Proposal

THE IMPACT OF ECONOMIC RECESSION ON THE CUSTOMER LOYALTY TO BANKS IN THE UK

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**Introduction and Background**

Customer loyalty can be defined as the faithfulness of customers to a company. Even if the company is making mistakes and not performing extremely well, loyal customers will not be keen to leave. Recently, companies and businesses in general have experienced difficulties in terms of maintenance their customers especially after the crisis in the entire world and specifically in the United Kingdom. The UK’s economy is one of the major economies worldwide and considered in the top five economies and therefore, it has been affected by the financial crisis. The effects were evidently shown in the changes in many areas such as customer’s preferences, the decline in the income regarding to the increase in the prices and the increased in the unemployment rate. It is interesting after raising those issues to examine whether the loyalty of customer has actually changed during the recession or remained as it used to be before the crisis. In particular, customer loyalty within the banking industry, which is the main player in economy today, especially, that the recession left a dreadful impact on banks.

This research will provide an insight into the bank business in the UK in terms of customer loyalty during the crisis. It will provide the data with the help of a quantitative and qualitative research, which will be explained at a later stage of this proposal.

**Literature review**

In the early 90s the term customer loyalty became important to identify, therefore some research in business and market has carried out to determine the essential elements which can affect the loyalty of customer, which were mainly due to the changing market and the competition -environments, however at the present business, the reasons behind changing the customers preferences have changed due to the increasing of rivalry level and the spread of the globalizations (Cahill, 2007).

(Kincaid, 2003, 10) demonstrates the customer loyalty as the following ‘*is a behavior, built on positive experiences and value. This behavior is buying our products, even when that may not appear to be the most rational decision*’. Additionally, in order to produce an accurate understanding of customer loyalty, this perception has to be divided into two parts, (Peppers and Roggers, 2004) illustrate that there are two different direction of loyalty, attitudinal and behavioral, both of these directions are actually valid when using it individually and they have absolutely different implications for business. Business, in order to improve customer loyalty has to rely on both these definition. So it is vital to consider both the behavior of customer and their attitude.

The financial crisis, on the other hand had begun in the 2007, the main reason for this crisis was due to the bursting of a housing bubble in the United State in late 2006 (William et al, 2012). According to William et al (2012) the financial crisis led to dramatic decline in the market value of the subprime mortgage as well as a huge drop in the capital and liquidity of many banks and other financial institutions. The financial crisis actually, spread over firstly from sector to other and then worldwide and has affected mostly the entire word also caused a series of financial problem.

Fleckenstein (2008) asserts that the financial crisis created the largest speculative bubble ever witnessed in the American economy, which after a while has spread worldwide regarding to link between the banks internationally.

William et al (2012) state and list the main multiple areas which have been affected by the financial crisis and the ones of utmost important are: the collapse of US and European, fall down of the international stock market, collapse of the global financial system and financial markets.

This financial bubble has flourish over world and has hit the UK banks. Regarding to William et al (2012) the failure of so many British banks during the recession crisis has highlighted the importance of corporate governance issue, and can partly be explained to the blind trust people had in the self-regulative nature of the market.

Despite the fact that, not many studies on the effect of the economic crisis and the customer loyalty have been carried out and it seems to barely existing, still some evidence is available. For instance, in the past few years there was an attempt to collect a primary data in the USA, Williams and Naumann (2011) were the first who tried collecting and investigating in those primary data, their approach was based on analyzed companies from the Fortune 100 in order to identify the problem of customer loyalty and the changes regarding to the financial crisis, by using a series of surveys in regard with the customer attitude in relation with the company performance, the findings were basically located between moderate to strong relationship with the customer loyalty and the company performance, according to Williams and Naumann (2011) the significant vital elements which have affected the customer loyalty in the time of the recession are the financial performance of companies and their ability to meet maturing obligations once they come due.

On the other hand, Stone et al. (2000) argues the elements which customer loyalty rely on and he deduced that, this elements are related to the company itself rather than the company business, also divided into categories such as age, gender and etc.

In China some primary researches have conducted on the retail stores to investigate the changes in the customer loyalty in the time of recession, furthermore these research were based on surveys and interviews Chung et al. (2011). Moreover, in order to collect the data, high number of retail stores from China, have participated in this surveys which made it credible, and more than 20 managers have been interviewed, apparently, candidates for the interview have to be customers not manager especially when it is come to customer loyalty, the significant result which was found by Chung et al. (2011) it is basically similar to the finding of Uncles et al. (2003), both researchers have come to conclusion that customer loyalty affected by two factors, individual and external factors.

Chung et al (2011), in addition discover that the changes in environmental economic in the recession, have had a harmful impact on the customer loyalty, hence almost all the businesses had to change their strategies toward the customer, in order enhance the level of the loyalty, for instance, changes in the disruption channels were made, however Chung et al (2011). It is significant to mention that this research was not able at the end to give an appropriate solution and recommendation on how a company can improve their customer loyalty.

Some other studies have been conducted also in China but this attempt was completed by Lee et al. (2011). In regard with this study, it was found that in the period of the recession the customer loyalty has noticeably decreased in parallelism with the decreased in the number of advertisements which are published by banks, that was due to pursue a policy of austerity by banks and focus on reducing the cost.

Although, the advertisement is used to improve the company’s image, during the recession the number of the advertisement decreased due to the reasons which mentioned above (Lee et al, 2011).

Contradictory, it was found by Baumann et al (2011) that the main explanation beyond the changes in the customer loyalty is due to the seeking of diversity, which might give a better chance to protect their business, and resisting the changes, especially in the case of loyalty toward banks.

**Objectives**

The main purpose behind this study is being able to identify the impact of the financial crisis on the customer loyalty in the UK in terms of banking industry, therefore in order to do meet those objectives following questions will be addressed:

* What are the main changes in the financial industry have occurred during the time of recession?
* How the customer loyalty toward the banking industry has changed during the recession?
* Provide a reliable recommendation on the possible ways for banks to improve and enhance their customer’s loyalty.

The consequence will be reached by analyzing the results which will be collected from primary and secondary data, in order to be able to produce a conclusion showing to which extent the loyalty of customer to their bank has changed during the financial crisis.

**Methodology and data collection**

In this section, it will be clarified how the research will be carried out in order to investigate and explore customer loyalty in the banking sector purposely in the UK and the changes of loyalty during the period of recession. As it has been found in previous literature, this work is likely to draw the conclusion that customer loyalty has dropped in the banking industry during the recession. Therefore, the research approach is of deductive nature and undergoes the five sequential stages as stated by Robson (2002) as: (1) Deducing a hypothesis from the theory

(2) Expressing the hypothesis in operational terms, which propose a relationship between two specific concepts or variables

(3) Testing this operational hypothesis

(4) Examining the specific outcome of the inquiry

(5) If necessary, modifying the theory in the light of the findings.

In order to identify, in what ways customer loyalty has changed within the times of the economic crisis, key assumptions will be formulated. In order to gather data about the influences on these assumptions, this work plans to use qualitative and quantitative data. Qualitative data will be gathered by researching the contemporary literature and taking a look at annual reports of banks in the time in question in the UK. Quantitative data is being collected by distributing surveys to customers of banks in the UK. After the quantitative data is collected, it will be analyzed using the statistical tool SPSS (Statistical Package for the Social Science) to examine, if the result of the surveys confirms or vitiates the initial hypothesis. SPSS is a statistical package, tailored to the needs of business researchers and university students, offering drop-down menus to conduct analysis rather than writing computer code (Zikmund et al. 2010). If the outcome of the result is not meeting the preliminary expectation, the theory has to be redefined and modified as stated in the last stage. The nature of this kind of approach is an exploratory study, as it will evaluate, “what is happening (…) and assess phenomena in a new light” (Robson, 2002), in this case the phenomena of a relationship between customer loyalty and the economic crisis. Deducting surveys is a good and often used strategy for that kind of studies, as it aims to answer the questions “who, what, where, how much and how many” (Saunders, 2009). Most important in a survey conducting strategy is the usage of an adequate sample. In the case of this work, customers of banks will be asked to fill out a very short survey in the public of London. Therefore, the sample is rather widespread but limits the surveyed people to an age group from minimum 18 years upwards. Besides the age restriction however, no limits are made prior to the start of the survey. As the sample however relies heavily on the response of the people who are willing to undertake the survey, no clear numbers can be made on the sample yet. It will be tried to receive an even number of male and female respondents as well as people from different from different social classes and ethical background. Overall, the choice of research method and the approach to achieve the objective seem appropriate and legitimate.

**Limitations**

This research might face some difficulties while is being conducted, since this research will be generally based on the primary study that requires customers to participate in the survey. Survey strategy is more often associated with some issues which have to be considered. Firstly, which is consider as an important point, should take into account especially from the customer point of view, this issue is the use of the survey. When the banks’ customer will be asked to participate in the survey, kind of guaranty should be given to clarify that this information will not be used in different areas or other project.

**Research Outcomes**

The outcome of this research is expected to prove that the loyalty of the customer during the recession in the UK has decreased. This expectation may be justified by the negative impact which the financial crisis has dulled on the income of many customers. There is a negative correlation between the financial crisis impacts and the customer spending and confidence, apparently customers tended to save money more than spend money because of the lack of confidence toward the entire economy and especially in the banking industry. Customers in the time of the global recession have changed their attitude in term of buying goods and preferred to save the money in the uncertainty conditions. It is also expected to find that the demographic factors did not have an impact on customer loyalty.

The final findings will be connected to the banks and will basically help the effective management of the financial institutions to improve the loyalty of the customers. Finally the recommendation will be aimed at the management of the banks to provide them with the last findings and some suggestion which might be useful in terms of improving the customer loyalty. Furthermore, the finding will be provided for the marketing researchers in the banks who basically can explore different way of improving the customer loyalty and evade the problems which might happen in the future under the same circumstances, also at the same time the findings will be provided to the managers of the banks in the UK who are the main stakeholders in the banks.

Secondly, in order to avoid any political correctness, some ethical issues have to be verified. The questions have to be designed in appropriate way that avoids any uncomfortable conditions for the respondents. Therefore, an experimental study has to be completed and test it on 5 or more respondents, which will help to explore the reaction of the respondents. Afterward, with regard to the respondent’s reactions and feedbacks, the final questionnaire will be designed in the perfect way.

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