SHIV SHAKTI

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Conceptual Framework Of Cross Selling

Tajinder Singh Walia
Research Scholar, Sai Nath University (Jharkhand)
Dr. Gagandeep Kaur Gulati
Research Supervisor, Sai Nath University (Jharkhand)

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The banking and financial services have experiencedenormous growth and an intense competition in the recent past due to increased use of information technology services. The banks' traditional role has changed in many ways. The success of a bank now depends not only on the quality and efficiency of services but also the width of services where a customer prefers to associate with a bank that satisfies all its financial services needs at one place. The banks that follow the concept of selling multi-financial related services under one umbrella, also known as cross selling can have better competitive advantage over others. In this direction, the concept and tools of customer relationship management which has customerfocus assume significant importance. The use of IT services has also reducedthe operating boundaries of a bank or its branches. Increased competition also means that geography no longer limits a financial institution trade area or the markets in which it competes. Individuals can open a checking account at a traditional depository institution, such as commercial bank, saving bank, or credit union, a brokerage firm.

One can deposit money electronically, transfer funds from one account to another, purchase stocks, bonds and mutual funds, or even request and receive a loan from any of banks. Most of them will allow conducting this business over the phone, by mail or over the Internet. All banks compete for business with each other, pay and charge interest rates determined by market competitive conditions, and are generally not limited in the scope of products and services they offer or the geographic regions where they offer these products. Despite investing enormously into the Information and Communication Technology paraphernalia for providing better services to customers, banks cannot take their customers for granted. Unlike olden days, the customers have now become more demanding. In other words, if customers are dissatisfied with the services of a particular bank, they immediately shift loyalties to its competitors. Hence, like in other businesses suchas retail and insurance, banks have made a paradigmatic shift in their marketing strategies. Consequently, the age-old product-focused strategy has given way to a customer-focused strategy. Therefore,building profitable and long-lasting relationships with customers has become paramount to banks.

Conceptual Framework of Cross Selling

Cross-selling is defined as "the action or practice of selling among or between established clients, markets, traders, etc." or "that of selling an additional product or service to an existing customer. In practice, businesses define cross-selling in many different ways. Elements that might influence the definition might include: the size of the business, the industry sector it operates within and the financial motivations of those required to define the term.

Cross Selling in simple terms is selling an additional product/service to an existing customer. In other words, it means selling more services to existing customers. Figure 1 gives the conceptual definition of Cross Selling in nutshell. Sales to existing market can be increased by increased cross selling. Relating it to the retail asset expansion scenario, it is generating new/additional retail asset(s) from a liability.

Figure 1 – Cross-selling defined in a nutshell

In other words, if the bank is able to sell an asset, product (housing / car / educational loan, Mutual Fund; Banc assurance, Credit card, general insurance product) to a saving / current / deposit account holder successfully then it is cross selling.

The objectives of cross-selling can be either to increase the income derived from the client or clients or to protect the relationship with the client or clients. The approach to the process of cross-selling can be varied.

Unlike the acquiring of new business, cross-selling involves an element of risk that existing relationships with the client could be disrupted. For this reason, it is important to ensure that the additional product or service, being sold to the client or clients, enhances the value the client or clients get from the organization.

The **Celent Report (1999)** on cross sell ratio (the number of products per client) in retail banking, which analyzed the strategies adopted by lending retail banks in Europe to increase the cross sell ratio, lists the cross sell ration among banks in different countries. The ratio is 2 for the US and slightly above 3 for the UK and Germany, above 2.5 for France and high 3 for Scandinavia.

In addition, the traditional banks (all customers) with a cross sell ratio of 2.5 outperformed the internet banks with a ratio of only 2. Another research study observed that selling three products to a customer who already holds once increases profitability, significantly. This makes a strong case for scientific cross- selling initiatives by bank.

Nielsen//Net Ratings (2004), the global standard for Internet audience measurement and analysis, reported that cross selling opportunities abound online for the financial institutions that drive incremental revenue by expanding their online customer relationships beyond a single financial services product..

As per the RBI report on Issues in Banking Regulation and Supervision by **Udeshi (2004)** cross-selling is acquiring a new dimension of invasion of the privacy of the customer and an area where banks need to exercise self-regulation as consumer spending has been increased and the data bases of the banks' customers are also being shared with various product sellers.

As per the RBI report on Indian banking – The challenges ahead by **Leeladhar (2005)** banking sector has enhanced its role in the Indian economy and with the increasing levels of deregulation and competition have placed numerous demands on banks. Operating in this demanding environment has exposed banks to various challenges. It is no longer adequate for banks to provide only traditional banking services. Apart from providing the conventional banking services, banks have begun offering a bouquet of financial services to their clients, including cross selling of financial products. The ultimate aim is to offer a one-stop-shop for meeting varied customers' financial needs. Some banks have begun employing customer relationship management systems to not only retain the existing customers but also to attract new customers. The establishment of new private sector banks and foreign banks has rapidly changed the competitive landscape in the Indian consumer banking industry and placed greater demands on banks to gear themselves up to meet the increasing needs of customers. For the discerning current day bank customers, it is not only relevant to offer a wide menu of services but also provide these in an increasingly efficient manner in terms of cost, time and convenience. While banks are focusing on the methodologies of meeting the increasing demands placed on them, there are legitimate concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in unorganized sector. It takes a great deal of time, effort and teamwork to successfully cross-sell beyond the traditional bank product set. Credibility and motivation are keys. Clients need an easy way to get to the person with expertise, and all the people touching the client relationship need to want to help the client get there.

The secret to effective cross-selling in today's market is information. One of the challenges for many businesses is coordinating cross-selling efforts across a complex structure that might span multiple divisions, sister companies and strategic partnerships. That is certainly an issue that banks have struggled with as they continue to expand both geographically and in terms of product offerings. It's really a balancing act between the right technology, the right knowledge and the right products. Initially, the banking industry was hindered by regulators that required a product-by-product accounting system. What resulted was information that was often disjointed, rather than assembled in one place. Consequently, the industry's own accounting system grew up without sharing information between the different entities. The rise of relational databases is really a new revelation. "The bank industry is in the midst of an information revolution," Businesses are now taking full advantage of customer databases that are becoming increasingly sophisticated. Banks, for one, hopes to learn more about cross-selling potential by studying existing customer behavior. The technology not only allows for more advanced customer tracking, but those databases also are better equipped to share information. Now when a customer files a mortgage application with Banks, that information can be electronically shared with other Banks division such as Banks Insurance.

So along with sharing information electronically, Banks promotes interaction between staff in its different divisions, such as encouraging mortgage reps to collaborate with personal bankers.

Successful cross-selling efforts stem from education within the company. US Bancorp has been teaching its employees what to look for in terms of cross-selling opportunities, as well as encouraging staff to be proactive in offering clients access to the bank's variety of products. Deepening the relationship with Bank is a very important goal for the customers. Ultimately, the challenge of cross-selling is to match the right people to the right products. For Banks, the key is to understand what a customer wants, and bringing that product to them. What does not work is selling all things to all people, or selling customers something that they don't want. The prime point for cross – selling is the cost factor, it zeroes in on the cost of new customer acquisition for asset expansion and the cost of cross selling to an existing customer. As per the findings it costs a bank five times less to cross sell an existing client than to acquire a new one. Another finding says that it costs four times as much to get a new customer as it does to keep an existing one. The second important reason is the profit. Cross Selling an asset/ additional asset product to an existing customer improves the profits, in general, and profits per customer, in particular.

Cross selling fosters brand loyalty. A customer who has availed himself of more than one product from the bank is drawn closer to the bank than a customer who has taken one product. If a customer having a savings account has taken a consumer/personal loan/mutual fund/banc assurance/credit card, the chances of switching to another bank is less than when he has only saving account. Research studies have established that the percentage of loyalty increases with the number of products the customer takes. The reasons may be for convenience, service, price and value offerings by the bank for the total product solutions for the customer. Cross selling helps bank to plan, implement and maintain better customer relationship management programmes as it gives clarity to developing plans based on the customer' s relationship profile.

Ultimately, the challenge of cross-selling is to match the right people to the right products. The key is to understand what a customer wants, and bringing that product to them. What does not work is selling all things to all people, or selling customerssomething that they don't want.

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