approaches, in order to support sustainable business performance and generate profit. Besides marketing resources, the usage and optimization of all available resources is needed in order to determine customer needs and create long term values significant to the business (Payne and Frow, 2005).

The complexity of customer relationship is a subject of great interest due to its importance to the sales activities and marketing strategy in general. The customer relations must be built on the solid foundations on trust, information and knowledge. Relationships are also crucial in the intention of customer retention or acquisition, and their building requires skills, and in need of constant relevant knowledge update and upgrade by the theorists and practitioners (Hartmann, 2010).

The modern marketing is often referred as high tech marketing due to the increasing usage of high technology in day-to-day marketing activities. In the center of the high tech marketing activities are the customer needs translated to the seller through the different types of communication channels. For the goal of customization of the buyers' needs, the interactions and communications must be established on high quality level and supported with the help of employees- experts in communication and interaction (Hall, 2011). Hall adds a definition of relationship management, which suggests that the term refers to the management of buyer- seller relations, conducted taking into consideration the consumer from the one side and the employee form the other side. At the same time the term relationship management represents the company's acquisitions and retention activities (Hall, 2011).

After the general definitions and the process of maturation of customer relations concepts, the logical question would be what the next step in contemporary customer relationship management is. The answer is provided by Boulding (Boulding et al., 2005), which suggests that the future of customer relationship management is within the constant transformation and integration of the marketing activities with the latest data management technologies and solutions. With this kind of improvement customized on the desired

organizational forms, the future of customer relationship marketing is secured, and with great perspective (Boulding et al., 2005).

1.2   Customer Acquisition and Retention Strategies

Customer acquisition and retention strategies are integral part of customer relationship management which companies use in order to achieve certain strategic business goals. One of the general definitions of customer acquisition involves all activities taken by the companies in order to attract new customers. The definition of customer retention involves all activities that can result in customer's retention. Starting from this definition, customer acquisition and retention strategies systematically integrate all activities that can provide customer acquisition and retention. Sometimes the right mix of low prices, customized offer, service quality and service optimization can be considered as the good example of acquisition strategies. The customer perspective from all acquisition and retention strategies is that generally all strategies and activities, directly add more value to the service or the product which the customers needs from the company.

As previously stated in the relationship management definition (Hall, 2011), some of the widely accepted elements of relationship management usually are the activities regarding the customer retention and acquisition. Every company on a daily basis practices the acquisition of new customers as a marketing activity. New customers generally provide higher income and profit levels to the company. This process of acquiring new customers regularly increases the costs of operation, and often the cost made do not correlate with the desired profitability (Hall, 2011).

Retention marketing is a part of relationship marketing, which represents the activities performed with the objective to keep the customer. It includes providing all conditions for customers' satisfaction and loyalty with the company. Examples of retention strategies and their implementation are customer care, service improvement, after sales activities, customer loyalty schemes etc. The main retention strategy activities are aimed towards brand image improvement, and customer loyalty rewarding. On the other hand, Hall (Hall, 2011) suggests that sometimes the cost of customer retention is higher than expected and negatively correlates with the profitability. In such cases, careful analysis is required, and even necessary transformation in budgeting is required.

The case of customer acquisition strategy at Bankinter (Martínez-Jerez et al., 2003) suggests that every opportunity of customer communication improvement should be used. Bankiter SA is a Spanish financial institution founded in 1965 and primarily engaged in the banking sector. The experience of Bankinter shows an example of customer acquisition in the period of uncertain business and regulated environment. Bankinter in the period of uncertain future and implementation of e-commerce used acquisition strategies, which

awarded every new customer that uses their online service. The leading role in this acquisition strategy had the aggressive advertisement approach combined with the special offers for the new customers, which in one of the offers suggested rewarding the customers with a share of Bankinter stock. Bankinter was made an internet leader in this banking segment by these acquisition strategies, which is not a guarantee for market leadership.

The evidence for the relationship among brand equity, customer acquisition, profit margin and customer retention is provided by Stahl et al. (2012). It is suggested that dominant and winning marketing strategies are management of customer retention and customer acquisition while all brand-promoting activities have a supporting role in this process. However, the combination of quality brand advertising support for the acquisition and retention strategies is the combination that optimized the business profit margin (Stahl et al., 2012).

The dilemma whether customer acquisition and retention costs could influence negatively the level of the company's profitability and the performance is frequently asked before implementation of customer acquisition or retention strategy. The evidence in favor of customer acquisition is offered by Livne et al., (2011), arguing that properly performed customer acquisition strategy can provide expenses saving and positive impact to the company's profitability. However, the evidence suggests that acquisition costs are not a factor if the company is oriented to create a future company value as strategic orientation. At the same time the evidence proved that customer retention activities as a part of retention strategies have positive impact of the company's general market performance (Livne et al., 2011).

The model and modeling framework for better implementation acquisitions and retention strategies and their performance analysis was proposed by Schweidel et al. (2008). They suggested a usage of simulation for customer targeting and implemented strategies, as a strong support for customer resources allocation. However the implementation of the model based on customer behavior and hazard functions, requires very careful adaptation and consideration. This model must consider the inclusion of all organizational and environmental factors before it can be implemented (Schweidel et al., 2008).

One of the important questions regarding the company's customer acquisition and retention engagement is the timing and the appropriate market setting for the optimal strategy performance. Voss and Voss suggest the customer acquisition strategies in the dynamic and competitive marketing setting, while they suggest retention strategies in the more stable market surrounding. They propose transfer from retention to acquisition oriented strategy in the period of increased market instability (Voss and Voss, 2008).

Voss and Voss offer argument opposing the use of acquisition strategies in the period of rising competition, (2008), they suggest caution regarding the choice of acquisition activities due to possible increase of the financial impact. In times of increased market competition certain possibility of negative effects on revenue and net income from retention strategies exist, which can be neutralized with the implementation of adaptive learning process in the relationship management segment (Voss and Voss, 2008).

The success of the customer retention strategies generally depends of the service or product quality and the level of the customer satisfaction achieved. Communication and interaction feedback from the consumers is rated as important factor in customer retention and acquisition strategies. This subject is of great essence for customer relationship management in order to maintain high level of customer satisfaction or sometimes to correct or change the nonproductive processes or activities in the customer relations (Unnikrishnan and Johnson, 2012). Customer education, communication and empathy are encouraged usually as a strong supportive activity for the acquisition strategies, but sometime are proposed as a quality substitution for acquisition strategies and activities (Unnikrishnan and Johnson, 2012).

Interesting perspective about new marketing setting regarding customers' behavior and needs is offered by Wiliams, who argues that winning strategy towards customer relationship is based on the imperative of customer engagement (as cited by Tripathi, 2014,p.133). This perspective indicates that the previous drivers of good customer relationship in the form of launching wining products, impressive customer care or even low prices, have no significant effect. This practically means that customer engagement performs better in understanding customers and their needs. Therefore, the customer engagement strategy is one of the important factors in brand building and management. However the issue of customer engagement strategy requires careful consideration and solutions (Tripathi, 2014).

Stahl et al. (2012) suggests that profit margin can be achieved only by integration and teamwork performed by brand managers and customer relationship managers. This is a logical follow up of the natural and close relationship of the brand equity and customer live time value. Hence companies should implement these findings in their strategic and operational plans, on the levels which they consider as appropriate to the company and market setting (Stahl et al., 2012).

Gustafsson et al., (2005), suggested that customer satisfaction must be constantly monitored in order to maintain or provide high stability and predictable retention. All retention strategies and programs should target customer satisfaction through the improvements of the products and services offered if the company aims toward profiting from the retention strategies. Targeting customer satisfaction in retention strategies must be

performed simultaneously with the improvement of the company's competitive advantage if they wish to maintain high long term customer retention (Gustafsson et al., 2005).

One of the important questions about the customer acquisition strategies is the cost of the acquisition strategies, and whether that cost will be economically justified or not in long term. Before the implementation of the acquisition strategies all necessary cost- benefit analysis and simulation should be performed in order to absorb all potentially negative aspects of the acquisition strategy. Especially important aspect for the company is whether acquisition of the new customers will cost companies the retention and satisfaction of their regular customers. Negative effect from the acquisition strategy on customer retention and valuation can result in negative financial indicators. Livne et al. (2011), present the case of wireless industry for the period of 1997-2004. Their studies provide empirical evidence that customer acquisition strategies do not bring short term results, and should be implemented on the basis of retention of the regular customers and must be associated with the business strategic values. However, evidence is provided about the high positive effect and high capability of the acquisition strategies on the long run if performed with the proper mix of customer retention and companies' competitiveness strategy (Livne et al., 2011). In addition, they provide evidence that customer acquisition cost is likely to be an important factor in a company's strategy to create value. Specifically, they show that acquisition cost is positively associated with customer retention, future profits and current market values. Importantly, customer acquisition costs are associated with future operating profits, but not with future revenues suggesting that successful investment in customer acquisition is capable of saving future expenses and hence improving profitability (Livne et al., 2011).

The advance usage of data mining techniques and their integration into customer acquisition and retention strategies is suggested by Chitra and Subashini (2011). They suggest higher level of usage of the predictive data mining techniques and customer databases for customers' behavior and satisfaction prediction. Their case is based on the banking industry and the main assumption of the usage of advanced techniques in customer acquisition and retention strategies is the stable IT infrastructure and decision supporting systems. The example of the acquisition and retention strategies of microfinance banks suggest that best results of the programs are achieved when constant monitoring of customer satisfaction is assured in coordination with the company's business performance (Chitra and Subashini, 2011).

Schweidel et al. (2008) estimated customer acquisition and retention model in order to determine the effects for the company in implementation of acquisition and retention strategies. This model offers the assessment of the time length of acquisition of the customers and the time length of retention of the service for the customer, which at the end

provide solid measurement and predictions for the effect of the acquisition and retention strategy implemented (Schweidel et al., 2008).

1.3   Goals of Relationship Marketing

The relationship marketing term generally refers to one-to-one marketing performed by the employees of the company. General definition of the term relationship marketing includes all marketing oriented activities performed during the communication between a customer and a company (Aldisert, 1999).

The important part of the relationship marketing is the constant synchronization of the goals of the relationship marketing with the strategic goals of the company. This is very important because the dynamic relationship with the customer may require some activities within the relationship marketing which are not synchronized with the strategic goals of the company. Therefore, this situation demands synchronization of the goals of relationship marketing, and alignment of the relationship marketing activities with the strategic goals. This is generally the case when strategic goals are well predetermined, and not the in the opposite case when strategic goal are frequently and drastically changed.

Companies are constantly increasing the communication level, indirectly targeting customer satisfaction, customer retention, brand image and awareness. The process of implementation of relationship marketing is complex, starting with goals determination, strategies, operative solutions and detailed plans and directions for the subjects involved (Knox et al., 2007).

The process of creating, setting and achieving the goals in the case of relationship marketing is not a one-time process. Relationship marketing has got dynamic aspects which do not allow one time goals or static solutions implemented in relationship marketing strategy. One of the dynamic aspects of the relationship marketing is the changing customers' needs. Relationship marketing, besides transferring the marketing message from the company, receives the signals from the customers and the market. Hence, the relationship marketing must constantly adjust the goals and the market communications in order to absorb all the negative effects for the company, to transform the negative influence in positive and constantly present the positive marketing message for the business values (Oly Ndubisi, 2007).

Brand, brand image and brand awareness have got very important role in relationship marketing performed by the company. The communication with customers within the relationship marketing activities is included in the customer retention goals, and targets the brand image and brand awareness of the customers (Winer, 2001).

Another important aspect within the relationship marketing and one of its goals is the brand relationship quality. This aspect refers to the communication with the customers and includes the aspect of the brand image and the quality of brand perception. Brand relationship quality within the marketing activities should be maintained at high levels, which will contribute to high customer retention, and it will help in acquisition strategies with better brand recognition.

The goals of relationship marketing may differ depending of the company's size, market position, strategic goals, business values and current sales and marketing strategies. The most common relationship marketing goals are customer trust level, communication level and customer needs perception (Winer, 2001).

Customer trust level as a goal for the relationship marketing must be set very carefully, and all activities intended for the goal achievement must be planned very carefully as well. Having in mind that customer trust is the key of the company's business values and relationship with the customer, very intensive preparation is necessary for achieving this goal. One of the most desirable preparations is the phase of continuous valuation of the customer trust level. Therefore, only the precise and accurate assessment of the customer trust levels can lead to proper activities for this goal's achievement (Stewart, 2000).

Another goal with high significance for the relationship marketing is a proper valuation of the customer needs perception. Having in mind the dynamic marketing environment and constantly changing consumer society, the customer needs perception is one of the priorities of the marketing activities for the company. With properly valuating the customer needs in the preparing phases, and later with the correct setting of the customer needs perception within the relationship marketing, the company can deliver a proper combination of activities for the long term customer retention and acquisition strategies (Radu, 2013).

The question of successful implementation and performance of the relationship marketing is closely connected with the factors influencing the relationship marketing. As factors for the successful relationship marketing in general can be considered: proper goals selection, quality of the relationship marketing strategy, experience of the company with the relationship marketing, resources available for the relationship marketing, company's competitive advantage, company's market position, competitors relationship marketing etc. Quality of the current relationship marketing strategy is important for the company from the perspective of the solutions offered for relationship marketing goal achievement. Relationship marketing should always be implemented from most experienced and proven professionals in the relationship and communication field. Improvisation and wrong steps and activities during implementing relationship marketing can cost the company loss of the

relationship level with its customers, and also send the wrong message to all stakeholders about the company's business values.

Another key factor for the success of the relationship marketing is the resources available for the implementation of the relationship marketing. For some companies the main communication and relationship with the customers is performed by the employees. In other cases besides the customer - employees' communication, other form of communication is used within the relationship marketing activities. In most cases, different marketing communications can be used as a support for the relationship marketing, in the form of advertisements and additional marketing promotions. However, besides the question of the quantity of the resources available, more important is the question of the quality of the resources managed within the relationship marketing (Gummesson, 2011).

Company's business competitive advantage and company's market position have significant influence in many stages of the relationship marketing. It is always easier for companies to implement relationship marketing if they have massive client database or strong market positions. The general conclusion regarding the goals of the relationship marketing and the factors influencing it, is that a better perception of needs, goals and factors will only lead to better goals achievement (Payne and Frow, 2005).

The best results of implementation of relationship marketing are found in situations of strategy focused to a particular aspect of the relationship with the customers for example, trust improvement, communication improvement etc. In such cases of well-targeted relationship marketing, the goals are more likely to be achieved in terms of desired relationship level. Also, significant impact from strong relationships, generated from relationship marketing activities is noted in the area of services offerings, and much less impact of the relationship marketing in the case of products offers (Lendel and Varmus, 2015).

2 RELATIONSHIP MANAGEMENT IN BANKS AND FINANCIAL INSTITUTIONS

2.1 Relationship Marketing in the Banking Sector

The last global financial crisis made incredible impact of the banking sector globally and locally and made changes about how the business of the banks was conducted. The main driver for this change is the level of risk banks are willing to take. Too much risk afforded by the banks in their business decisions led to the massive amount of non- performing loans and collaterals, which could not support the loans risks. After the global crisis nothing is the same as it was before in the banking sector, and that does not refer only to

risk. The customer and market treatment by the banks changed and some new processes were introduced in the banks' marketing, especially in the case of relationship marketing.

In the banking sector, there is some inefficiency in meeting existing market demand, but the main purpose of any bank is to ensure the best response to the customers' demand, achieving customer satisfaction which leads to increase in bank profits. In a hypercompetitive economy customers are subjected to a multitude of offers, which is why all banks must promote high values. Value is added to the product, but also to the customer service. A high degree of satisfaction creates an emotional affinity with the brand, not just a rational preference (Dawson, 2000).

The growth of commercial banks is contingent upon effective response to the changing demands of their customers. Corporate customers increasingly consider many factors in their buying decisions, including the quality of the relationship manager, the on-boarding experience and the technical ability to deliver products and services using effective integrated customer data management tools (Day, 2013).

The relative price and quality of banking services sold by a particular bank alongside customer service determine the volume of sales relative to that of the competitors. Although groups targeted through relationship marketing may be large, accuracy of communication and overall relevance to the customer remains higher than that of direct marketing (Al-alak and Alnawas, 2010).

Winning banks will excel at these aspects of the customer relationship, and will continue to grow alongside with their customers. The quality of the commercial banker or relationship manager is a key factor. Rather than a simple sales relationship, customers value a consultative approach. They give their business to relationship managers who display a deep understanding of their industry and financial challenges and who can provide a range of appropriate, value-added solutions. The effectiveness of the relationship manager is further enhanced by the ease of the approval and on-boarding experience. Customer research shows that this experience shapes a customer's perception of the bank for years to come. Issues at the start of a relationship can linger into customers' mind well into the future (Alnsour, 2013).

The crucial change for the banks' relationship with the customers was that banks decided that a number of customers that were not profitable must be minimized in the customer database and that all measures should be taken to activate the collaterals. The nearly same stance was taken for the customers with the low level of profitability, and of course the intention was the retention of the customers with the high levels of the profitability. This policy changes required more intensive relationship marketing, acquisition and retention strategies than previously applied (Zeithaml et al., 2001).

In order to improve the performance of the relationship marketing, acquisition and retention strategies in the banks, it was necessary to apply all the latest achievement in the field. Therefore, the usage of the latest informational technology and customer databases analysis must be engaged in the process. Some of the tools used are predictive analytics, data mining techniques, customer data and behavior analysis (Siegel, 2013). Due to the previous massive usage of the operational informational systems and data bases, as well as the implementation of the electronic banking services, it was relatively easy for the banks to upgrade their relationship marketing with the latest modern information technology.

Banking market became more competitive and all banks tended to target the customers which provide profits in the long run. In this situation, a change of the complete marketing strategy was needed, not just the part of the relationship marketing. The situation of lost trust of customers in the banks' credential and bad publicity run in the media needed another path for communicating the marketing activities. Besides the reputation targeted marketing activities, the base for the marketing activities was implementation of more intense relationship marketing activities that are targeting customer trust and satisfaction (Mukherjee and Nath, 2003). Thus most of the activities within the relationship marketing, as well as the retention and acquisition strategies, used the brand image and customers loyalty programs.

The bank's business activities have specific characteristics of the customer – company relationship. They are based on the customers' trust in the bank's credential to keep customers' cash and deposits safe, and in return to pay certain fee. In this type of relationship if the trust is changed and decreases, it is very likely that the customers will move their business to another bank. In this situation relationship marketing is of essential importance for the bank's business.

The relationship marketing implemented by the banks, until the start of the global financial crisis primarily gave priority to product and service quality (Krasnikov, 2008). As it was previously suggested the whole concept of the relationship marketing in banks changed and naturally other priorities were in put place. With these new priorities relationship marketing included completely new activities, elements and characteristics.

Some of the new elements in the modern approach of relationship marketing implemented in the banking sector are considered one to one marketing, customers' personal approach, improvement of the customer care, more influential usage of call centers, communication accuracy, customers' consultative approach, user friendly electronic banking software, wider use of personal bankers approach, customized product and services (Boot, 2000).
One to one marketing in the modern banking marketing is with paramount importance. This practically suggests the use of one to one marketing which was used in some of the early stages of the banking market development, when the banks' employees knew the

banks' customers even personally. One to one marketing has changed significantly from that time, and the main difference is that the customers are connected with the banks' brand and not to the banks' employees. However, the communication with the customers in modern one to one marketing attempts to simulate the previous close personal connection between the banks' employees and customers (Gillenson et al., 1999).

Personal approach to the banks' customers increased significantly as a part of the relationship marketing in the banking sector. The goal of the increased personal approach performed by the banks' marketing divisions is to increase the customer trust and satisfaction, but also to obtain the relevant information for the customer needs perception and satisfaction level. This information is crucial for the creation of successful retention and acquisition strategies (Sureshchandar et al., 2002).

Another characteristic of the modern relationship marketing in the banking market is the wider use of call centers at almost all large and medium sized banks. The new contemporary use of the banks' call centers is not only for billing services and sales promotion, but also for customer complaints and customer support. The improvement of the customer support is required because of the complex products and services as a response to the market demand (Dean, 2002).

Communication accuracy as a part of the relationship marketing brings attention to the quality of information transferred. Unclear messages results in unclear customer understanding of the products and services which lowers the customer satisfaction level and results in the customer's acquisition by another bank. Thus, nowadays the communication accuracy in the banks' relationship marketing and management mix is not just a correct transfer of the sales message, but also a more sophisticated instrument for acquisition and retention strategies (Oly Ndubisi, 2007).

Customers' consultative approach instead of the classic sales approach is one of the orientations that banks are implementing as part of relationship marketing strategy. The bank offers the customer consultation by the employees and presents several possibilities within the bank's product and service portfolio which may constitute a better business proposal. Consultative approach contributes to long term customers' satisfaction with the bank's products and services, closely monitors customer demands and directs them to the customized offer prepared by the bank (Alnsour, 2013).

Customized products and services imply that the bank products and services are tailored according to the customers' needs, always having in mind the competitor's offers. The logic and the ultimate goal of this relationship marketing activity is to have bigger customer database and more satisfied and profitable customers. Fortunately with the modern informational technology infrastructure and with the right relationship marketing

strategy, positive results can be relatively easily achieved, in comparison with the past when customization of the products and services of the large group of customers was unthinkable. The usage of advanced data mining and predictive behavior analytics techniques promoted the possibility of massive customized product and services offers. The advanced usage of customer data with these techniques made possible the integration of customized offers (Aldisert, 1999).

Constantly upgraded and more user friendly electronic banking software is one of the elements of the relationship marketing in order to support and meet the customers' needs for the electronics services and products. With such actions banks lower their expenses for premises and employees and closely monitor patterns of customer, which can additionally be used for the improvement of the marketing performance(Gillenson et al., 1999).

2.2 Macedonian Banking Sector

The relevant analyses for the Macedonian banking sector refer to the time period after the country's declaration of independence in 1991. The main challenges in those turbulent times were liquidity of the banking sector, confidence of the customers and quality support for finance and economic systems. The measures in this phase of banking system development were focused on banking legislation, improvements of the regulatory and supervisory function of the national bank, transformation and privatization of the banks etc.

The development continued with focusing on the competition conditions and performance improvement of the banking sector in general. Measures in this phase included bigger supervisory engagement of the national bank. In some cases the national bank recommended and insisted on ownership transformation.

Latest challenges regarding the banking sector were restrictions due to the global economic and financial crisis. Measures from the national bank regarding the crises restriction are focused on constant liquidity and profitability supervision, and insisting on strict implementation of Basel standards from every bank.

Macedonian banking sector in 2017 included 15 banks, which are under the classification of the national bank categorized in three groups. The classification is officially used by the national bank for the purpose of better analytics, comparison and supervisory functions. Banks are grouped by assets registered at the end of every year (as of 31.12.) as following:
- Group of large banks (assets larger than 32,1 billion denars)
- Group of medium banks (assets between 8 and 32,1 billion denars)
- Group of small banks (assets less than 8 billion denars)

Figure1: List of Banks Classified by the Assets Size

Group of large banks (assets larger than 32,1 billion denars on 31.12.2016)	Group of medium banks (assets between 8 and 32,1 billion denars on 31.12.2016)	Group of small banks (assets less than 8 billion denars on 31.12.2016)
1. Komercijalna banka AD Skopje	1. Prokredit banka AD Skopje	1. TTK banka AD Skopje
2. Stopanska banka AD Skopje	2. Sparkasse banka AD Skopje	2. Silk Road banka AD Skopje
3. NLB Banka AD Skopje	3. Makedonska banka za podrshka na razvojot AD Skopje	3. Kapital banka AD Skopje
4. Ohridska banka AD Ohrid 5. Halk banka AD Skopje	4. Univerzalna investiciona banka AD Skopje	
	5. Stopanska banka AD Bitola	
	6. Eurostandard banka AD Skopje	
	7. Centralna kooperativna banka AD Skopje	

Source: National bank of the Republic of Macedonia (NBRM)

Figure 1 represents the list of five large, seven medium and three small banks which generally represents the participants and the competitors on the banking market. The banking market also includes three saving houses which do not have significant impact on the credit or deposit market, and will not be taken into consideration in the further market analysis.

Macedonian banking sector is often characterized as traditional due to domination of the traditional banking activities. Investment banking practiced in developed countries is not allowed under current law framework.

Banking market in Republic of Macedonia generally follows the global trend of differentiation of products and prices. In order to raise their competitiveness, banks constantly implement and use new technologies. The usage of technology improvements contributes to increased customer acquisition, satisfaction and profitability, and it is generally utilized by all banks in the sector, however, the scope differs according to the resources on their disposal.

The share of foreign capital generally indicates the confidence of foreign investors and foreign business partners in the local banks. Foreign capital in banks also can provide stable capital support for the local banks when is required by certain business activities.

Table 1: Average Share of Foreign Capital in Total Capital per Bank Segment for Period 2010 – 2016 Invested for 31.12.2010-31.12.2016

Group/period	Large banks	Medium banks	Small banks	Banking sector average
31.12.2010	79.70%	68.60%	70.00%	72.90%
31.12.2011	79.40%	61.50%	89.40%	74.70%
31.12.2012	78.10%	69.00%	87.00%	75.20%
31.12.2013	77.60%	74.00%	74.70%	75.20%
31.12.2014	76.30%	76.30%	75.70%	76.20%
31.12.2015	75.00%	76.13%	69.81%	74.84%
31.12.2016	81.55%	67.48%	69.73%	75.05%

Source: National bank of the Republic of Macedonia (NBRM)

Table 1 indicates relative large proportion of foreign capital invested in Macedonian banks. For the groups of large banks, the data for the period of 2010-2016 indicates the 1.85% increase of the share of the foreign capital. The value for medium banks indicates that the share of the foreign capital is 1.12% smaller than the starting value in 2010. For the small banks the data also indicates 0.3% decrease in 2016 relative to 2010. On average a share of the foreign capital in the banking sector has increased for 2.15% in the period from 2010 to 2016. General conclusion is that foreign capital share generally is increasing in large banks, while the domestic capital support increases in medium and small banks.

Another important indicator of the performance of banking sector is net income. Generally the time series data offer good overview of the banks' performance, and allows quality comparison between the periods and in this case between the groups of banks and the averages for banking sector.

Data in Table 2 indicates the great contribution of the large banks in the profitability of banking sector in the years 2010-2012. A large decrease in the years 2013-2014 is noted for the as profitability of the large banks fell to 73.3% in 2013 and 79.8% in 2014. The percent for 2015 is 79.17% and for 2016 is 87.04%. The opposite is noted for the group of

medium banks. Their results show negative values in 2010 and 2011, while in the years of 2012, 2013 and 2014 they achieved participation in total banking system profitability of 14.4%, 28.7% and 23.2% respectively. In 2016 their contribution to profitability again fell to 11.48%. Negative income indicators within the group of small banks are noted for the whole observed period with the exception of 2016. The largest negative values were achieved in 2011 with the loss of 205 million denars, and in 2012 with the loss of 735 million denars.

Table 2: Net Income of Macedonian Banks Sector in mil. MKD
and as a Percent of Total Sector Income

Period / Group	Large banks		Medium banks		Small banks		Banking sector	
31.12.2010	116.50%	2,688	-15.30%	-354	-1.20%	-27	2,307	100.00%
31.12.2011	201.70%	2,386	-84.30%	-998	-17.40%	-205	1,183	100.00%
31.12.2012	135.90%	1,985	14.50%	211	-50.30%	-735	1,461	100.00%
31.12.2013	73.30%	1,694	28.80%	665	-2.10%	-48	2,311	100.00%
31.12.2014	79.80%	2,513	23.20%	731	-3.00%	-94	3,149	100.00%
31.12.2015	79.17%	3,673	21.16%	981	-0.33%	-15	4,639	100.00%
31.12.2016	87.04%	5,505	11.48%	726	1.48%	93	6,325	100.00%

Source: National bank of the Republic of Macedonia (NBRM)

In every banking sector the deposits play a significant role. Deposits in general provide the essential resource for the credit portfolio activities. Larger and high quality deposit portfolio offers good conditions for high profitability performance.

Table 3 shows the domination of large banks in the deposits sector structure, terms and currency structure. The proportions of deposit held by large banks vary from 60-80% in all categories. The participation of small banks deposits in the total sector deposit is under 5% percent, with the exception of denars deposits with currency clause.

Table 3: Dispersion of Deposits Within the Group of Banks by Structure as of 31.12.2016

Structure of deposits		Large banks	Medium banks	Small banks	Total
Sectoral structure	Nonfinancial companies	76.89%	19.29%	3.82%	100.00%
	Households	79.89%	16.90%	3.20%	100.00%
	Other clients	75.86%	17.33%	6.81%	100.00%
Terms structure	Sight	78.00%	18.37%	3.63%	100.00%
	Short-term	84.27%	12.76%	2.97%	100.00%
	Long-term	74.51%	21.62%	3.87%	100.00%
Currency structure	MKD	78.16%	17.91%	3.93%	100.00%
	MKD with foreign currency clause	61.45%	21.32%	17.23%	100.00%
	Foreign currency clause	79.96%	17.15%	2.89%	100.00%

Source: National bank of the Republic of Macedonia (NBRM)

The large banks have a large proportion in deposit structure with the amount of 75-85% suggesting a significant assets base for loan portfolio. The medium banks have significantly smaller deposit base than the large banks, and the small banks have the smallest deposit base. The small deposit base of medium and small banks limits the capability of these banks in the creation of loans.

Banks' loans generate the most important income. The interest income generated from the credit portfolio is one of the most important indicators in companies' income statements. The interest income presented by the banks' reports always comes at the price of interest expense and affects total profit margin. The quality of credit portfolio and the level of loans impairments should always be taken into consideration in detailed banks' performance analysis.

Table 4 shows the domination of large banks in the loans sector structure, terms and currency structure. The participation of loans provided by large banks varies from 60-90% in all categories which indicates the importance of the large banks for the banking sector.

The recovery of the global and domestic economy had a significant impact on the banking sector, which directly affected the growth of the deposit base. The current goals for the banking sector are: growth of the deposit base, individual and corporate segment preferring the local currency, continuous credit growth, maintaining high liquidity of the banks, efficiency resulting in the reduction of the interest expenses, sustainable level of profitability (National Bank of RM Annual report on the banking system of the Republic of Macedonia for 2016, available online).

Data shows that the group of large banks has a leading role in Macedonian banking market. Performance indicators for large banks, suggest that large banks effectively use the advantage of economies of scale, and manage their resources efficiently. Relatively poor market performance of small banks suggests that further mergers and acquisitions in the segment of small banks are advisable. The increased banks' competitiveness and profitability in the segment of medium banks do not preclude M&A activities, but they have lower probability than in the small banks segment.

Table 4: Dispersion of Loans within the Group of Banks by Structure

Structure of loans		Large banks	Medium banks	Small banks	Total
Sectoral structure	Nonfinancial companies	74.37%	22.40%	3.24%	100.00%
	Households	79.21%	17.17%	3.62%	100.00%
	Other clients	86.85%	12.55%	0.60%	100.00%
Terms structure	Short-term	74.82%	22.19%	2.99%	100.00%
	Long-term	76.26%	20.38%	3.36%	100.00%
	Matured	87.73%	8.85%	3.41%	100.00%
	Non-performing	84.77%	10.44%	4.78%	100.00%
Currency structure	MKD	77.99%	18.27%	3.74%	100.00%
	MKD with foreign currency clause	84.97%	12.89%	2.15%	100.00%
	Foreign currency clause	60.25%	35.61%	4.13%	100.00%

Source: National bank of the Republic of Macedonia (NBRM)

Furthermore, medium banks can improve their market position and profitability not only by mergers and acquisitions but also by implementing better customer relationship management which will result in attracting and sustaining high value customers.

2.3 The Case of NLB Bank

NLB bank is the third largest bank in the Republic of Macedonia. Based on business results NLB Bank can be classified as one of the leading banking institutions in the Republic of Macedonia and also one of the leading corporations in the country. The general trend of constant growth and profitability is maintained since its foundation. The bank was established in 1985 and after 1993 it starts to operate as a universal bank which provides all types of banking services for domestic and international customers. The Bank has been a member of the NLB Group since 2000, and the owner of the bank is Nova Ljubljanska Bank d.d. Ljubljana with 86.97% of the shares of the Bank's total capital. This investment and partnership were crucial and showed to be the winning formula for the banks' further business success (NLB, 2017).

The success story of NLB bank as one of the most successful banks within NLB Group is based on its established corporate culture, with the quality support and well-timed implementation of modern information technology. Other business strengths can be found in high skilled professional personnel and flexible and innovative market strategy. Another comparative advantage and strategic commitment of NLB bank is the constant financial support for the small and medium enterprises in the Republic of Macedonia. The business network consists of 54 branches, with more than 800 employees (NLB, 2017).

Awards and tributes as recognition for the NLB bank business achievements are numerous. One of the most important is the Macedonian bank of the year award for 2003, 2006- 2009, 2013, 2014 and 2016 from "The Banker" magazine. Another important award is from the "Finance Central Europe" for the highest profitability in Macedonia for 2002-2004, and 2006, and for the best bank indicated by the value of ROE for the year 2005. Another significant recognition came from "Euromoney" award for NLB bank as the best bank in Macedonia for the year 2012.

The bank's product portfolio includes credit offers to individuals, companies and corporate clients. The business activities of NLB bank include all activities connected with business payment transactions, payment cards, E-banking and securities services etc. Following the trend of e- banking NLB bank constantly improves the bank capacity of e- services and in the same time tries to extend e-products and services quality and portfolio. The improvements of e-services regarding the offer to individuals are presented with functionalities of Mini klik, NLBToken, MToken and Mklik products. E-banking product

which targeted the companies were: NLBProklik (Pro klik email, Pro klik info, Pro klik mini, Pro klikmaksi) and FX Client.

The modern business strategies require constant investment in the bank's operational systems that are expected to provide further growth, competitiveness and market share in various segments. Successful implementation of long-term growth strategy for further development and increased market share in the Republic of Macedonia can only be achieved with constant product and services improvements, alongside with investments in information technology. Business performance of NLB Bank is also determined by continuous investment in its branch network. Every one of their branches functions as a small bank and can provide all products and services from the bank's portfolio.

Another part of the long term business strategy is the new loan offers for companies investing in energy efficiency and renewable energy sources. Additional funds for SME projects in the field of agricultural products were provided and made available to all interested companies. Permanent general business and development goals of NLB bank are and remained to be: the standardization and harmonization with the NLB Group, maintaining the high level of risk, collateral and human resources management.

General financial indicators indicate the financial condition of the company observed. In this case the data for the period of 2012-2016 should provide the preview for the financial performance of NLB Bank (NLB Bank Annual and financial reports, Available online).

Table 5: General Financial Indicators for NLB Bank (data in 000 MKD and in %)

Year	2012	2013	2014	2015	2016
Total revenue from operation	4.711.400	4.404.740	4.528.114	4.671.221	4.956.036
Net profit	500.024	625.337	672.641	831.951	1.579.295
Equity	5.523.100	6.394.514	6.924.338	7.227.995	8.247.122
Total liabilities	53.982.495	53.388.091	57.983.021	62.071.767	63.396.224
Total assets	59.505.625	59.782.605	64.907.359	69.299.762	71.643.346

Source: Macedonian security exchange

The data from Table 5 shows the positive trend for almost all indicators. The exception of this situation is the value of total revenue from operations in 2013. However the decrease in total revenue from operations in 2013 did not affect the values of net profit. This situation shows the management capacity to adapt to a lower level of revenues, to introduce higher level of efficiency when needed which resulted in even higher level of profitability. All other indicators for the period 2012-2016 like equity, total liability and assets support the increases in profitability for the observed period. General conclusion is that within the period 2012-2013, higher level of productivity was introduces alongside with increased efficiency, which presented the NLB Bank as even more competitive player in the banking market in the following years.

Some of the financial ratios presented in the financial reports offer a better insight of the financial condition and financial relations within the company's business. The financial indicators are presented to all stakeholders in order to be used in decision making process. Financial ratios such as ROA, ROE, net interest income related to average interest assets and average gross assets are more relevant in the terms of efficiency and productivity analysis.

Table 6: Comparison of Financial Indicators for NLB Bank and
Macedonian Banking Sector (2012-2016 data in% and mil. MKD)

	2012	2013	2014	2015	2016
ROA of the Macedonian banking sector	0.40%	0.60%	0.80%	1.13%	1.46%
ROA of NLB Bank	0.84%	1.05%	1.04%	1.20%	1.04%
ROE of the Macedonian banking sector	3.80%	5.70%	7.40%	10.40%	13.59%
ROE of the NLB Bank	9.05%	9.78%	9.71%	11.51%	9.71%
Income after taxation in mil. MKD of the Macedonian banking sector	1,461.00	2,311.00	3,149.00	4,639.49	6,324.71
Income after taxation in mil. MKD of the NLB Bank	500	625.3	672.6	832	1579.3
Income of the NLB Bank/ /Income of the banking sector	0.34	0.27	0.21	0.18	0.25

Source: Annual financial stability report 2016-NBRM, Macedonian security exchange.

Values of ROA and ROE for the NLB Bank present the high level of profitability regarding the values of assets and equity. These values also present an increasing trend for the period 2012-2016. In the case for ROA the table shows the starting values of 0.84% in 2012 and 1.04% in 2016. Highest profitability rate represented by ROA is registered in 2015 with the value of 1.20%. Starting value in the case of ROE indicator is 9.05% registered in 2012 while the value of ROE in the 2016 is 9.71%. The highest value of profitability measured by ROE is in 2015 with the value of 11.51%.

As shown in the Table 6 the ROA and ROE for NLB Bank are significantly above the values for Macedonian banking sector. The values of Income after taxation for NLB Bank and Macedonian banking sector present the positive trend and high values for the observed period 2012-2016, suggesting that the NLB Bank follows the profitability trend of Macedonian banking sector.

Marketing strategy of NLB Bank has two main objectives. The first one is the continuous improvement of brand image achieved through different type of marketing activities. The second objective is to support customer acquisition strategies and customer data base growth. The second objective requires focusing on relationship marketing, and retail product and services marketing. Relationship marketing is very important part of marketing strategy and activities, and it is based on maintaining customers' loyalty and partnership programs. Continuous brand image activities as a part of companies' marketing engagement should strengthen the level of customers' confidence. Separate marketing activities are promoting the expansion of e-banking services, as a future more efficient distribution of services to the customers. In this part the activities include bank's commitment to invest in new information technologies in all operational capacities, in order to bring modern and more efficient banking services to the customers.

From the analysis presented above it is evident that NLB Banka's strategic goal to be a leading financial institution in the Republic of Macedonia has been achieved in recent years. High profitability is a direct result of the bank's top management determination to make profit at a reasonable risk, constantly insisting on effective business practices.

2.4 Relationship Management and Customer Acquisition and Retention Strategies in NLB bank

NLB Bank has always strived to build and maintain solid relationships with its customers. Consequently, the customers have always recognized the bank as an institution that takes care of their needs. The principles of this behavior are deeply embedded in the organizational culture and in the mindset of the employees. The employees are regularly trained and educated to build and maintain relationship with the customers and are expected to practice their knowledge in every day working environment. It goes without

saying that all of the customers are treated kindly and respectfully regardless of their demand or the status that they have in the bank. Conflict is avoided in any situation and at any cost, since the bank recognizes the importance of retaining existing customers.

The relationship with the customers is one of the pillars of the success of the bank, thus it is imperative to treat every customer with utmost respect and interest towards their needs. The bank has invested significant resources in building a network of branches that are fully equipped to service all customer needs. There are 54 branches of the bank set in convenient locations throughout the country with employees trained to answer and attend to every customer enquiry, as well as high performance 24/7 contact center available to the customers via phone. Thus, customers have the bank on disposal at any time and any place. As a result of such operations and investments the bank is able to attract many new customers and retain the existing one by building a brand name associated with excellent customer care. When combined with the type and quality of banking services provided, it is evident that the bank enjoys a favorable position on the market and trust among many clients. The spectrum of banking services provided by NLB Bank is wide, combining modern banking services with the traditional ones that fit every customer need currently identified on the market (NLB, 2016).

2.4.1 Customer acquisition strategies in NLB Bank

In order to attract new customers, the bank has regularly scheduled sales promotions designed to have quick response from the target audience. In such manner the bank can quickly attract many new customers and expand its customer database. Sales targets are regularly assigned and strictly adhered to, and cross sales is a must in every transaction. The performance of the employees engaged in customer relationship is measured according to these sales targets. In addition, the bank regularly expands its product portfolio to keep up with the market changes and the needs of customers. Hence, customers are able to choose from the many products and services offered and never have a have to go to another bank. These strategies result in quick acquisition of new customers, but this is a case of the traditional transactional marketing where the focus is on the sales itself, not on building lasting relationships with the customers, or relational marketing (Smith, 2011).

This, according to Ciotti (2016) can be defined as marketing to new customers performed through sales, whereas the relationship marketing is the marketing to current customers that creates lifetime values, which are the basis for good relationship management. Thus, although the bank is quite successful in creating and executing acquisition strategies, and by doing so to quickly increase the customer database, the focus has to be shifted into creating more meaningful and lasting relationship with customer that will stand the test of time and will be less sensitive to price changes since the customers will look for value in those relationships. According to Jao (2013) customer retention should always outweigh

customer acquisition. Acquisition is less profitable in the long run than retention because in the long run the costs of serving loyal customers decrease as the volume of the purchase increase and because it is easier to sell products to existing customer than to try to sell it to new ones.

2.4.2 Customer retention strategies and private banking program in NLB Bank

The foundation of building lasting relationships with the customers can be observed in the private banking program implemented as a retention strategy. It was the first step taken into creating more valuable relationships with customers upon which later on profits can be increased. This program bears all principles upon which the relationship marketing is based on. However, as explained further on, this program is intended only for a particular segment of the customer database, it does not represent the whole retention strategy and relationship management strategy of the bank.

Customers of significant importance are selected and included in the program and the relationship with them is developed and maintained in a more attentive and structured manner. Private banking programs at this time are only available in NLB Bank in Macedonia. Other banks have some unstructured programs and strategies for treatment of more important clients, however, none of them has a program that is developed and functioning as the one NLB Bank has. This is yet another proof that the bank is devoted to having satisfied customers, as a condition to success and profitability.

Private banking represents one of the key elements of a successful cooperation with a segment of customers that need more banking services and attention. Private banking customers have higher income than other customers, which is one of the criteria for getting into the program. The other criterion is based on the status of the clients. The customers chosen based on their incomes have to have a predefined minimum of monthly incomes in order to use the private banking service. In addition, customers with high deposits in the bank can also use the service, as well as customers with large loans in the bank, customers who have significant incomes in foreign currency on their accounts and managers and owners of successful small and medium sized companies in the country.

The second criterion is based on the status of the customers in the society, thus managers of large companies, lawyers, university professors, politicians, diplomats doctors and people involved in the public scene are all potential customers for the private banking service. Some customers fulfill more than one criterion, but a minimum of one is required in order to use this service. The overall socio – demographic profile of such customers include ones that are important in the business environment, medicine, advocatory, culture science and politics, entrepreneurs, owners of profitable companies, CEOs, non – residents working in the country as diplomats or managers of foreign companies and in general

people with higher income and wealth regardless of the source (monthly income or other sources). The number of these customers is small compared with the overall customer base, but they are more valuable to the bank because they use more products and need more of the banking services than other customers. Henceforth the bank offers a preferential treatment for these customers including a private banker and special package offers including a status of golden account in the bank, a black card issued by the bank by which these customers and distinguished from the others, a lot of benefits in taking loans or investing in deposits, as well as any type of banking service that they might require. When presented a black card in any branch of the bank, the customer gets a preferential treatment by any employee. The most important part of the package is the private banker that is assigned to each customer and who is responsible for every aspect of the working of the customer, most importantly for building and maintaining a long-term relationship profitable for both sides.

Private banking is not based just on performing regular banking services for a customer but demands an active participatory role of every private banker in the sales, promotion of services and advisory roles with more complicated situations. Thus, the intensive and systematic following of the customers as well as their needs and demands is highly necessary. Developing the relationship with customers is a long-term process built on mutual trust. In order to retain the customers and attract new ones the bank recognizes the significance of the satisfaction with the service and of responding to any request quickly. In order to increase customer satisfaction, the attention has to be aimed towards increasing the level of trust and loyalty that exists in the customer base.

The core value and essence of the private banking program is most evident through the private banker. The private banker has significant expertise in all banking services. He or she creates and maintains partner – like relationship with customers and presents the bank as a reliable counselor for any kind of financial service needed. The bankers always emphasize that a full financial advisory and management is provided. The private banker has to be well acquainted with the customers and to maintain regular contact with every single one of them at least twice a year, even if they do not need any type of service at the time, in order to remind them that the bank and the banker are always there for them, and in such manner increase the level of trust and commitment.

The intensity of the communication between the banker and the customer is guided by the customer's needs and demands, thus all customers can be divided into three groups. The first group is consisted of the highest demanding customers who expect long-term cooperation with the bank. They are well informed about all products and services that the bank offers, even in the area of investment banking and expect their private banker to devote them enough time for every financial decision that they make, thus the private banker is in regular contact with them, with some of them on a daily basis. These

customers are usually more inclined to risk. The second group is less demanding than the first one, and usually delegate the simpler everyday financial services to their private banker. They are less inclined to take risk than the first category.

The third group is consisted of customers who very rarely use the service, thus the private banker has to maintain regular contact with them even if it doesn't involve transactions, just to remind them that the bank and the private banker are always there for them. Also, the private banker contacts all customers for their birthdays over the phone, via email and with a birthday card sent through post office. The bankers send regards to them even for other significant days such a promotion, marriage, birth of a child and similar. In such manner the banker tells the customer that the bank takes care of them and shares their joys and achievements. Also, it creates a more personal communication between the customer and the bankers, which is very essential for the long-term relationship that both sides maintain.

The private banker keeps a record of every transaction made with the customer but also of every conversation made that can reveal more of the customer and the lifestyle that he/she has. This point is very important because the more the banker knows about the customer the easier it will be to present him/her new products and services, as well as products and services tailored to their specific needs. In case the private banker is absent from work, the customers are taken over by another private banker, or by the branch manager. The private banker sends timely notification for his/her absence to all customers as well as contacts from the person who will be a replacement during the period of absence. Most of the time, the private bankers insist on previously scheduled visits, as to avoid any queuing and provide the customer with the sense that he/she does not wait to be serviced in the bank. It also gives the private banker an opportunity to refresh the information on the customer and the possible changes in his/her financial situation based on the data from the bank and in such manner be prepared to offer the customer more tailored products and services. The customers are usually far more satisfied with the service when the private banker is well prepared for the visit in advance. Of course, non-scheduled visits are also always welcomed, and the private banker attends to any customer that comes during the working hours.

As previously noted, the private banker provides full financial advisory and management, or referred to as lifestyle management model that successfully contributes to selling of bank products. In order to increase the satisfaction of the customers it is important that the private banker identifies their needs and utilizes his/her expertise to find the best manner to fit those needs. To do so, the private banker must be well aquatinted with the customers and their habits. This is best done by using a simple model consisted of few steps. Firstly, the personal banker identifies the customers based on their life cycle and their habits, whether they are young, middle aged or elderly customers, whether they are employed in a

company or entrepreneurs or somebody known to the general public such as actors, politicians and similar. Next step is to follow their life events such as new employment, significant changes in the career path, marriage, birth of a child, retirement, inheritance and all major purchases. This gives the private banker an insight of the customers' life goals and expectations, which is significantly important for the next step.

In this one, the private banker can transform the customers' life goals into financial goals. For example, the birth of a child might indicate that the customer will have to save more for the future of the child, thus the banker might offer the customer some advice regarding available products in savings. Also, if a customer plans an expansion of the private business the banker might offer a range of loans and loan products in order to meet the customer's goals and expectations. In the final step, the private banker monitors the overall financial situation of the customer and acts accordingly in order to fill any gap between the desired service and the received by providing tailored products and services to any customer individually. It is up to the private banker to decide for each customer individually when is the best time to present a particular product or service. In addition, the private banker must monitor the entire close family of the customer since there are many potential sales for the members of the family. It is an important element of the relationship between the private banker and the customer, to include benefits for the whole family. In such manner the bank gets more customers (the family) and the customer has more confidence in the bank and the banker. Also, it is again up to the private banker to determine the channel of communication through which he/she will deliver the new products to the customer, and to match the product to the exact customer group targeted. Most of the presentations are made personally, but sometimes bankers use other promotional materials such as e-mails and telephone presentations, depending on the type of product and the particular customer (NLB, 2012).

The private banker has a professional obligation to follow the market, the industry and the competition, as well as any current offers from other banks so that he/she is able to respond proactively and prevent transfer of the customers to another bank because of better suited products and services. In case the private banker discovers any type of product from another bank that can be offered in NLB and its customers and it is not included in the bank product portfolio it is his duty to inform the sectors in the bank that create the bank product portfolio and establish a potential new target market. Further on, the private banker must follow his/her own portfolio of customers and decide upon the optimal number of customers that can be serviced in a timely and orderly manner.

Moreover, the private banker must conduct all after sales activities with each customer and determine the level of satisfaction from both the product and the relationship maintained with the customer. This is extremely significant for establishing long term relations with the customers. It also delivers a message to the customer that the bank takes care of them and their opinion is valued and taken into consideration. The private banker must be

continuously involved in the process of establishing and maintaining trust among the customers which is essential for the long term relationship towards which the bank is aiming and which gives the bank the opportunity to sell many products to this particular target group (NLB, 2017).

It is evident that the private banking program is quite comprehensive and very well structured to provide the required level of service for a particular segment of customers of the bank. It is a successful program that generates profits for the bank. However, as previously mentioned this program is only for selected customers. In order to generate more profits from the other segments not included in this program, the bank has to expand the current CRM practices and system into these segments. The private banking is an excellent start that provides a great frame within which customer relations will be nurtured and the principles practiced in this program can be implemented and adapted to other segments. In such manner the bank can create more opportunities for profit generation and can tackle segments that were not previously utilized sufficiently.

Creating and sustaining these relationships requires technological support and utilization of IT. The bank has invested significant resources into creating a new CRM database that enables employees to understand better their customer, be better acquainted with needs of the customer, and to have every tool on their disposal for providing the required level of service. This is one of the major steps into creating a well-developed CRM system and towards implementing the principles found in the private banking program upon other segments of customers in the portfolio. The database contains information on every customer and his/hers actions in the bank based on which the employee can easily distinguish in which manner the customer has to be serviced. In addition, the system provides management with options to filter customers based on different criteria. As a result the management has information on which customer is more profitable for the bank, which ones are more costly and similar.

This information enables management to create better strategies for customer acquisition and retention and to incorporate those strategies into the general strategy for the bank. The development and expansion of this database and of the entire CRM system is ongoing, changes and improvements are performed regularly and it is expected that this approach will positively influence the acquisition and retention (especially retention) strategies of the bank. It is also expected that by implementing such system, some of the principles of relationship marketing already practiced in the private banking segment can easily be implemented into other segments of the portfolio. Nevertheless, this utilization of IT is just one of the actions should be considered and implemented in order to achieve true relationship management in all segments.

3 EMPIRICAL RESEACRH OF THE RELATIONSHIP MARKETING IN THE MACEDONIAN BANKING SECTOR

3.1 Research Questions

The subject of relationship marketing is a very popular topic and important part of every marketing strategy. The most important element of relationship marketing is customer loyalty. Without the customers' loyalty every business will have to win the customers' trust again and again. Therefore, the relationship marketing is one of the most important tool for targeting customer loyalty and retention.

Research questions of this thesis are designed to provide an insight data into different aspects of the relationship marketing practice in the case of Macedonian commercial banks. The specific goal of the research is to investigate various aspects of relationship marketing in the case of Macedonian banks. Therefore, semi structured interviews were conducted with the banks' employees in order to gather evidence regarding the usage of relationship marketing as a retention tool in commercial banks, which is our primary hypothesis.

Secondary set of research questions is related to the level of usage of relationship marketing, frequent problems, applied acquisition and retention strategies and factors related to the implementation of the system of relationship marketing.

3.2 Methodology

Research of relationship marketing and its role as a retention tool in commercial banks in the Republic of Macedonia should provide relevant data and insight from the professionals, which use relationship marketing on a daily basis. Such data is rarely publically available due to its sensitive nature. The real challenge in this case is the design of the research methodology, which can provide adequate data for this purpose. One of the choices was using a quantitative survey with questionnaire with structured questions. A severe limitation in this case was the number of bank professionals who could serve as potential survey participants. The second limitation in the case of the questionnaire design was the quality of data which could be provided by the survey participants in the case of predefined answers. In this case the participants would not have adequate option and freedom to provide the data related to their experience and knowledge regarding their job position. Therefore, the selection of an interview as a method for a qualitative survey was a logical choice. The interview as methodology for data collection provides the needed data, and at the same time provides quality insight and freedom of the participants for expressing their opinion on the subject.

3.3 Qualitative Study and Data Analysis

3.3.1 Research instrument

The interview questionnaire included a list of 14 questions, referring to the subject of Customer Relationship Management. Questions generally addressed to the interviewees' knowledge, experience, information about the company's practice of Customer Relationship Management, or the opinion of the interviewees about the subject. A sample of the interview questions is included in Appendix B.

The interview questions were grouped into three sets. The first group of questions is related to the interviewees' opinion about the Customer Relationship Management definition, concept and terminology used in their banks, the interviewees' role in Customer Relationship Management and about the relation between the company's marketing mix and Customer Relationship Management.

The second set of questions addresses different aspects of the relationship marketing strategy of the commercial banks, factors, frequent problems and involvement in relationship marketing strategies.

The third set of question is directed towards banks' acquisition and retention strategy, activities, retention tools, frequent problems, prospects and the relation between relationship marketing and overall bank performance. Specifically, the questions referred to the banks' acquisition strategy, priorities about the customer retention, application of the relationship marketing as a retention tool, banks' retentions strategy, frequent problems related to the customer retention tools and strategies, prospect for further improvement, and the impact of the customer relationship on the overall bank performance.

3.3.2. The sample

The participants in this interview were selected based on their prior experience with relationship marketing in banking sector, alongside with their skills, professional and educational background as additional criteria. In the first phase 25 pre – selection interviews were performed with potential interviewees that included general questions regarding their skills, professional and educational background in order to confirm the subject's adequacy for the interview participation. At the final interview phase, full interviews were conducted with 17 participants.

The participants are employees of four different commercial banks, named Bank B1, B2, B3 and B4. Two large banks, one medium and one small size bank were included, in order to get data from various types of banks. In addition, as seen from Appendix C, the

participants have different demographic background and professional experience that provides diversity in their answers and distinctive points of view of certain concepts. Thus, nine of the participants are male, eight are female. Their work experience as bank employees on various positions ranges from three years up to 20 years of experience for some of the most experienced participants. Their job positions in the banks are adequate for providing the necessary answers since all of them practice some form of customer relationship management in their job positions.

Hence, five of the participants are bank officers openly dealing with customers on a daily basis; six are branch managers who are directly involved into creating and implementing the customer relationship management strategy and two are private bankers, employees whose position is a straightforward representation of customer relationship management. In addition, there is one representative from the marketing department of the bank, since the marketing department along with top management creates the strategy for customer relationship management, and the remaining participants are selected from the banks' top management, such as director of retail banking, director of credit risk department and head of audit department in order to receive insight from the top management concerning the concepts that are explored.

The restrictions and risks associated with the interview were noted, and not completely eliminated with the design of the questions and analysis. They were only minimized and taken into consideration in the analysis of the answers. The risks include the presentation of participants' subjective opinion, self-censure on the basis of the self-desire to impress the interviewer, fear that a negative remark for the employer will have some consequences to their job position etc.

3.3.3. Analysis of data

The analysis of the data provided from the interviews was performed very carefully and considering several aspects of the provided data such as data quality and the goals of this research. At the same time data analysis was performed in several phases in order to provide the desired high level of data output. Therefore, the first step of data analysis was the content analysis of the interviewees' answers and their comparison within each question. This practically means that the content of the answers was analyzed with the summary note for every interviewee and for each question.

Some of the answers included yes and no answers, but some of the questions needed larger elaboration and in some cases even suggestions on the subject.

All the data from the interview was coded, and all the data from the answers of each participant in the analysis has a letter P in front of the code 1-17, for every question from 1-14.

3.3.3.1. The use of CRM in the bank

The first three questions related to the usage of CRM in the respondents' banks. First they were asked to define Customer Relationship Management in their company and how they understand this concept.

The interviewees' answers of this question generally followed the pattern of conventional definition of customer relationship management where almost all interviewees answered that "managing bank's customer relation" is one of the most appropriate definitions of this concept. Thus, one precise definition was offered by P9 who described CRM as activity "to manage relations, acquire clients, understanding needs, customer care, positive customer experience, building long term relationship". P13's definition is that customer relationship management is "creation of long term relationship, customer support, strategy for managing all company's relationships and interactions with customers, sales and marketing tool for increased productivity in sales and marketing".

Other responses from the interviewees offered creative interpretation of the term Customer Relationship Management as "technology for understanding customers need" by P12 or the reference in the form of "building and maintain portfolio of happy customers" by P7.

In the context of definition of customer relationship management the term "relationship management" was mentioned 13 times, "the customer's need and product promotion" were mentioned 3 times, "creating relationships, customer care and customer support" were mentioned 2 times.

In the summary, all respondents demonstrated some general knowledge about the subject, which in some cases can even be characterized as solid. This confirms the proper choice of interview participants and suggests reliability of their provided answers regarding the topic.

The second question intended to determine interviewees' job position and to determine the relation of the participant's job position and responsibilities within the bank's relationship management. As seen from the sample description all interviewees have the adequate job positions and in some cases, even crucial job positions regarding the process of customer relationship management.

When they were asked about their daily job activities and their relation with the bank's customer relationship management, most of them (12 participants) answered that they had daily duties connected to management of customer relations. The communication as a daily task was noted 7 times, and in 5 times interviewees presented themselves as highly devoted to customers. The task such as financial consultant and advisor, promotions and customer support were quoted by three participants. According to these results, there is a strong indication that most of the tasks related to customer relationship management in the case of Macedonian banks are connected to customer relations, communication, advice, promotional activities and customer support.

When answering the third question: "Describe the marketing mix used in your bank and how its activities are reflected to the relationship management" interviewees did not offered any specific answers. Most of the interviewees offered their perspective about the importance of the marketing mix. However, a small number of interviewees detected the following activities from the marketing mix with significant reflection for the bank's relationship management: "frequent TV adds", "promotional and sales activities – Facebook and Instagram"(P1); "promotions" (P4); "the range of products, excellent promotion, customer service connected with relationship management" (P6);"almost all daily duty of customer service representative and support" (P7); "price and quality market drivers" (P8);"almost all activities on branch level are connected with relationship management, end goal is to attract and retain customers with exceptional service" (P9);"customer care and exceptional care for the customers "(P10).

According to the data, all presented marketing activities are directly connected to increase of sale. However, two types of activities can be more distinctly differentiated within the processed data. One such type of marketing activity is the product or service portfolio offer. The significance of the product/service portfolio offer for the relationship marketing is suggested by 9 participants in the elaboration of their answers. In 6 cases the promotion is the key marketing activity with crucial impact to relationship management.

3.3.3.2. The role of CRM in the bank

The second set of questions was directed towards determining the role of CRM in each of the participants' banks.

The forth question is about description and specification of the existing marketing strategy in each of the participants' bank. The interviewees generally described the existing relationship marketing strategy in a positive way with very little details in the elaboration of their opinion. Most of the interviewees gave general description of the relationship marketing strategy, and some of them described it as a minimal in one case and need for improvement in two cases. Others presented their opinion connected to the general use of

the relationship marketing and only a few presented their opinion regarding the specifics from the marketing and relationship marketing strategy of their employer. Some of the most comprehensive descriptions of the banks' current relationship marketing strategy were provided by P1, P7, P8 and P10. Their elaborations are presented integrally:

P1: "The goal of our marketing strategy, which covers the activities of building customer relations, is to attract the potential clients, to define marketing messages and information intended to increase the customer loyalty and customer's long terms relations. The ultimate goal is eased sales and increased customer loyalty. Other activities targeting these goals are the creation of products and services tailored according the client's needs and the transfer of clear marketing message"

P7:" In the current relationship marketing strategy, we sell new (or old) products, firstly to those customers who are known and are well acquainted with the bank. Almost all of them decide to buy the product offered; most of the time they are not even sure that they will need the product, but still decide to buy it because they trust the bank and they believe that what is offered to them is good and beneficial for them"

P8:" We are competitive mostly by the quality of products and services offered, as well as availability through the e-banking services and branches, followed by mid-range fees and prices. However, there cannot be too many promotions, so I believe that in promotions we have enough space for improvements. We tend to be a bit passive, even though our bank is a strong brand on the market, which is the first thought that comes to mind when a bank is mentioned"

P10: "The relationship marketing strategy is one of the things that we devote most of our time and resources. We use all resources to offer the best service possible. The bank is proud of the relationships it has with the clients and the profit it generates from such relationships. It is a win – win combination because our clients receive the best solutions for their needs accompanied with exceptional customer care, and in turn the bank generates more sales and consequently profits."

The fifth question referred to the factors that are essential for successful implementation of relationship marketing strategy. The participants offered valuable insight about the influential factors and their impact. As an influential factor most interviewees mentioned employees, technical support and customer service, while some also noted marketing knowledge, products, training, communication and strategy in some of the answers.

The results indicate that employees are perceived as the most significant factor alongside with technical support related to the implementation of the successful relationship marketing strategy. It is interesting that interviewees recognize the importance of technical

support in the form of software design, CRM software solution or other technical solutions and support needed for successful relationship marketing strategy. The result above practically indicates that employees must be supported by solid technical, IT support and to have training in order to keep the high-performance level in the implementation of relationship marketing strategy.

Question six was intended to determine the frequent problems related to the relationship marketing. Interviewees also needed to specify their answer and to provide elaboration of their opinion. Consequently, the participants listed "not enough resources" and "data support" in 5 responses, and communication, employees drain, employees' selection, technical and IT support, and work overload in 2-3 cases in the provided answers.

From the obtained data it can be stated that the top problem related to the relationship marketing is the lack of resources for marketing purposes. This indicates that significant number of interviewees consider that low level marketing promotional support has negative impact on the relationship marketing. The second most serious problem is the problem with provided data or the lack of quality data that can be used for relationship marketing purposes. Recognition of the importance of data support relevance by the interviewees presented a good level of IT background of the interviewees, and solid professional skills to anticipate the need for quality data in relationship marketing process. Other significant problems mentioned by the interviewed participants are problems with the communication skills, employee drain, software malfunctioning, lack of technical support and employees' workload.

The process of relationship marketing with all activities included is primarily conducted by the employees. One of the basic questions for every bank is whether the employees who have crucial role in the process of relationship marketing have enough skills and training to carry out the assigned tasks. The right training for the employees will provide basic skills for the relationship marketing tasks, and even allow the employees better participation in designing and implementing relationship marketing strategies. At the end employees with better relationship marketing training will more likely improve their overall performance. Interview question number 7 refers directly to the provided training by the banks for this purpose. Almost all participants, 14, confirmed that they received training while the remaining three answered negatively.

These results indicate that in almost all cases the necessary training was provided. The interview data provided additional info about the type of training and in some cases provided even the subjective evaluation of the training process. Every participant who answered positive to the question in many cases indicated multiple types of trainings. Almost all interview responders had some type of training for the purpose of implementation of targeted relationship marketing strategies. Nine of the participants

answered that the company had frequent trainings. The promotion and sales training are the next most practiced training as a support for relationship marketing strategies. Other types of training such as customer services and relations training, communications training, new skills training are noted by the remaining of the participants. Interview participants also suggested that the provided training is not enough (specified by 5 participants) and two interview participants pointed out that proper employee selection is necessary.

3.3.3.3. Acquisition and retention strategies implemented by banks

The third set of questions aimed to identify different acquisition and more importantly, retention strategies that the banks are implementing.
Attracting new clients is one of the most important business actions. In many cases the whole business existence is based on new customers' acquisition. A new customer means more income, and more income is business viability. However, it is important that acquisition of the new customers is conducted within the company's acquisition strategy and with carefully planned activities. Thus, the interview question referring to this subject was about the type of activities (such as cross sales, low prices, promotional periods, other benefits etc.) are used to attract customers.

Promotional period and cross-sales are according to 9 participants the most used activity in banks' acquisition strategy. However, preferential terms which are offered to the new customers are also very often used as activities for customer acquisition. Lower prices and customer service is mentioned in the answers of 7 participants. All types of activities are used in combination of two or more activities.

Acquisition of new customers is always a popular activity within the company's marketing strategy. However, customer acquisition is just one part of company marketing strategy and if the new customers do not establish long term relationship with the bank, the effect from the customer acquisition would be minimal. Therefore, the companies must invest significant resources in customer retention. The next question aimed to determine several aspects of banks' retention strategy, retention tools and practices.

To the first part of the question about the best bank practices regarding customer retention, the interview participants answered that efficient customer service and customer care were the most important activity for customer retention. Some of the participants also suggested that good product portfolio and loyalty programs were also examples of successful retention tools.

When asked about the most successful retention tool, the participants offered their ideas about the subject (most of them listed more than one). Respondents listed among the most successful retention tools: good customer database, keeping VIP customers, special offers,

rewarding the most profitable customers, personalizing follow-ups, scheduling time with the customers, knowing your client, employees' training, having a good system that supports employees, word of mouth, mutual trust and understanding, maintaining a relationship of a positive communication and accurate exchange of information, innovative approach in providing the best solutions for the customers, a policy that every customer should receive, same treatment and service. It is evident that the participants were quite versatile in providing insights and approaches to retention strategies and actions.

Question number 10 was intended to determine whether the relationship marketing could be used as retention tool in practice and the participants were also asked to explain their answer.

All 17 interview participants replied affirmatively with a lot of examples from the relationship marketing process in their banks and insight about the customers' motivation for engaging relationship marketing.

Some of the comments describing relationship marketing process and its importance in their banks are presented below:

P14: "In the case of my type of customers, the only tool is the retention tool. Only by having a strong relationship management system we can retain the targeted group of customers with which I am working"

P15: "We use it as a primary tool for the customers in the private banking section. It is also applied for other customers but for these in particular"

P5: "It is used as retention tool and it is used directly and indirectly for this purpose"

P13: "With relationship marketing the customers will always be informed about the new products, conditions and benefits which bank offers. The bank will have permanent communication with the clients which will lead to bigger data base, analysis in purpose of clients' needs identification and client's satisfaction"

These statements support the thesis that relationship marketing is used as a primary retention tool and in many cases is used as a primary tool for customer retention within the banks' relationship marketing strategy.

Other interviewees' answers to this question offered interesting insight about the customers' motives within the retention process of the relationship marketing:

P12:"Customers come back to the bank because they already have a relationship with it and because they are satisfied with the service they get from the bank"

P3:"The customers who know us, trust us, are more inclined to purchase new products from the bank"

P8:"People want to hear about a good offer, and the existing clients like receiving small tokens of attention from their bank"

P14:"Some customers are not that price sensitive, but are rather relation (people) sensitive. They are sometimes ready to pay more for a better service"

P14:"Those customers will never switch bank as long as they are treated as our friends and are main focus of our actions"

P1:"People like to feel comfortable"

P2:"We sell good products to our existing customers, they trust us"

The previous statements suggest that the key to good relationship marketing in terms of retention is based on solid customer – employee relationship, established trust, mutual interest, established personal connection etc.

One of the interviewees, P13, recognizes the importance and positive impact of the relationship marketing, although there is a better insight of the bank's treatment on this subject offered in the following statement: "Something more materialistic than marketing is the best way to retain customers, such as better conditions for somebody that has already been a customer in our bank". This clearly indicates, that in some cases the focus from the relationship marketing should be transferred or even combined with certain preferences of the existing bank' customers.

Different banks use different type of activities within the retention strategy. The topic of the eleventh question was about the type of activities (such as loyalty programs, exceptional service, extensive customer care) used to retain customers.

According to the respondents, loyalty programs are the most frequently used activity related to the customer retention (noted 15 times by the respondents). It is evident that besides loyalty programs extensive customer care and exceptional service are also very often used for customer retention (noted by 11 of the participants). Types of loyalty program mentioned as a part of the retention strategy include vouchers for cost discount, private banking as loyalty and VIP offer, club card, credit card with benefits, cash-back

club card with benefits, loyalty preferences regarding the product price and cost reduction etc. All responses included a combination of two or more of the aforementioned loyalty programs. All of these customer benefits have to be adapted regularly to the new market conditions and with the "expansion of the loyalty programs and benefits" as the P1 participant stated in the response of this question.

The employees very often face several problems and difficulties during the implementation and daily operations within the retention strategies. Therefore, it is very important to identify the problems in order to look for solutions that will overcome and minimize the negative effects. The next interview question was directly addressing the subject of the most frequent problems related to the customer retention tools and strategies.

According to the participants' answers, the most sensitive problem regarding the customer retention tools and strategies is the technological support (six mentions), while little less sensitive are the problems relating the inadequate response from customers (reported by three participants), limited human resources (also reported by 3 participants), while two of the participants reported as a problem a communication between employees and bank management, inadequate customer needs perception and inadequate human resources. Interview participants identified high level technological support during the customer retention process as a more than the necessary condition. Other identified problems are mainly strategy concerns and are related to the level and quality of the implemented strategy. Some of those problems include back office support, competitors' low prices, unexpected issues, lack of strategy or very complex strategy.

Prospects for improvements are essential if the company wants to improve its retention strategy performance. Therefore, question 13 addressed the identification of the opportunities that directly involved professional are likely to provide in terms of directions for future retention strategy actions.

Without any doubt the survey participants suggested that there is an urgent need for improvement in operational efficiency, (noted by 11 participants). Others identified data support (five of the participants), customer need identification and customer service improvement. Possibly the improvements in data support and customer identification should be the direction for the new resource allocation within relationship marketing strategy. At the same time the interviewees singled out several priorities for improvements, such as additional benefit in customer acquisition, communication improvements, expansion of the mechanisms for loyalty valorization, focus on client's retention, new balanced offer, prices correction, promotions, quality and available help desk and training.

The interviews provided insight into several questions related to different aspect of the relationship marketing, retention strategy acquisition strategy etc. However, the key

question related to the crucial aspects of the relationship marketing and retention strategies for the purposes of this research, presented to the each of the participants was: Do you believe that investing in long term relationships with the customers can reflect positively on the overall performance of the company (question 14)?

To this question all participants answered positively, which means that all participants believe that long term relationships with the customers can reflect positively on the overall performance of the company. Additionally, few interviewees shared their insights on the subject of correlation between long term relationship and overall bank performance:

P1:"The investment in long-term relation with customers in a situation of limited resources, impacts positively on the company's performance and opens the perspectives for more efficient sales with more detailed clients' needs insight, this is already evident in the case of this bank"

P8:"Stabile client portfolio is the ground for success and profitability bank builds its success upon the satisfaction of the clients"

P12:"They (long term relationships with customers) can have only positive effect on overall performance of the company"

P15:"Clients will establish a bond and trust with the bank meaning they will conduct more business through the bank and that will lead to overall positive performance"

All affirmative answers and these participants' comments fully support the thesis of the high correlation between the long-term relationships with the customers and overall positive performance of the banks.

3.3.4 Research findings

The first group of answers and comments on the questions from 1-3 provided the participants perspective for Customer Relationship Management concept and terms. In their statements all participants presented solid level of knowledge on the Customer Relationship Managements concepts. The conclusion from the second question about the job position and its relation to the relationship management is that all interview participants are directly connected and involved in the process. Having in mind their job positions and daily tasks that require relationship marketing skills and competences, the participants' opinion must be quite reliable on the subject.

The second set of answers from the interview questions 4-7 examines different aspects of the relationship marketing strategy of the commercial banks, influencing factors, frequent

problems and the engagement related to relationship marketing strategies. When evaluating the existing relationship marketing strategy the participants described it in a positive way, and as the most influential factors for successful relationship marketing, the participants pointed to the employees, technical support and customer service as the most influential factors. Concerning the most frequent problems in relationship marketing, the participants noted that the data quality, software and technical problems represent some of the most frequent problems regarding relationship marketing. Other problems regarding the relationship marketing include lack of marketing resources, communication, employee selection, work overload etc. Participants' answers to the question related to the training provided for successful implementations of targeted relationship marketing strategies were dominantly affirmative with 14 out of 17 answers. Although the training obtained in the process according to the participants in most cases is characterized as regular.

The answers of the third group of question provided significant details about banks' acquisition and retention strategy, referent activities, retention tools, frequent problems, prospects and the relation between relationship marketing and overall bank performance. Among the type of activities used to attract customers within their company's acquisition strategy, participants suggested that promotions, cross-sales, preferential terms and lower prices are the most favorite acquisition activities. However, the interviewees suggested that the most successful tool applied in their banks are efficient customer service and customer care.

Regarding the question of relationship marketing as a retention tool, all survey participants provided confirmative answers. As the appropriate types of activities within the retentions strategy, interviewees suggested loyalty programs, extensive customer care and exceptional service as the most practiced ones. Increasing customer's loyalty as a preferred retention tool within the company was mentioned multiple times in the participants' answers. The answers related to the need for improvements suggested operative efficiency as urgent priority, while the data support and customer need identification are the next upgrade area related to the retention tools and strategies. Finally, all study participants unanimously confirmed the positive impact on the long term customer relationships on the bank performance.

4 RECOMMENDATIONS AND FUTURE RESEARCH

4.1 Research Implications and Recommendations for NLB Bank

The results from the analyzed data collected from the interviews as well as the literature research used as a foundation for this thesis, present several aspects of relationship marketing, retention and acquisitions strategies and tools applied and practiced in Macedonian banks.

The analysis clearly indicates that there are some forms of relationship marketing practiced by Macedonian banks, some more than others, however, these is also a lot of space for improvement in this area since banks are still using the traditional transactional marketing approach. When considering the case of NLB Bank specifically, it is evident that the bank is quite successful in implementation of acquisition and retention strategies, especially when analyzing the financial indicators. However, even though the financial indicators show growth and the bank's performance is excellent, there are a lot of possibilities for improvement and further implementation of relationship marketing into the general strategy of the bank.

The analyzed data from the interviews indicates that the company places significant resources into acquisition strategies made through aggressive sales promotions and that the employees are quite devoted into executing this strategy. Investing heavily into direct marketing and acquisition is a decision practiced by many companies, where the focus of the marketers are customers who are cheap to acquire and cheap to retain, mainly because most companies still use the customer acquisition and customer retention rates as their measures of marketing performance (Thomas et.al, 2004).

However, not all of these customers are profitable for the company and in the long run. The focus has to be redirected into creating long-lasting relationships with the acquired customers since those types of relationships will stand the test of time and will without any doubt generate more profits for the bank in the long run. Thomas et.al (2004) suggests shifting focus from the present cost of acquiring and retaining customers onto customer's long term value. The bank had already made the foundation for developing such organizational culture of practicing relationship management through the private banking program, as elaborated in the previous sections.

It is a very well developed program that even though it covers one small segment of the customer database, it generates a lot of profits for the bank. If the principles of this program are applied to other segments as well, and the focus is shifted from acquisition to retention, the possibility for generating even greater profits will be endless. The bank has already had experience and expertise in practicing successful relationship marketing and it just has to apply this strategy as a general operational strategy not limited to only one segment. Ryals (2005) suggests that the best results of customer relationship management and the positive effect on profitability are achieved when the focus is on maximizing the value of the customers, and the value of the customer is directly related to the revenue the customer generates.

The results also indicate that the company aims many of the retention strategies into sustaining loyalty. Loyal customers are thought to cost less and are easier to serve. However, as Reinartz and Kumar (2002) explain, not all loyal customers are profitable,

thorough analysis is required in order to determine which of the loyal customers are profitable, and manage them accordingly.

It is interesting that almost in all cases the common indications for the type of activities is that they are based on the human potential, and with maximal exploitation of the employees' personal skills, experience and already established trust between customers and employees. Hence, in order to have the continuity in good performance derived from relationship marketing, the management must invest in additional training and specialization for the employees. The performance of the employees currently is measured by the sales targets, which is not a good measure when retention strategies are applied. Management has to implement different system of grading the performance of the employees, where their performance will be measured by the quality of the relationships established with the customers. In order to do so, firstly the marketing strategy of the bank has to be adapted and directed more towards retention than acquisition. In addition, all employees have to be well trained to be good relationship managers, similar to the training given to private bankers. Continuous education and appropriate selection of the employees – relationship managers will inevitably result in improved retention strategies, and as previously discussed better retention strategies eventually lead to better performance.

Research findings indicate that there is a strong recognition of the innovative technologies in this field by the employees. It is a real problem when the recognition is coming only from the side of the employees and not from the management's side in the form of strategy and resources. Successful implementation of good relationship marketing strategy demands high utilization of IT. Significant improvements and upgrades in information technology are of highest priority since it provides the relationship managers with sufficient support in order to create and sustain long-term relationships. NLB Bank already started implementing such system, but it has to be further upgraded and implemented into employees' daily work.

The case of NLB is a success story based on executing good marketing strategies. The company has built a good brand name and already has a loyal customer base that can be further used to expand the strategy towards retention. In order to do so, additional investments into all areas are needed. Thus, the information system and technology used have to be updated to provide the required level of technical support to all employees. The employees also have to be adequately selected and trained and monitored throughout their work. But, first and foremost, the bank has to adapt its marketing strategy. The bank has on its disposal the sufficient resources in human and capital as well as significant experience in practicing true relationship management, which just have to be redirected into a strategy that will lead to even greater profits and success.

4.2 Framework for Further Research

The research methodology of this thesis was based on interview qualitative research technique with the use of semi-structured questionnaire. The participants involved in this interview were pre-selected based on their job experience and knowledge related to customer relationship marketing. From this perspective the framework for further research would have to include several new directions regarding the survey subject, methodology, included sample of targeted participant, analysis framework.

Further research would have to expand the survey focus, and to add the perspective of customers within the banks relationship marketing, retention and acquisition strategy. Hence, the research will include the customers' insights and their perception for the applied relationship marketing strategies. Another perspective needed in order to have complete insight about the relationship marketing and related challenges is the inclusion of the management perspective with data regarding the opinions of managers included in the relationship marketing process. The future survey has to explore the management decisions regarding the selection, creation and implementation of the relationship marketing, acquisition and retention strategy. This will provide enough data and knowledge to develop the framework for further upgrade.

Another possible direction for the research is the simultaneous application of different research data collection methodology that will select the quantitative survey and methodology such as survey questionnaire, big data from the database or the qualitative survey such as focus groups including the employees, banks' management or the customers. With these approaches the survey will have different types of data to process and analyze, and will have much more precise arguments since the overall quality of data will be increased. Further research will have to consider the possibility to use bigger samples that will allow using multivariate statistical methods and provide more precise, quantitatively supported insight and arguments about the relations between the key relationship marketing, acquisition and retention strategies drivers.

CONCLUSION

The contemporary practice of relationship marketing implies close relationships with customers in order to achieve greater loyalty which will in turn result into greater profitability. The concept of relationship marketing is based on the importance of customer trust and loyalty and on development of the relationships with customers, keeping existing customers and attracting new ones.
This thesis explored the concept of relationship marketing, the factors influencing it and the goals of the relationship strategy in the banking sector, through presenting a case of Macedonian banks. The purpose was to show that creating and maintaining long-term

relationships with customers is of crucial significance for the performance of banks and that relationship marketing is a valuable tool in retention strategies creating more value that results in improved performance.

The research questions of this thesis were designed to provide an insight into different aspects of the relationship marketing practice in the case of Macedonian commercial banks. Primary hypothesis was the use of the relationship marketing as a retention tool in the case of commercial banks. Therefore, the literature and empirical research were intended to provide evidence for the use of relationship marketing as a retention tool in commercial banks. The second hypothesis and research questions part of this thesis aimed towards determining the level of relationship marketing application, frequent problems, applied acquisition and retention strategies, factors related to the implementation of the system of relationship marketing.

In order to explore the concept and purpose of relationship marketing and creating relationships with customers, the thesis provided historical and literature background into these areas. Thus, relationship management was presented and the difference between the traditional transactional marketing vs. the relational approach was discussed. The development of relationship marketing was a logical continuation of the shifted focus towards creating more value and more loyal customers. Managers started to recognize that competitive advantage is achieved by creating personal relationships with customers.
Further on, acquisition and retention strategies were discussed as an integral part of the relationship management process. A brief insight into acquisition strategies demonstrates that companies use significant resources into acquiring new customers and achieving sales targets, however, the focus of this thesis was more toward the retention strategies since relationship marketing is part of the retention strategies.

In addition, a brief overview of the Macedonian banking sector was provided presenting the current state of structure and development of this sector. The banking sector in Macedonia is one of the most successful in the whole economy and NLB Bank stands out as one of the most successful and profitable banks in the country, which is visible from the financial reports and performance indicators, suggesting a better implementation of marketing strategies. Achieving this level of success is only possible by creating a sustainable marketing mix model, which the bank managed to do by implementing elaborate acquisition strategies and well developed retention strategies. The acquisition strategies, although very successful and fruitful for the bank, have to be supported with retention strategies in order to provide long term prosper and development. The bank already established a solid customer database that can further be developed by using retention strategies and implementing relationship management. As discussed, the bank already has significant contributions towards relationship management by providing exquisite customer care and support. In addition, the most significant step towards creating

better relationships with its customers is the creation of the private banking program. Although this program is intended only for a particular segment of customers, the principles of the program can be applied to all operations of the bank. The experience, knowledge and success of this program can be transferred to all segments and the bank can benefit even more from the retention strategies and shifted focus toward relationship creation. These statements are further supported through the empirical study and analysis of findings.

The empirical part of this thesis was used to further study the multiple aspects of the relationship marketing in the case of Macedonian banks and to provide evidence for the use of relationship marketing as a retention tool in commercial banks. The empirical study was performed by interviewing with banks employees involved in relationship marketing process as the participants and relied on their knowledge, experience, and information about the employers' practice of Customer Relationship Management.

The primary question of the thesis was to identify whether relationship marketing is used as a retention tool. The qualitative research provided evidence that relationship marketing is used as a retention tool. All participants positively identified the establishment and nurturing of such relationships as a one of the key drivers for success and profitability. Besides providing evidence that supports the primary hypothesis, participants also provided answers regarding the second set of research questions related to the level of use of relationship marketing, frequent problems, applied acquisition and retention strategies and factors related to the implementation of the system of relationship marketing. The answers indicate that even though relationship management is practiced on various levels in different forms in all banks, additional improvements in this area are needed in order to achieve the desired level of relationship quality. The employees identified manners in which the company can support them into becoming better relationship managers including better selection and training of employees and ways into which the company can improve the overall relationship marketing strategy such as investments in IT and technological support.

The general impression is that most companies use similar tools for retaining customers through means such as loyalty programs and after sale customer care and support. However, creating relationships goes beyond these tools. The goal of relationship marketing is to be the primary and most important tool for establishing trust among customers, implementing solid levels of communication and understanding customers' needs. By doing so, the bank creates values, which are reflected in the quality of the relationship established and eventually into the performance of the bank. Banks have to create value not just in the product but also in the service and provide customers a consultative, relational approach, the first step into creation of a relationship. Relationship marketing has always been one of the pillars of successful retention strategies, and using

relationship marketing as a retention tool inevitably results in the primary objective for every company which is continuous improving of performance and increasing of profits.

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APPENDICES

LIST OF APPENDICES

Appendix A: Abstract in Slovenian language

Magistrsko delo dokazuje, da je ustvarjanje in vzdrževanje dolgoročnih odnosov s strankami ključnega pomena za strateški razvoj in izjemno uspešnost posameznega podjetja. Ena izmed novih tematik v teoriji in praksi trženja je bila potreba po upravljanju odnosov s strankami in odmik od transakcijskih odnosov, zlasti v storitvah. To je posledica značilnosti storitev, zlasti v tistih primerih, ko poraba ustvarja vrsto interakcij, ki se lahko obravnavajo kot „razmerje". To je povzročilo koncept trženja odnosov, ki prevzema številne oblike o upravljanju v literaturi , kot je upravljanje odnosov s strankami (CRM). Upravljanje odnosov s strankami pomeni vzpostavitev osebnega odnosa s strankami in je sestavljeno iz marketinških aktivnosti, ki so usmerjene v razvoj in upravljanje, a vrednih zaupanja in dolgoročnih odnosov z večjimi strankami.

Glavni cilj te magistrske naloge je pojasniti, kako je tržno razmerje učinkovita strategija zadrževanja, ki so jo banke sprejele za ohranjanje obstoječih strank in privabljanje novih. Podjetje na katero se osredotočam v raziskavi je NLB banka, ena največjih in najbolj donosnih bank v Makedoniji.

Magistrsko delo se začne z uvodom, ki mu sledi pregled literature in teoretična utemeljitev konceptov, ki jih obravnavam, sledi poglavje, ki raziskuje te koncepte v bankah in finančnih institucijah v Makedoniji.

V drugem delu magistrskega dela sem predstavila empirične raziskave tržnih odnosov v makedonskem bančnem sektorju z uporabo kvalitativnih raziskovalnih metod in anketnega vprašalnika kot raziskovalnega instrumenta. Vprašalnik za intervju je vseboval seznam 14 vprašanj, ki se nanašajo na predmet Upravljanje odnosov s strankami. Predstavljeni in analizirani so podatki, pridobljeni iz razgovorov z ustreznimi deležniki. Kvalitativna raziskava je pokazala, da se trženje odnosov uporablja kot orodje za zadrževanje. Na koncu so podane posledice in priporočila za NLB, ter okvir za prihodnje raziskave.

Appendix B: Interview questions

Date of interview:
Company:
Position in the company:
Years of professional experience:

1. How do you see or define Customer Relationship Management in your company? What does it mean to you?
2. What is your position in the bank and how your activities and duties are connected to the overall customer relationship management of the company?
3. Describe the marketing mix used in your bank and how its activities are reflected to the relationship management.
4. How would you describe your company's existing relationship marketing strategy? Please, specify your answer.
5. Which factors are essential to successful implementation of relationship marketing strategy? Why?
6. What are most frequent problems related to the relationship marketing? Please, specify your answer.
7. Does your company provide the necessary training for successful implementation of targeted relationship marketing strategies?
8. What type of activities (such as cross sales, low prices, promotional periods, other benefits etc.) are used to attract clients within your company's acquisition strategy?
9. What do you think is crucial for your company in order to retain customers? What are the most successful retention tools?
10. Do you think that the relationship marketing could be used as retention tool? Please, specify your answer.
11. What type of activities (such as loyalty programs, exceptional service and extensive customer care) are used to retain customers within your company's retention strategy?
12. What are the most frequent problems related to the customer retention tools and strategies?
13. In which part of the part of retention tools and strategies do you think your company needs most improvements?
14. Do you believe that investing in long term relationships with the customers can reflect positively on the overall performance of the company?

Appendix C: The sample

The sample

Participant code	Gender	Job position	Years of professional experience
P1	M	Branch manager	9
P2	F	Bank officer	4
P3	M	Bank officer	3
P4	M	Bank officer	4
P5	M	Bank officer - Foreign payments	7
P6	M	Branch manager	10
P7	M	Branch manager	15
P8	F	Branch manager	8
P9	F	Branch manager	17
P10	M	Director management of credit risk department	11
P11	F	Head of department of internal audit	20
P12	M	Marketing assistant	3
P13	M	Director of department for retail banking	16
P14	F	Private banker	8
P15	M	Private banker	11
P16	M	Bank officer	5
P17	F	Branch manager	12

Bank code	Size of bank	No of participants
Bank 1	L	8
Bank 2	L	2
Bank 3	M	6
Bank 4	S	1